Strategic Report 2014

Earning our customers' trust

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

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

Why go online?

rbs.com/annualreport

Many shareholders are now benefitting from more accessible information and helping the environment too. If you haven't already tried it, visit our online Annual Report or just scan the QR code opposite with your smart phone and go direct. You may need to download a QR code reader for your phone.

Strategic Report

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Approval of Strategic Report

The Strategic Report for the year ended 31 December 2014 set out on pages 1 to 41 was approved by the Board of directors on 25 February 2015.

By order of the Board.

Aileen Taylor
Company Secretary
25 February 2015

Chairman
Philip Hampton

Executive directors
Ross McEwan
Ewen Stevenson

Non-executive directors
Sandy Crombie
Alison Davis
Morten Friis
Robert Gillespie
Penny Hughes
Brendan Nelson
Baroness Noakes

2014 performance

(£3,470m)
Attributable loss

£3,503m
Operating profit (1)

£2,643m
Profit before tax

11.2%
Common Equity Tier 1 ratio (2)

£356bn
RWAs

95%
Loan:deposit ratio (3)

£28bn
Short-term wholesale funding (4)

£151bn
Liquidity portfolio

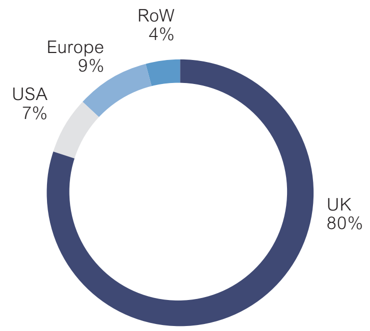
4.2%
Leverage ratio (5)

(8.0%)
Return on tangible equity (6)

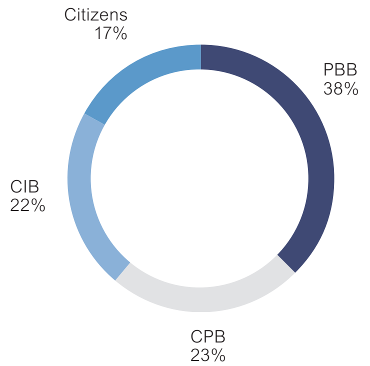
68%
Cost:income ratio - adjusted (7)

2.23%
Net interest margin

Total revenue by region 2014



Total income by franchise 2014



Notes:

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

(2) End-point CRR basis.

(3) Includes disposal groups.

(4) Excludes derivative collateral.

(5) Based on end-point CRR Tier 1 capital and revised 2014 Basel III leverage ratio framework.

(6) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets.

(7) Cost:income ratio is based on total income excluding own credit adjustments, gain on redemption of own debt, strategic disposals, and RFS MI, and operating expenses excluding litigation and conduct costs, restructuring costs, write down of goodwill and RFS MI. Total income and operating expenses both include Citizens which is included in discontinued operations in the statutory results.

Financial results

RBS reported an attributable loss of £3.5 billion, following a £4.0 billion write-down on Citizens.

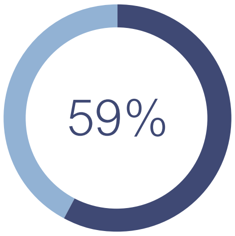
Operating profit(1) was £3.5 billion. Significant progress was made towards building a bank that is stronger, simpler and better for both customers and shareholders.

RBS reported an attributable loss of £3,470 million in 2014, compared with a loss of £8,995 million in 2013. The result included a loss from discontinued operations of £3,445 million, which reflected a £3,994 million fair value write-down in relation to the reclassification of Citizens to disposal groups, and a tax charge of £1.9 billion which included a £1.5 billion write-off of deferred tax assets.

Operating profit totalled £3,503 million for 2014, compared with an operating loss of £7,500 million in 2013. This reflected improved operating results from the core domestic businesses together with significant impairment releases in Ulster Bank and RBS Capital Resolution (RCR). These results include £1,257 million of restructuring costs compared with £656 million in 2013, and £2,194 million of litigation and conduct costs compared with £3,844 million in the prior year.

UK Personal & Business Banking (UK PBB) delivered a good performance built on strong growth from a reinvigorated mortgage business. Commercial Banking's efforts to stimulate demand resulted in a resumption of loan book growth; together with active management of cost and capital, this supported a significant improvement in profitability. Corporate & Institutional Banking (CIB) made good progress towards a lower risk model with a further £40 billion reduction in risk-weighted assets (RWAs) on an end-point CRR basis.

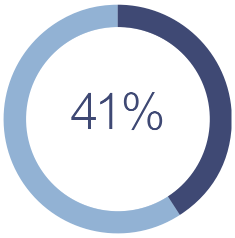
Personal & Business Banking (PBB)



Share of operating profit

Performance highlights	**2014**	2013
Return on equity (%)	17.5	(5.7)
Net interest margin (%)	3.42	3.21
Cost:income ratio (%)	71	78
Loan:deposit ratio (%)	88	91
Risk-weighted assets (£bn)	66.6	81.9

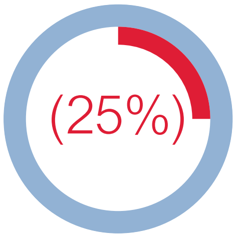
Commercial & Private Banking (CPB)



Share of operating profit

Performance highlights	**2014**	2013
Return on equity (%)	11.9	3.7
Net interest margin (%)	2.93	2.81
Cost:income ratio (%)	65	73
Loan:deposit ratio (%)	83	78
Risk-weighted assets (£bn)	75.5	77.8

Corporate & Institutional Banking (CIB)



Share of operating profit

Performance highlights	**2014**	2013
Return on equity (%)	(4.2)	(12.9)
Cost:income ratio (%)	123	144
Risk-weighted assets (£bn)	107.1	120.4

Note: RWAs at 31 December 2013 are on Basel 2.5 basis and on an end-point CRR basis at 31 December 2014.

Statutory operating profit before tax, which excludes results from discontinued operations, was £2,643 million compared with an operating loss of £8,849 million in 2013.

2014 was a year of significant progress for the bank, in which we delivered against all our commitments. In line with the new strategy it set out in 2014, RBS has:

- Implemented a new organisational design for a more UK-centred bank with focused international capabilities, built around its strongest customer franchises.
- Exceeded its 2014 cost reduction targets with savings of £1.1 billion.
- Strengthened its Common Equity Tier 1 (CET1) ratio by 2.6 percentage points to 11.2% at the end of 2014, assisted by £4.8 billion of net capital release from RCR disposals and run-off.
- Successfully listed Citizens as a step towards full divestment by the end of 2016.
- Reached agreement with HM Treasury on the restructuring of the Dividend Access Share (DAS) and paid an initial dividend of £320 million.
- Completed much of the orderly run-down and closure of the US asset-backed product business, removing £15 billion of RWAs from the balance sheet.
- Completed a strategic review of Ulster Bank and the wealth businesses, launching a sales process for the international private banking activities(1).
- Continued to rationalise, simplify and strengthen operating systems and processes, with a more secure mobile banking platform, faster overnight batch processing and key services available to customers 99.96% of the time.
- Made our products simpler and fairer for customers, ending zero per cent balance transfers, halting teaser rates on savings accounts that penalise existing customers and explaining all charges for personal and business customers on one side of A4 paper.

Within the overall strategic shape outlined for CIB in 2014, RBS is making further changes to improve its medium-term returns, building a stronger, safer and more sustainable business, focused mainly on UK and Western European customers, both corporates and financial institutions, supported by trading and distribution platforms in the UK, US and Singapore.

These changes will create a more focused corporate and institutional bank built on existing product and service strengths. RBS will have a strong, client-focused product offering in sterling, US dollar and euro, including:

- Debt financing, with debt capital markets, structured finance and loans.
- Risk management in currency, rates and inflation.
- Transaction services, with UK-focused cash, payments and trade.

(1) Private banking and wealth management activities where the primary relationship management is conducted outside the British Isles.

CIB will reduce its geographical footprint to approximately 13 countries, compared with 38 at the end of 2014, though RBS will also retain its back office operations in Poland and India. In addition to its main distribution and trading hubs in the UK, US and Singapore, RBS will remain present in a number of Western European countries with coverage teams. A small sales team will be retained in Japan. US operations will shrink, while retaining the presence required to support the US dollar needs of RBS's UK and Western European customers. Priority client sectors will be targeted in infrastructure, transportation, financial institutions, energy and resources.

CIB will continue to reduce its balance sheet and risk profile. RWAs will be reduced by 60% from £107 billion at 31 December 2014 to £35-£40 billion in 2019, with a reduction of more than £25 billion targeted in 2015. Third party assets will be reduced from £241 billion at the end of 2014 to £75-£80 billion in 2019.

This CIB strategy leaves RBS well-placed to meet the ring-fencing requirements of the Banking Reform Act 2013. As previously indicated, RBS intends to place most banking services inside the ring fence. CIB's remaining "Markets" activities, the operations of RBS International and some corporate banking activity are expected to remain outside the ring-fenced bank in separate legal entities.

For 2015 RBS intends to:

- Move towards a capital target of 13% CET1[(1)], with risk-weighted assets below £300 billion and £2 billion Additional Tier 1 capital raised.
- Deconsolidate Citizens and substantially complete RCR exit.
- Improve customer net promoter scores in all UK franchises, in line with the long-term goal of becoming the number 1 bank for trust, service and advocacy.
- Reduce costs by a further £800 million[(2)], taking RBS towards a long term cost:income ratio of under 50%.
- Deliver lending growth in strategic segments equal to or higher than UK nominal GDP growth.
- Raise employee engagement index to within 8% of the global benchmark so that staff are fully motivated to contribute to RBS's long-term success.

2014 performance

- Loss attributable to ordinary and B shareholders was £3,470 million, compared with a loss of £8,995 million in 2013. The result included a loss from discontinued operations of £3,445 million, which reflected an accounting write-down of £3,994 million taken in relation to Citizens, which has been written down to fair value less costs to sell as a consequence of it being reclassified as 'held-for-sale' in the statutory results. This write-down does not affect RBS's capital position.
- The tax charge included a net write-off of deferred tax assets of £1.5 billion relating to the UK (£850 million) and the US (£775 million), reflecting the impact of the decision to scale back the CIB operations. This was partially offset by write-backs relating to Ulster Bank.
- Operating profit improved to £3,503 million for 2014 compared with an operating loss of £7,500 million in 2013, benefiting from improved operating results in core businesses together with significant impairment releases in Ulster Bank and RCR.
- Restructuring costs of £1,257 million were up 92% from 2013 but conduct and litigation costs were 43% lower at £2,194 million and included charges relating to foreign exchange trading, Payment Protection Insurance (PPI), customer redress associated with interest rate hedging products, IT incident in 2012 and other costs including packaged accounts and investment products. Excluding restructuring, conduct and litigation costs, operating profit was £6,954 million, compared with a loss of £3,000 million in 2013.
- Income totalled £18,197 million, down 6% from 2013, with improvements in net interest income in PBB and CPB offset by lower income from trading activities in CIB, in line with its smaller balance sheet and reduced risk profile. Net interest margin was 2.23%, up from 2.01% in 2013, with improved liability margins partially offset by pressure on mortgage and corporate lending margins and by the continuing shift in mix towards lower margin secured lending.
- Operating expenses, excluding restructuring, conduct and litigation costs, were down £1,612 million or 12%. Adjusting for currency movements and intangible assets write-offs, cost savings totalled £1.1 billion, in excess of the bank's £1 billion target for the year.
- Net impairment releases of £1,155 million were recorded in 2014 compared with impairment losses of £8,432 million in 2013, which included £4,490 million of charges recognised in connection with the creation of RCR. Provision releases arose principally in Ulster Bank and in the Irish portfolios managed by RCR, which benefited from improving Irish economic and property market conditions and proactive debt management.
- Statutory operating profit before tax was £2,643 million compared with an operating loss of £8,849 million in 2013.
- Tangible net asset value per ordinary and B share was 387p at 31 December 2014 compared with 363p at end 2013. Positive movements in cash flow hedge reserves (+9p) and available-for-sale reserves (+5p) were offset by the attributable loss for the year (-30p). The attributable loss is adjusted for a loss provision attributed to Citizens' intangible assets (+35p) and goodwill and other intangible assets (+5p).

Balance sheet and capital

- Funded assets totalled £697 billion at 31 December 2014, down £35 billion in the last quarter and £43 billion over the course of the year, principally reflecting continued risk and balance sheet reduction in CIB and disposals and run-off in RCR.
- Including Citizens, which has been reclassified to disposal groups, net loans and advances to customers totalled £394 billion at the end of 2014, up £3.0 billion from the end of 2013, despite a significant reduction in RCR.
  - UK PBB lending rose by £2 billion, with net new mortgage lending of £3.9 billion partially offset by reduced unsecured balances.
  - Commercial Banking balances rose by £1 billion, with a planned reduction in real estate finance offset by good growth in lending to other sectors.
  - Gross new lending to SMEs totalled £10.3 billion, exceeding RBS's £9.3 billion target by 10%.
  - Total net lending flows reported within the scope of the Funding for Lending Scheme were minus £2.28 billion in Q4 2014, of which net lending to SMEs was minus £567 million.
- Including Citizens, which has been reclassified to disposal groups, customer deposits totalled £415 billion at the end of 2014, up £0.4 billion from the end of 2013.
- RWAs declined to £356 billion from £429 billion at the end of 2013, primarily driven by risk and balance sheet reduction in CIB coupled with disposals and run-off in RCR. This contributed to the strengthening of the bank's capital ratios, with the CET1 ratio strengthening by 260 basis points to 11.2% at the end of 2014 compared with 8.6% at the end of 2013.

Notes: (1) During the period of CIB restructuring.
(2) Excluding restructuring, conduct and litigation costs, write off of intangible assets and operating expenses of CFG and Williams & Glyn.

Our progress in 2014

We have a clear ambition to become No.1 for customer service, trust and advocacy. In 2014, our focus has been on Cost, Capital, Restructuring and Resilience. We have also begun the process of making RBS a simpler place to work and an easier bank to do business with.

Fairer banking

We've ended Credit Card teaser rates.

Account opening

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

Launch of Citizens IPO

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

GPL system redesign

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

SME funding

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

Simplified product range

50%

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

Project reduction

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

Transparency

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

Small Business Fund

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

Resilience

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

Faster processing

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

20 million

Online loans

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

Mobile record

4.86m

Our mobile app regularly supports around 4 million logins a day, with a record being set on 'Black Friday' 2014 of 4.86 million.

Living Our Values

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

Our 2015 targets

Capital target

Move towards a capital target of 13% CET1 ratio [1].

Improve NPS

Improve net promoter score in every UK franchise.

Reduce costs

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

Lending growth

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

Our people

Raise employee engagement index to within 8% of GFS norm [3].

Notes: (1) During the period of CIB restructuring.
(2) Excludes restructuring, conduct, litigation and intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn.
(3) Global Financial Services (GFS) norm currently stands at 83%.

Chairman's statement

2014 was a year of significant progress for RBS, with a much improved operating profit and major achievements in terms of business reorganisation, cost reduction, capital build and improved IT capability. As Ross McEwan has set out in his letter, the business continues to simplify and improve, focusing on putting its customers at the heart of its activities.

The bank has delivered a good operating profit of £3.5 billion for 2014, but the costs associated with completing the restructuring of RBS mean we are still reporting a bottom line attributable loss. Although the huge changes to the size, shape and risk profile of the business since the financial crisis are largely complete or in hand, the further substantial restructuring of our markets operations and international spread will require careful management in 2015.

Of course your Board is pleased to see the improved operating performance, which in our view reflects the underlying strength of the business. Looking back, however, we must acknowledge that we did not fully recognise the scale of the challenge that awaited us in 2009. At the time, we assumed that a Core Tier 1 capital ratio of more than 8% by 2013 would be sufficient to constitute undoubted financial strength in the minds of markets and regulators; today we have increased our capital target to 13%. We must also acknowledge that we did not anticipate the more than £9 billion of regulatory fines and customer redress we have borne so far as we paid, and will continue to pay, the price for our past conduct failings. These conduct issues have delayed the re-build of our capital and directly reduced shareholder value. They have also caused continuing reputational damage. I hope as we move beyond these issues we can fully rebuild the trust of our customers, and by doing so win more of their business.

The need to continue to rebuild capital strength means it has taken longer than we had expected to reach a point at which the Government could be in a position to start selling down its stake in RBS. The decision on timing rests with the Government, through UK Financial Investments, which manages its shareholding, but our task is to create the conditions in which it can do so. In working towards that end we are also furthering the interests of RBS's other shareholders, as we believe that the beginning of the sell-down will be welcomed by investors.

As announced previously I will be leaving RBS in 2015. The Board is pleased to announce that Howard Davies will succeed me as Chairman, and we welcome him to RBS. He will join the Board at the end of June and take over from me on 1 September. On the day I joined the Board in January 2009, the shares traded at 9p, equivalent to 90p today, and the implications of the bank's financial distress were unknowable. RBS has transformed itself over the last several years and continues to do so. The renewed focus on customer and customer service will make this a better organisation for all stakeholders, most especially customers, staff and shareholders.

I would like to thank my colleagues on the RBS Board for their support and dedication in dealing with the unusual challenges of being a majority government-owned listed company.

In particular, I would like to thank Nathan Bostock, Tony Di Iorio and Philip Scott, who all stepped down from the Board in 2014 after providing valuable service, and to welcome Morten Friis and Ewen Stevenson, who have joined the Board.

It has been a privilege to serve as Chairman of RBS and I am confident that the Board and the many outstanding people in the bank will continue to work with dedication to restore the bank's standing.

Philip Hampton
Chairman

Chief Executive's review

This is my first letter to you since we launched a new strategy for RBS last year. It is a strategy that sets out to deliver one very simple aim. To make this a great bank for our customers; a bank that will earn back their trust, and in turn win more of their business.

It's a strategy that provides the fundamental building blocks to make RBS an attractive investment, a great place to work for our people, and a UK focused bank that the country can be proud of.

Last year we identified the areas we needed to improve in order to deliver our strategy - cost, complexity, capital, and trust from our customers. The energy and resolve of our people has resulted in significant progress on these, and we have delivered on the goals we set for 2014.

- We said we would reduce waste and inefficiency and reorganise ourselves around the needs of our customers, moving from seven operating divisions to three customer businesses. This reorganisation is complete and we have removed £1.1 billion of cost from the business.
- We outlined a programme to rationalise, simplify and bolster our operating systems and processes to make them less complex, more resilient and easier to use. Significant progress has been made in this area with our key services available to customers 99.96% of the time during 2014.
- We set out a plan to place the bank on a sure capital footing targeting a CET1 ratio of 11% by the end of 2015, and 12% or greater by the end of 2016, so as to remove any doubts about our fundamental strength and stability. This capital plan is on track and we have reached our 2015 target one year ahead of schedule. This improvement was driven by a 52% reduction in risk-weighted assets in RCR.
- We said we would undertake the biggest bank initial public offering in US history. Citizens Financial Group was successfully floated on the New York Stock Exchange. At the same time we substantially completed the orderly run-down and closure of our US asset-backed product business, removing £15 billion of risk-weighted assets from our balance sheet.
- We made a commitment to fairness with our customers. We said that RBS would no longer compete with other banks in a number of areas and we would use less technical language that our customers find easier to understand. We stopped offering zero per cent balance transfers on credit cards that trap customers in spirals of ever increasing debt, we ended teaser rates that penalise existing customers, and we now explain all of our fees and charges on one side of A4 paper for both our personal and business customers.

As well as being a stronger, simpler and fairer bank, I said that we would also be a very different bank. No longer chasing global market share, but instead focusing squarely on our core strength, namely our home market places in the UK and the Republic of Ireland (RoI).

Our 2014 performance shows a strategy that is working. It demonstrates the forensic approach we have taken to evaluate our businesses against the returns they provide to shareholders. The strong execution against the targets we set now gives us a platform to go further, faster.

As well as a review of our current performance I will set out exactly what this bank will become, what we will do and what we will not do as we seek to improve shareholder value and secure our market leading positions. It involves an acceleration of our strategy to build on our domestic strengths and a further reshaping of our CIB business as we seek to address its unacceptable returns.

We have five ambitious new goals for the second year of our plan and new financial targets so that you, our shareholders, can hold us to account for our performance.

2014 financial performance

The earning power of our key customer businesses lies at the heart of the strong financial progress RBS made during 2014. What you can see from these results is that underneath all the noise of conduct, litigation and restructuring charges, we have strong performing customer businesses that are geared towards delivering sustainable returns for investors.

We made an operating profit of £3.5 billion in 2014, the highest since 2010 and a vast improvement on 2013. Great progress on cost reduction countered a fall in total income - which primarily reflected a smaller risk profile and lower income from trading activities in CIB - and led to an overall improvement in operating efficiency.

Our attributable loss of £3.5 billion, includes £1.3 billion of restructuring charges, £2.2 billion in litigation and conduct provisions, a £1.5 billion net deferred tax asset write-off, the initial £320 million dividend for the Dividend Access Share and a write-down of £4 billion anticipating the disposal of Citizens.

It is increasingly clear what is driving underlying performance at RBS - PBB and CPB. PBB and CPB are now more important to RBS's performance than at any time in the past decade. This year they generated 61% of our income, compared with c.37% for equivalent businesses in 2009. And they have been at the forefront of progress towards our goal of increased operating efficiency, reducing adjusted operating expense by 2.6% over the year whilst income was up 2.3%. ROEs of 17.5% and 11.9% respectively demonstrate their value to RBS today.

These franchises are also the custodians of our core strengths - serving the everyday banking needs of over 18 million personal and business customers in the UK and RoI, and helping these customers meet their ambitions. We're investing in these franchises with a view to exceeding customers' expectations and generating sustainable returns.

The performance of CIB reflects the big changes this business is going through, and the tough macro-economic conditions and increasingly high costs of regulation it faces. Income decreased alongside lower adjusted operating expenses as we reduced CIB's risk profile in accordance with our strategy, with restructuring, litigation and conduct costs pushing the business to an operating loss. But CIB has a strong customer franchise serving our leading UK and Western European clients; increasingly it is these clients we intend to focus on. I will set out later in this letter the steps we will take to do this.

An overarching part of delivering sustainable returns is controlling operating costs. When I announced our cost target last year it was described by some as the most ambitious cost target in Europe. Well, through our drive across the bank for greater simplicity we have over-delivered, and surpassed our target of £1 billion of operating cost savings for the bank. With a cost:income ratio for the year of 68% on an adjusted basis, we are still behind our peers on cost efficiency; and there is work to do to fulfil our desire to take it below 50%. But we have a strong track record on delivery, and there is resolve across this bank to get this done.

I am very pleased with the progress we have made in 2014 against our stated objectives. While that progress is evident in the operating profit line of the results announced, we are still posting an attributable loss to our shareholders. This is an accounting consequence of one of our 2014 achievements - the successful flotation of Citizens on the New York Stock Exchange.

Now the deconsolidation of Citizens is finally within sight, accounting rules require us to write it down to its estimated disposal value. This write-down substantially represents the goodwill previously attached to Citizens. While I realise that the headlines this generates are disappointing it is important to emphasise that this particular accounting loss does not change our regulatory capital or tangible net asset value.

Safety remains a cornerstone of our strategy

A core question for any bank seeking the trust of its customers is whether it's safe and strong and focused and able to support customers and the economy. The progress we have made should mean that it is no longer in any doubt. The CET1 ratio has improved by 260 basis points to 11.2% over the course of the year, up from 8.6% as at 31 December 2013. We reached our full year 2015 CET1 target of 11% one year ahead of schedule, and we are on track to achieve a revised CET1 target of 13%, which we have set in place for the period of the CIB restructuring.

We now have considerably more high quality capital than we had when the financial crisis hit and this bank was bailed out by the taxpayer. But we need to meet and exceed the expectations of the Prudential Regulation Authority (PRA) and of our shareholders and bondholders. Stress test results show it's not just how much capital you have, but how your balance sheet behaves under extreme economic scenarios.

This year our team in RBS Capital Resolution has managed to accelerate the removal of some of our most capital intensive assets, and we are on track to complete our 2014-2016 RCR run-down targets by the end of 2015, one year ahead of the original target we set for ourselves. Our capital strength will be bolstered further when Citizens Financial Group in the USA is deconsolidated from our balance sheet. This is also expected in 2015.

In 2015, we also plan to start a programme of issuing Basel III compliant Additional Tier 1 capital instruments.

Conduct

It has taken far longer than anyone realised to root out all the past problems, practices and related fines, and we still have challenges on the horizon. We are changing the culture of this bank; our aim is that shareholders are not exposed to this scale of conduct risk again.

What you will have seen from me over the last year is the way I will be open and honest with you and our customers when dealing with these issues; the way we continue to approach FX is a good example of this. I will not hide. I will talk openly about the hurt this wrongdoing causes me and the many thousands of people within this bank. I will detail the things we are doing to put things right for our customers, and the challenge and change we are driving through the culture and conduct of our staff.

We are determined to learn the lessons from the wrongdoings of the past and ensure that those responsible are held to account.

Building on our strengths

I said this time last year that the days when global domination mattered more to RBS than great customer service are well and truly over. Well, we are not just talking about being a UK-centred bank; we are a UK-centred bank. 80% of our revenues are generated in the UK. At the time of the 2008 financial crisis this number was 48%. Seven years after the crisis we still have top 3 market positions in the following UK segments:

- large corporates and financial institutions (FIs);
- Sterling provider in wholesale banking;
- SME banking;
- Private banking;
- Financing for UK infrastructure projects; and
- Personal banking.

We are building on this strength to manage value for shareholders and deliver the most resilient future returns.

In last year's letter, I told you that where a business can't deliver value to our shareholders in a reasonable time period we will take decisive action. We have put international private banking activities(1) up for sale and we are now going further, faster in reshaping parts of our CIB business.

The investment bank was over-stretched both in range of product and geography. There was too much risk for too little return. Given the increasing regulatory requirements on this business, it was a strategy that now has little hope of delivering acceptable returns to shareholders.

To be a number 1 bank means providing a full service offering to UK and Western European corporate and financial institution clients. It means providing a first class platform to process payments in the UK and Europe. And it means having the expertise to help customers raise finance on the debt capital markets and manage the high level risks they face. Serving customers in these areas is an undisputed area of strength for us - they are our core capabilities, and are essential to us providing a first class service. In addition, trading and distribution hubs in Singapore and the US will ensure the corridors of commerce remain open to allow our customers access to investors in those regions.

We plan to fully exit our Markets businesses in Central and Eastern Europe, the Middle East and Africa, and substantially reduce our presence in Asia Pacific and the US. We will exit our cash management services outside the UK and RoI. These businesses are not essential to our go-forward client franchise, and their standalone returns are not sufficient to justify an exception.

In doing so we will be free to grow and improve the services our customers value most. And by serving customers better this franchise can reinforce its competitive position and deliver sustainable returns above the cost of equity for our shareholders.

This is a plan for a smaller, more focused, but ultimately more valuable bank with the vast majority of its assets in the UK, and for RBS marks the end of the standalone global investment bank model.

What I have just outlined will require an enormous amount of effort from our people. And I do not for one second take that for granted. We have a proven track record of delivering change in our business.

A better bank for customers

Much has been written and discussed about the root causes of the financial crisis. For me it came down to one big problem - a failure to put the customers' interest at the heart of our business and its culture. For too long market share mattered more than customer care.

It is why over the last year our people have worked hard to embed this 'customer first' mentality into everything we do as a bank.

There are some concrete achievements we can call out for 2014 including: faster account opening times, a simplified product range and a clearer pricing structure. And we went against the rest of the industry and took a calculated risk by ending teaser rates, and we now offer our best rates to new and existing customers across our product range. We may have lost customers and income as a result, but we still believe that this was the right thing to do and will deliver long term value for shareholders.

I want to assure our customers that the positive changes we made in 2014 are not one-off. We strive to do better for our customers every day, and when we spot an opportunity to serve customers better, we will act. For example, customers shouldn't be penalised because they lose track of the date and are hit with an unexpected overdraft

Note: (1) Private banking and wealth management activities where the primary relationship management is conducted outside the British Isles.

charge for the first time. And if we can do more to help customers through both the ups and downs in their finances, it is absolutely our responsibility to do so.

But we recognise that these are chipping away at the edges, and more radical change is needed if we are to establish real upward momentum and achieve our targets. We have to be constantly asking ourselves what a really good bank for customers would look like, and to be constantly improving what we do to take us towards that goal. In our financial reporting we will include full details of the progress we have made as well as providing clear, independent measures of the bank's customer trust and advocacy scores.

We may have started from further back than some, but we are determined to reach our aspiration of being number 1 for customer service, trust and advocacy. It won't be easy, but I firmly believe it is doable.

A better bank for shareholders

Critical though it is that we build a bank that is safe, in capital strength, in structure and on behaviour, it must also be profitable.

There are good businesses within RBS that are capable of delivering real value to their customers. If we do that, our customers will be happy for us to make a fair and sustainable profit.

Without sustainable profitability we cannot ensure our future safety; profit is the best form of self-replenishing capital.

We remain acutely conscious of how much was invested to ensure our continued survival by our private shareholders and, critically, by the Government. As we reduce the tail risks our bank is exposed to, repair our overall profitability and reshape CIB we are creating the potential to build up excess capital, paving the way for distributions to the Government and other shareholders.

Our strategy envisages a capital benefit net of restructuring costs from 2016. We intend to return all capital to shareholders above a CET1 ratio of 13%. This capital return, which remains subject to regulatory approval at the time, will only be made once the significant legacy conduct hurdles are behind us. We see this as another important step towards repaying the support of our shareholders, including the UK tax payer.

2015 Goals and revised targets

I have set out in the table below five new ambitious business goals for the second year of our strategic plan to simplify and restructure this bank, achieving them will stand us in good stead to reach our goals. We have also published a revised set of financial and business targets. These are consistent with the other changes set out in this letter, and will enable you, our shareholders, to continue to track our progress and hold us to account.

By 2019 RBS intends to be a low cost business focused on effective, efficient delivery for our customers. It will be a bank based in the UK and RoI, with a presence in Western Europe, the US and Singapore. It intends to be a bank with leading market positions in each of our chosen business areas, and a bank that can generate attractive returns for shareholders on a sustainable basis.

Conclusion

I would like to take this opportunity to thank our Chairman, Sir Philip Hampton, as he takes part in his final Annual Results with the bank. Philip joined in 2009 amid the global financial crisis and immediately brought a clear sense of purpose and direction for the bank at a time of incredible uncertainty, both for the UK and RBS. His dedication to making this a great bank for the country served him well through the tremendous, but positive, change that RBS has undergone during his tenure. I want to express my personal gratitude to Philip for guiding me during my first year as CEO, and playing a key role in implementing the strategy that will take us forward. There is still work to do, but Philip will leave on a positive note, with RBS firmly focussed on serving its customers, and shareholders.

What you see today is a bank on track and delivering on its plan. A bank that is determined to earn the trust of its customers every day. A bank that helps the smallest enterprises through to the largest companies grow and prosper. A bank that is determined to reward its shareholders for their support. And a bank that is able to deliver on our ambition to be number one for customer service and advocacy in the UK and RoI.

Ross McEwan
Chief Executive

	Our long-term targets	Our 2015 goals
Strength and sustainability	CET1 ratio = 13% during the period of CIB restructuring	Reduce RWAs to <£300bn
Customer experience	No.1 for service, trust and advocacy	Improve NPS in every UK franchise
Simplifying the bank	Cost:income ratio <50%	Reduce costs by £800m(1)
Supporting growth	Leading market positions in every franchise	Lending growth in strategic segments ≥ nominal UK GDP growth
Employee engagement	Employee engagement index ≥ GFS norm(2)	Raise employee engagement index to within 8% of GFS norm(2)

Note: (1) Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn.
(2) Global Financial Services (GFS) norm currently stands at 83%.

Business model and strategy

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

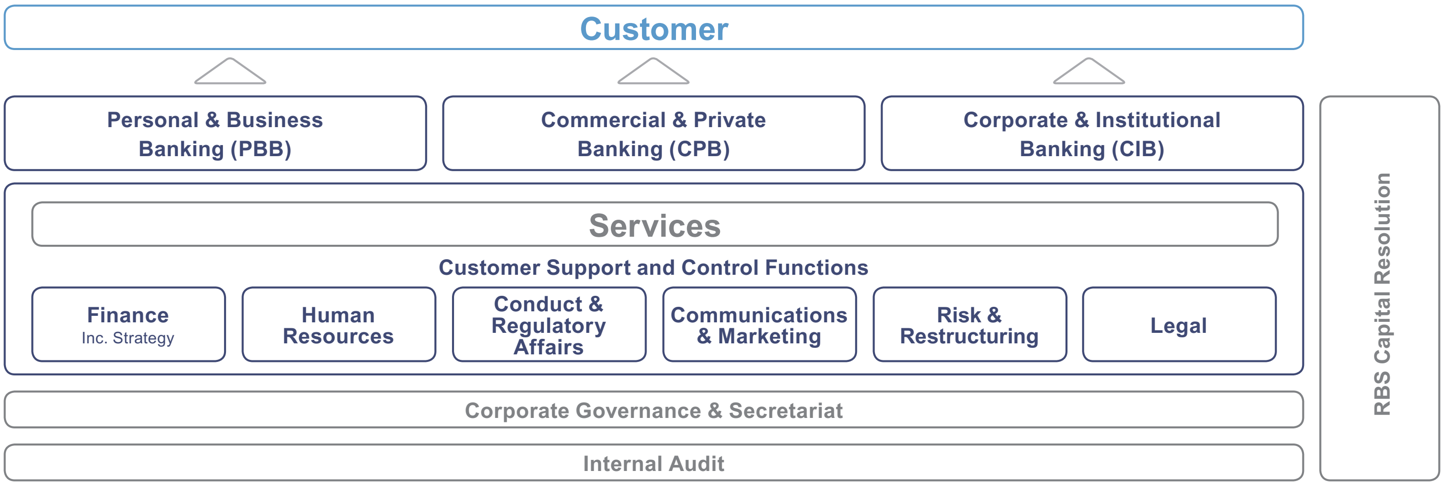
Our Corporate & Institutional Banking business earns income from client driven trading activities particularly Rates, Currencies and Credit.

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

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

Our Structure

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



Customer Businesses

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

Services

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

Functions

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

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

Our Strategy

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

Our Priorities

Strength and sustainability	Customer experience	Simplifying the bank	Supporting growth	Employee engagement

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

Our Plan

Our overarching ambition is to become the number one bank for customer service, trust and advocacy. We have set out how we track our progress towards this goal on page 15.

We also track a number of other performance measures and have set long-term targets for these to keep us on track.

Performance measures[1]

	Measure	2013	2014	Long-term
People	Great place to work	78%	72%	Employee engagement index ≥ GFS norm [2]
Efficiency	Cost:income ratio Adjusted cost:income ratio [3]	95% 72%	87% 68%	<50%
Returns	Return on tangible equity	Negative	Negative	12%+
Capital strength [4]	Common Equity Tier 1 ratio	8.6%	11.2%	13% [5]

Notes:
(1) This table contains forecasts with significant contingencies.
(2) Global Financial Services (GFS) norm currently stands at 83%.
(3) Excluding restructuring costs and litigation and conduct costs.
(4) Based on end-point CRR basis Tier 1 capital and revised 2014 Basel leverage framework.
(5) During the period of CIB restructuring.

Reshaping our CIB business

We have announced our plans to go further and faster in reshaping parts of our CIB business. The investment bank was overstretched both in range of product and geography. We are building a stronger, safer and more sustainable business, focused mainly on UK and Western European customers, both corporates and financial institutions, supported by trading and distribution platforms in the UK, US and Singapore.

Drivers of changes

Returns are too low Costs are too high	Capital usage is too high	Operating risks are outside of our go-forward risk appetite

Creating a more focused corporate and institutional bank built on existing product/service strengths

Strong focused product offering

Risk management:

FX, Rates
(USD, GBP and EUR)

Transaction Services:

UK focused cash, payments & trade

Debt Financing:

DCM, Structured Finance, Loans (USD, GBP and EUR)

International capability

Full service to UK and Western European clients/counterparts (9 European sales offices)
Distribution and trading hubs in UK, US and Singapore

Our go-forward business is focused predominantly on UK and EMEA. Based on 2014 numbers, around 74% of CIB's RWAs and 81% of income is generated in these regions.

	2014					
Region	Current CIB		Go-forward		Non-strategic	
	RWAs (£bn)	Income (£m)	RWAs (£bn)	Income (£m)	RWAs (£bn)	Income (£m)
UK/Europe (1)	71	2,488	34	1,630	37	858
US (2)	24	974	11	274	14	700
APAC	12	487	2	111	10	376
Total	107	3,949	46	2,015	61	1,934
Countries	38		13		25	

Our product offering will reduce by over a half as will the number of products and desks in our Markets business.

Notes:
(1) EMEA.
(2) North America.
Based on 2014 financials.

Building the number one bank for customer service, trust and advocacy in the UK

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

Net Promoter Score (NPS)

Customers are asked how likely they would be to recommend their bank to a friend or colleague, and respond based on a 0-10 scale with 10 indicating 'extremely likely' and 0 indicating 'not at all likely'. Customers scoring 0 to 6 are termed detractors and customers scoring 9 to 10 are termed promoters. The Net Promoter Score (NPS) is established by subtracting the proportion of detractors from the proportion of promoters.

In 2014, we have seen some positive NPS movements in some of our franchises and our plans for 2015 will help to gather momentum across the bank.

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

Suitable measures for Private Banking and Corporate & Institutional Banking are in development.

Notes:

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

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

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

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

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

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

Customer Trust

We also use independent experts to measure our customers' trust in the bank. Each quarter we ask customers to what extent they trust or distrust their bank to do the right thing. The score is a net measure of those customers that trust their bank (a lot or somewhat) minus those that distrust their bank (a lot or somewhat).

		Year end 2013	Year end 2014	Year end 2015 target
Customer Trust[(6)]	NatWest (England & Wales)	35%	41%	46%
	RBS (Scotland)	-16%	2%	11%

Notes:

(6) Source: Populus (2014) and PSB (2013). Latest quarter's data. Measured as a net of those that trust RBS/NatWest to do the right thing, less those that do not. Latest base sizes: NatWest England & Wales (927), RBS Scotland (206).

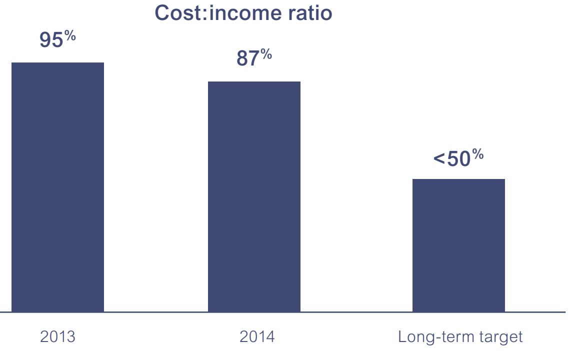
The year-on-year improvement in RBS customer trust is largely a reversion to its longer-term trend: there were issues in late 2013 that impacted the bank's reputation and customer trust. There are early signs that customer trust in RBS is stabilising and starting to improve. NatWest has consistently performed competitively, and has shown early signs of improvement.

We will continue to aim for improvement through a secure, consistent and reliable service, and an unrelenting focus on our customers.

Our transformation priorities

Cost

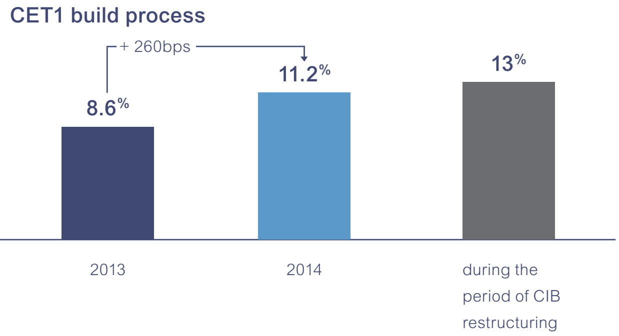
Strategic Aim	Key Outcomes and 2015 Goal
Deliver a long term cost:income ratio of <50%	• £1.1 billion cost reduction in 2014 • A further cost reduction of £800 million [1] in 2015



Note: (1) Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn.

Capital

Strategic Aim	2015 Goals
Successful banks are built on solid capital. We have set out a plan to build our Capital Ratio (CET1) to 13% while we are going through the restructuring of CIB.	• RWAs reduced to below £300 billion • RCR exit substantially completed and Citizens deconsolidated • £2 billion of AT1 capital raised



Reshaping the bank

Strategic Aim	Key Outcomes and Goals
Customer orientation; be easy and effective for customers, with decision rights as close as possible to the customer. **One bank;** be easy and effective for staff, with a unified culture and leadership. **Efficiency;** short, simple chains of command with clear individual accountabilities and empowerment.	**2014 outcomes:** • Functionalisation achieved • Fewer duplicated activities • Reduced Division vs 'Centre' thinking **Longer Term:** • Minimum committees • Support end-to-end approach to delivering great customer experience • Operating model fully in place

Our Operating Model

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

	The organisation will...	Meaning
Customer orientation	**...be easy and effective for customers.**	• Primarily organised around customer segments • Delivers the whole bank, seamlessly, to our customers • Decision rights as close as possible to the customer • End-to-end approach to delivering great customer experience
One bank	**...be easy and effective for staff.**	• No customer units vs functions • Unified culture and leadership • Short simple chains of command • Clear individual accountabilities • Minimum committees to support individual accountabilities
Efficiency	**...share all things that can be shared.**	• No duplication • Centres of excellence located in primary business or function • Cross-bank sharing of platforms
Disciplined and rigorous	**...manage activities end-to-end in one best way.**	• Effective process design, ownership and management • Standardisation • Consistent customer experience • Sticking to a long term investment plan to address complex technology environment
Safety and soundness	**...help ourselves to do the right thing.**	• Strong control functions • Effective three lines of defence • Straightforward policies

Our Values

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

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

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

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

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

Our Customers

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

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

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

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

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

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

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

Progress:
Across our RBS and NatWest brands, pricing is consistent.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Independent Lending Review actions

In 2013, RBS and NatWest launched an Independent Lending Review, led by Sir Andrew Large and management consultants Oliver Wyman. The aim of the review was to identify steps we could take to enhance our support for SMEs. We committed to act and report on the recommendations.

The bank will write to thousands more SMEs setting out clearly how much it is willing to lend to their business.

Progress:
By the end of December 2014, more than 350,000 pro-active 'Statements of Appetite' had been issued to SME customers, offering in excess of £12.4 billion of new or additional funding.

A dedicated website will be developed to show clearly what information RBS use to make a lending decision and set out simple, clear steps in its lending process.

Progress:
The website has been developed and can be found at www.businesslending.natwest.com. Guidance is provided to support you in making a successful application and the types of information used to make a decision.

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

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

RBS will ensure two thirds of its lending decisions are made locally and by sector specialists.

Progress:
Over two thirds of lending decisions are now made locally and by sector specialists.

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

Progress:
RBS has a milestone plan to achieve this by the end of 2016. We met our 2014 target with 20% of Relationship Managers and Credit Managers now professionally qualified.

RBS will start a programme to make all customers whose loan applications are declined aware of the appeals process, and will continue to work with the Independent Appeals Chair to improve the support it provides to customers going though this process.

Progress:
A website has been developed and can be found at www.businesslending.natwest.com. The section titled 'Decision' explains how to appeal and alternative financing options.

The bank will commit to pointing businesses to alternative sources of finance where it cannot support a loan application.

Progress:
In January 2015 RBS announced it is set to give SMEs greater access to finance by formally referring customers to both Funding Circle and Assetz Capital, two alternative finance providers.

RBS aims to become the number one bank for SME customer service in the UK.

Progress:
Our ambition is to be #1 for service, trust and advocacy. We made commitments to our customers in 2014 to help us on this road, resulting in faster lending decisions, declining complaints volumes and reshaping the objectives of our people.

Customer experience targets will be set for all staff.

Progress:
Staff objectives are focussed on providing a market leading customer experience. Objectives for 2015 have been shared with all staff and include measures to ensure we are providing good customer outcomes.

SME complaints are to be reduced by 50%

Progress:
We have a milestone plan to achieve these reductions by December 2016. We have achieved our reduction target in 2014 with final quarter complaint volumes 22% lower than average quarterly volumes in 2013 by starting to simplify our processes and empowering our staff to make more decisions at first point of contact with our customers.

None of the bank's services will be conditional on customers buying another product or service with the bank.

Progress:
As at February 2015, none of our SME products or services are conditional on customers buying another of the Bank's products or services.

The bank will publicly report on progress against these commitments annually.

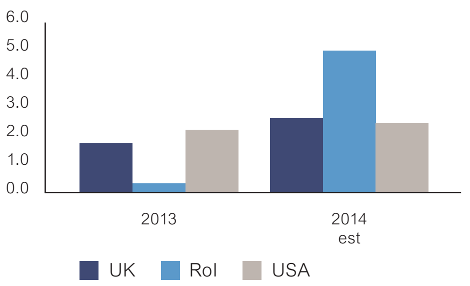
Progress:
We have reported our progress on www.rbs.com. We will continue to report progress on actions, which are on-going through 2015.

Key economic indicators

The key market in which RBS operates is the UK. Lending in the UK is closely linked to GDP and growth in the housing market is highly dependent on the level of interest rates. Falling unemployment may have a positive impact on lending as more people are able to afford loans. The profitability of the banking sector is adversely impacted by low interest rates as they squeeze the margin between borrowing and lending. The level of impairments is affected among other things by GDP growth, movements of unemployment rates and interest rates.

The other key economies in which RBS operates are the US and the Republic of Ireland (RoI).

GDP growth (%)

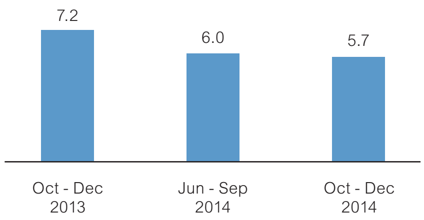


Source: *Office for National Statistics, Feb 2015*
Central Statistics Office, Mar 2015
Bureau of Economic Analysis, Feb 2015

UK GDP was up 2.6% on 2013 [1]. Ireland GDP growth is estimated to have improved to 4.8% from 0.2% in 2013. US GDP is estimated to have grown 2.4%.

(1) Second estimate

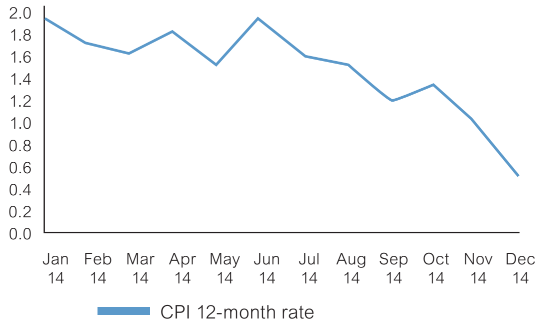
Unemployment (%)



Source: *Office for National Statistics, Feb 2015*

The unemployment rate in October to December 2014 was 5.7%, lower than for July-September 2014 (6.0%) and lower than for a year earlier (7.2%).

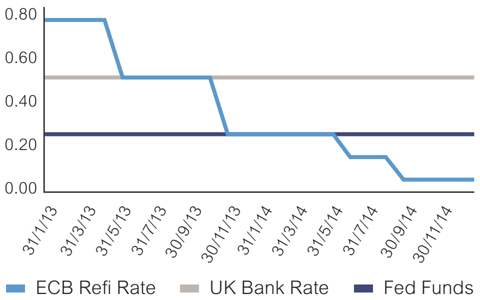
Consumer Prices Index 12-month rate (%)



Source: *Office for National Statistics, Jan 2015*

Inflation, measured by the CPI 12-month rate between December 2013 and December 2014, stood at 0.5%. The food and motor fuels product groups in total reduced the CPI 12-month rate by approximately 0.6 percentage points in the year to December 2014.

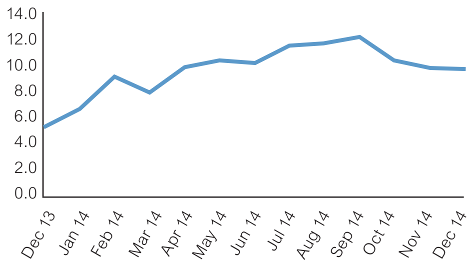
Selected interest rates in 2013 and 2014 (%)



Source: *BoE, ECB, Fed*

While UK Bank Rate and Fed Funds remained unchanged throughout 2013 and 2014 at 0.5% and 0.25% respectively, the ECB cut the refinancing rate twice in 2014 to 0.05%.

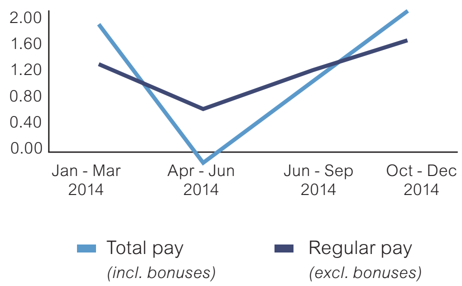
UK house prices 12 month growth rate (%)



Source: *Office for National Statistics, Feb 2015*

UK house price inflation increased from 5.5% in December 2013 to 9.8% in December 2014.

Average weekly wage annual growth (%)



Source: *Office for National Statistics, Feb 2015*

For October to December 2014, regular pay for employees in Great Britain was 1.7% higher than a year earlier and total pay for employees in Great Britain was 2.1% higher than a year earlier.

Summary

The UK economy performed relatively well in 2014 with GDP expanding by 2.6% compared with the previous year. By contrast the eurozone's modest recovery struggled to gain traction as growth of just 0.9% was realised. In Q4 2014 UK GDP was estimated to be 3.4% higher than the pre-crisis peak of Q1 2008. Inflation fell over the course of 2014 on the back of falling food and oil prices. The Consumer Price Index rose just 0.5% in December 2014 compared with December 2013.

The UK labour market performed strongly. In October to December 2014, the number of unemployed people was 486,000 lower than a year earlier. The unemployment rate was 5.7% - the lowest level since the summer of 2008. Real wage growth turned positive in late 2014 after falling almost consistently for over six years. However, this was more a reflection of lower inflation rather than a significant uplift in wage settlements. Nominal earnings in the three months to December 2014 were 2.1% higher than in the three months to December 2013, approximately twice the pace of a year earlier but still very low on a historical basis.

UK house prices continued to increase through most of 2014 and in December 2014 they were 11.5% higher than at the pre-crisis peak in January 2008. The strength of the UK recovery in 2014 prompted talk of when interest rates will begin to rise. Earlier in the year markets anticipated an increase as soon as in 2014, but at the end of 2014 market expectations were for the first increase to take place in early 2016, given below target UK inflation, exceptionally weak wage growth, a high household debt burden, daunting economic challenges in the eurozone and sluggish global growth. In addition to renewed concerns over the eurozone, other risks to the global economic and financial system continued to build over the course of 2014.

Customer Case Study

Perfect public sector payments

Public sector spending contributes a significant amount to the UK economy. So it's important that the Government and wider Public Sector have access to a simple, secure and straightforward way of paying for services.

This year we were awarded a place on the ePurchasing Card Solution Framework Agreement for the supply of Commercial card and Management Information solutions that can be used by organisations across the UK public sector including central government, local government, health, education, devolved administrations, emergency services, defence and not-for-profit organisations.

Being awarded a place on the ePurchasing Card Solution Framework Agreement was a true team effort and we're proud to play our part in helping the UK Government and wider Public Sector to deliver efficient, transparent payment services for making quick payments to a wide range of their suppliers, often including UK SMEs.

Mobile banking on the move

Ways to bank

In today's smartphone, tablet enabled, app driven world, customers are looking for even more choice and flexibility about how, when and where they do their banking.

But we know customers still want to speak to a person for those important life decisions, like buying a home or starting a new business.

We're responding to the changing needs of our customers by investing £1 billion over the next three years to improve our banking services. As part of this investment we're refurbishing our branch network to create open, bright spaces for customers to talk to us face to face about the things that matter most to them.

For customers who like to do their banking on the move we're continuing to develop our market-leading mobile banking app, which is used regularly by more than three million customers and supports around 3.5 million logons and half a million payments and transfers every day. We've also just become the first bank in the UK to introduce Touch ID fingerprint logons, offering even better security for our customers.

However, this is just one of the ways we're taking our service to where our customers want us to be. With the UK's second largest branch network, a 24/7 telephone banking service, the second largest free to use ATM network in the UK and an extended relationship with the Post Office which means customers can now access our basic services in 11,500 branches, customers have never had more choice about how they do their banking.

And for those customers in more remote communities we've invested in a further five mobile banking vans, taking our fleet of vans to 23. They join a long, proud tradition of mobile banking services – our first van was introduced in 1946.

Business review

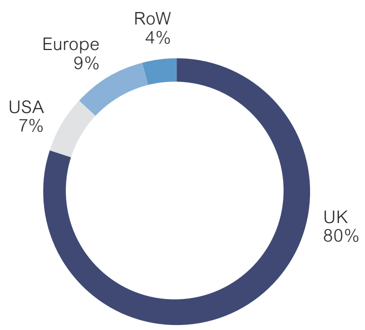
RBS is now structured to deliver its ambition by organising itself around the needs of its customers, so as to combine customer groups with similar needs into franchises able to deliver co-ordinated services.

The reorganised bank will be a UK-focused retail and corporate bank with an international footprint to drive its corporate business. The previously reported operating divisions are now realigned into three franchises:

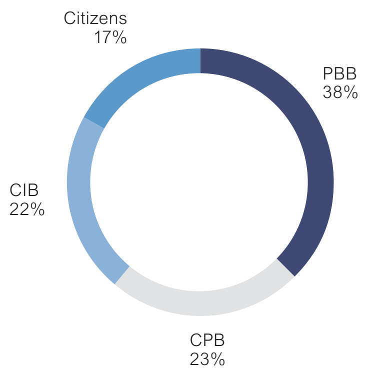
- Personal & Business Banking
- Commercial & Private Banking
- Corporate & Institutional Banking

In addition, RBS will continue to manage and report Citizens Financial Group and RBS Capital Resolution separately until disposal or wind down.

Total revenue by region 2014



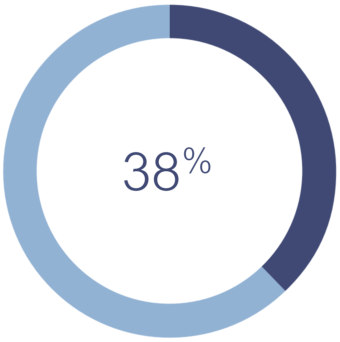
Total income by franchise 2014



Personal & Business Banking

Les Matheson
CEO,
Personal & Business Banking

Personal & Business Banking (PBB) serves individual and mass affluent customers together with small businesses (generally up to £2 million turnover), with more business bankers moving back into branches. PBB comprises two segments, UK Personal & Business Banking, including Williams & Glyn, (UK PBB) and Ulster Bank.



Contribution to income

At the end of December 2014 we had c.3 million active users of our Personal Mobile App in the UK.

Simple transactions can be done in 11,500 Post Offices across the UK.

Performance overview

- PBB recorded an operating profit of £2,056 million, up £2,846 million.
- Net interest income increased by £210 million or 4% with strong improvements in deposit margins and volume growth. This was partly offset by lower asset margins linked to the continued change in the mix of loan book towards secured lending and lower mortgage margins.
- Operating expenses decreased by £279 million or 5%, reflecting lower restructuring and litigation and conduct costs.
- Mortgage balances increased by £2.4 billion or 2%, to £121 billion driven by strong performance as advisor capacity increased.

Building a better bank that serves customers well

The strategic goal of PBB is to become the number one personal and business bank for customer service, trust and advocacy in the UK. Following completion of a strategic review, Ulster Bank was confirmed as a core part of RBS, offering a good strategic fit with RBS's retail and commercial strategy.

Throughout 2014, the business has made steady progress in making banking fairer and simpler for its customers through a number of fair banking initiatives and technology investments.

These included:

- extending services to the Post Office network.
- removing 0% teaser deals from its offering and introducing the new Clear Rate and cash-back credit cards in 2014. RBS became the first of the main high street banks to ensure all of its savers get the same or better deals as new customers.
- further developing online and mobile banking services to support the upward trend in digital transaction volumes.

Performance highlights	2014	2013
Return on equity (%)	17.5	(5.7)
Net interest margin (%)	3.42	3.21
Cost:income ratio (%)	71	78
Net loans and advances to customers (£bn)	149.2	150.8
Customer deposits (£bn)	169.3	166.6
Loan:deposit ratio (%)	88	91
Risk-weighted assets (£bn)	66.6	81.9

Note: RWAs at 31 December 2013 are on Basel 2.5 basis and on the end-point CRR basis at 31 December 2014.

Customer Case Study

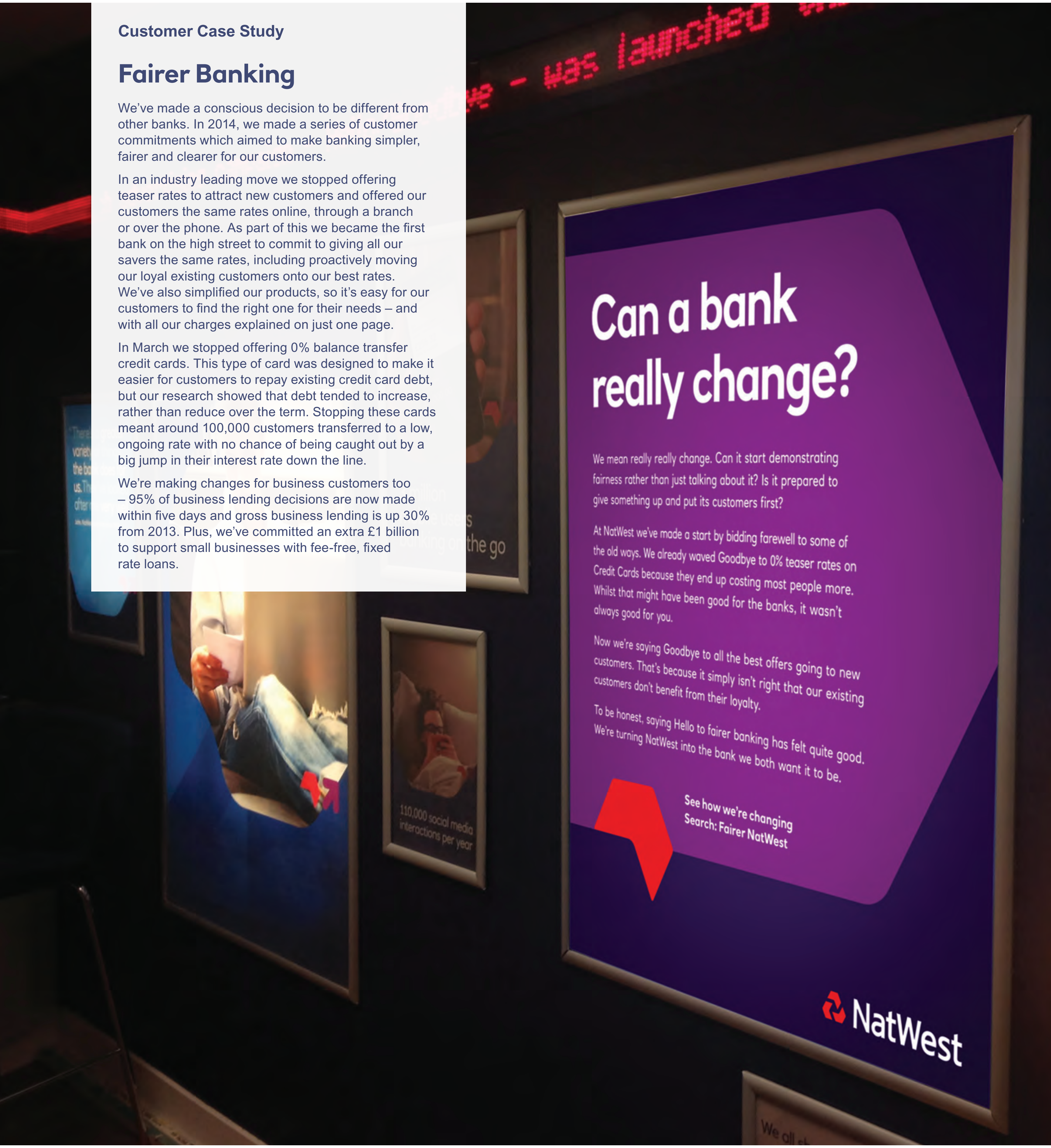
Fairer Banking

We've made a conscious decision to be different from other banks. In 2014, we made a series of customer commitments which aimed to make banking simpler, fairer and clearer for our customers.

In an industry leading move we stopped offering teaser rates to attract new customers and offered our customers the same rates online, through a branch or over the phone. As part of this we became the first bank on the high street to commit to giving all our savers the same rates, including proactively moving our loyal existing customers onto our best rates. We've also simplified our products, so it's easy for our customers to find the right one for their needs – and with all our charges explained on just one page.

In March we stopped offering 0% balance transfer credit cards. This type of card was designed to make it easier for customers to repay existing credit card debt, but our research showed that debt tended to increase, rather than reduce over the term. Stopping these cards meant around 100,000 customers transferred to a low, ongoing rate with no chance of being caught out by a big jump in their interest rate down the line.

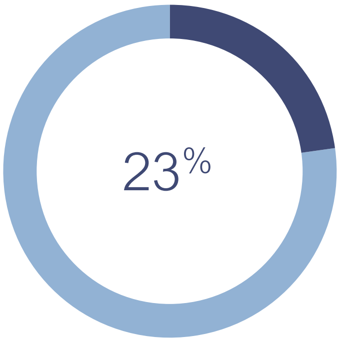
We're making changes for business customers too – 95% of business lending decisions are now made within five days and gross business lending is up 30% from 2013. Plus, we've committed an extra £1 billion to support small businesses with fee-free, fixed rate loans.



Commercial & Private Banking

Alison Rose
CEO,
Commercial & Private Banking

Commercial & Private Banking (CPB) serves commercial and mid-corporate customers and high net worth individuals, deepening relationships with commercial clients, operating overseas through its market-leading trade and foreign exchange services, while connecting our private banking brands more effectively to successful business owners and entrepreneurs. CPB comprises two reportable segments, Commercial Banking and Private Banking.



Contribution to income

Within Commercial Banking over 120 products were removed from sale and over 400 process improvements implemented.

The first of eight accelerator hubs offering free space, support and advice to high growth business owners opened as part of our plan to support UK entrepreneurs.

Performance overview

- CPB recorded an operating profit of £1,440 million compared with £469 million in the prior year.
- Net interest income increased by £112 million or 4%, largely reflecting re-pricing activity on deposits partly offset by the impact of reduced asset margins, a result of the net transfer in of lower margin legacy loans (after the cessation of Non-Core).
- Total expenses were down £304 million or 10% reflecting lower litigation and conduct costs, primarily relating to interest rate swap redress, and lower underlying direct costs.
- RWAs were £2.3 billion lower at £75.5 billion, primarily reflecting net transfers to RCR, effective 1 January 2014, and improving credit quality on the back of UK economic recovery, offset by loan growth.

Building a better bank that serves customers well

- Within Commercial Banking over 120 products were removed from sale and over 400 process improvements implemented.
- There has been an improvement in the Net Promoter Score and rating of overall service quality across the business, together with a continuing fall in complaints.
- The first out of eight accelerator hubs opened in February 2015, offering free space, support and advice to high growth business owners.
- Within Private Banking the business has progressed well against key priorities in 2014. Improvements are evidenced by several industry awards including: 'Best private bank in the UK' (PWM/The Banker) and 'Most innovative digital offering' (Private Banker International). Coutts continues to be recognised as a leader in philanthropy, with its '$1 million donors' report receiving significant media coverage, and its expertise as an adviser for family businesses and existing entrepreneurs remains a strong point of differentiation.

Performance highlights	2014	2013
Return on equity (%)	11.9	3.7
Net interest margin (%)	2.93	2.81
Cost:income ratio (%)	65	73
Net loans and advances to customers (£bn)	101.6	100.2
Customer deposits (£bn)	122.9	127.9
Loan:deposit ratio (%)	83	78
Risk-weighted assets (£bn)	75.5	77.8

Note: RWAs at 31 December 2013 are on Basel 2.5 basis and on the end-point CRR basis at 31 December 2014.

Customer Case Study

Helping Hertz

The summer season sees a surge in tourists visiting the UK, many of whom want to hire a car.

For leading car rental company Hertz this poses a unique challenge - how to efficiently fund the required increase in its fleet size to meet the demand of the summer months? A Lombard customer for 30 years, Hertz turned to us to help them find an answer.

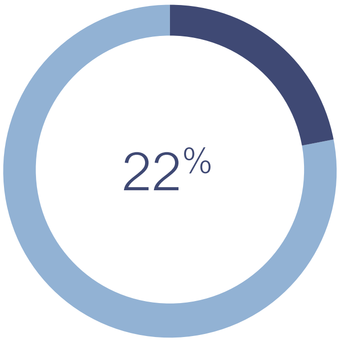
Working with teams across the bank, we were able to provide a short-term seasonal increase to Hertz UK's core fleet financing facility giving them the flexibility they needed to manage their peak requirements in line with demand.

Chris Cooper, Director of Lombard Strategic Fleet Finance said, "This is an excellent example of us working together and thinking long term for the benefit of both the client and the bank. This deal cements our position as a strategic partner to Hertz and provides a platform for further seasonal support."

Corporate & Institutional Banking

Rory Cullinan
Executive Chairman,
Corporate & Institutional Banking
and Capital Resolution

Corporate & Institutional Banking (CIB) serves our corporate and institutional clients primarily in the UK and Western Europe, as well as those US and Asian multinationals with substantial trade and investment links in the region, with debt financing, risk management and trade services, focusing on core product capabilities that are of most relevance to our clients. This business's strategy has been revised in 2015 (see page 14 for Reshaping our CIB business).



Contribution to income

Commitment to customers was demonstrated by the award of The Banker's Most Innovative Bank in Risk Management in Q3 2014.

Winner of IFR magazine's Sterling Bond House of the year award in Q4 2014.

Performance overview

- CIB recorded an operating loss of £892 million compared with a loss of £2,882 million in 2013.
- Total income declined by 21%, reflecting reduced deployment of resources and difficult trading conditions, characterised by subdued levels of client activity and limited market volatility.
- Operating expenses fell by £2,360 million driven primarily by lower litigation and conduct costs. Adjusted expenses [(1)] decreased by £1,006 million, or 22%, reflecting the continued focus on cost savings across both business and support areas.
- Net impairment releases totalled £9 million compared with a net impairment charge of £680 million in 2013, reflecting a reduction in latent loss provisions and a low level of new impairments.
- Funded assets fell by 10% reflecting the focus on core product areas including the wind-down of Credit Trading and the US ABP businesses.
- RWAs were managed down by £40.0 billion from £147.1 billion on 1 January 2014 to £107.1 billion on 31 December 2014.

Building a better bank that serves customers well

CIB focused on its strengths in core product areas during 2014, reducing the scale of the business and simplifying the operating model. This allowed CIB to better serve customers while deploying fewer resources.

The commitment to customers was demonstrated by the award of The Banker's Most Innovative Bank in Risk Management in Q3 2014 and by winning IFR magazine's Sterling Bond House of the year award in Q4 2014.

The drive to concentrate on core products is evidenced by the 27% fall in RWAs (compared with 1 January 2014 on an end-point CRR basis) and the 22% year on year fall in adjusted expenses.

Note:
(1) Excluding restructuring and litigation and conduct costs.

Performance highlights	2014	2013
Return on equity (%)	(4.2)	(12.9)
Cost:income ratio (%)	123	144
Net loans and advances to customers (£bn)	72.8	68.2
Customer deposits (£bn)	59.4	64.8
Risk-weighted assets (£bn)	107.1	120.4

Note: RWAs at 31 December 2013 are on Basel 2.5 basis and on the end-point CRR basis at 31 December 2014.

Customer Case Study

Manchester takes off

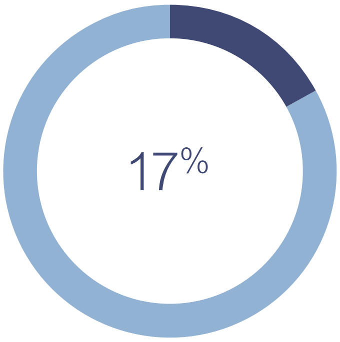
Manchester Airports Group (MAG) owns and operates four UK airports including Manchester, the UK's third largest airport, and London Stansted, the fastest growing airport in London. They serve over 45 million passengers and handle more than 600,000 tonnes of freight every year, contributing over £4 billion to the UK economy and directly supporting around 45,000 full-time jobs.

Our long-standing relationship with MAG has seen us support both their £1.5 billion acquisition of London Stansted in 2013, and two bond issuances which raised a total of £810 million. Those funds allowed MAG to refinance the acquisition debt used to buy London Stansted, and gave them a platform to invest in services and facilities at their airports.

A good example of their investment is the multi-million pound upgrade of the terminal at London Stansted. The expansion will double the size of the security space, expand the departure lounge and help create a new lounge area in the terminal building.

Citizens Financial Group

Bruce Van Saun
Chairman and Chief Executive Officer, Citizens Financial Group, Inc.



Contribution to income

RBS disposed of 29.5% of its interest in Citizens Financial Group, Inc. during the second half of 2014.

RBS intends to fully divest the business by the end of 2016.

Citizens Financial Group, Inc. (CFG) provides financial services primarily through the Citizens and Charter One brands. CFG is engaged in retail and corporate banking activities through its branch network in 11 states in the United States and through non-branch offices in other states.

RBS disposed of 29.5% of its interest in Citizens Financial Group, Inc. during the second half of 2014 primarily through an initial public offering in the USA.

Performance overview[1]

- Operating profit increased by $306 million, or 32%, to $1,253 million, reflecting the Q2 2014 gain on the sale of the Illinois franchise. The former Non-Core portfolio is now included and indirect expenses are no longer allocated on a prospective basis from 1 January 2014. On a comparable basis, operating profit excluding the impact of the Illinois sale, $283 million net gain, and restructuring costs, $169 million (2013 - $24 million), was up 16% driven by an increase in net interest income and a decrease in impairment losses partially offset by lower non-interest income.
- Net interest income was up $357 million, or 12%, to $3,317 million driven by a larger investment portfolio, loan growth including the transfer of assets from Non-Core, the benefit of interest rate swaps and deposit pricing discipline.
- Excluding restructuring costs of $169 million (2013 - $24 million), total expenses were down $96 million, or 3%, to $3,328 million driven by the removal of indirect costs in 2014 and the impact of the Illinois franchise sale partially offset by lower mortgage servicing rights impairment release and higher consumer regulatory compliance costs.
- Average loans and advances were up 10% driven by the $3.4 billion transfer of assets from Non-Core, commercial loan growth, auto loan organic growth and purchases of residential mortgages and auto loans, which were partially offset by a reduction in home equity loans.
- Average customer deposits were down 2% with planned run-off of high priced deposits.

Building a better bank that serves customers well

The initial public offering of CFG was successfully completed in September 2014 and RBS's interest in CFG stood at 70.5% of shares outstanding at 31 December 2014.

Further share sales are planned in 2015 and RBS intends to fully divest the business by the end of 2016.

Note:
(1) 2014 results are not directly comparable with prior periods; prior year results exclude Non-Core operations and include indirect expenses. In the context of the planned disposal of Citizens Financial Group, indirect expenses are no longer allocated to the segment.

Performance highlights	2014	2013
Return on equity (%)	6.6	5.7
Cost:income ratio (%)	69	74
Net loans and advances to customers ($bn)	93.1	83.2
Customer deposits excluding repos ($bn)	94.6	91.1
Loan:deposit ratio (%)	98	91
Risk-weighted assets ($bn)	106.8	92.8

Note: RWAs at 31 December 2013 are on Basel 2.5 basis and on the end-point CRR basis at 31 December 2014.

RBS Capital Resolution

Rory Cullinan
Executive Chairman,
Corporate & Institutional Banking
and Capital Resolution

RBS Capital Resolution (RCR) became fully operational on 1 January 2014 with a pool of c.£29 billion of funded assets with particularly high long-term capital intensity, credit risk and/or potentially volatile outcomes in stressed environments. RCR brings assets under common management and increases focus on the run down so as to release capital.

Performance overview

- RCR funded assets were reduced by £14 billion, or 48%, during 2014, driven by disposals and repayments.
- RWA equivalent decreased by £38 billion, or 58%, during 2014. This primarily reflects disposals and repayments, supplemented by methodology changes and lower market risk RWAs.
- Operating profit of £988 million reflects impairment provision releases and higher than anticipated sale prices for assets driven by a combination of strong execution and favourable market conditions particularly in Ireland.
- The net effect of the £988 million operating profit and RWA equivalent reduction of £38 billion [(1)] was CET1 accretion of £4.8 billion.

Building a better bank that serves customers well

RCR is managed and analysed in four asset management groups - Ulster Bank (RCR Ireland), Real Estate Finance, Corporate and Markets. Real Estate Finance excludes commercial real estate lending in Ulster Bank.

Note:
(1) Capital equivalent: £3.8 billion at an internal CET1 ratio of 10%.

2014 saw many of RCR's larger deals completed - around 360 of them.

In 2014, RCR reduced its funded assets from £29 billion to £15 billion.

Performance highlights	31 December 2014	1 January 2014
Risk-weighted asset equivalent (£bn)	27.3	65.0
Risk-weighted assets (£bn)	22.0	46.7
Funded assets (£bn)	14.9	28.9

Services

Simon McNamara
Chief Administrative Officer

Services plays a vital part in building loyalty with every customer interaction we have; from putting money in the ATMs, to keeping our customers safe from fraud, processing trillions of pounds in payments across the world, and making sure the bank's technology systems are there for our customers when they need them. We keep RBS running, driving efficiency and resilience in everything we do to support our customers 24 hours a day, 365 days a year.

Here are just some of the ways we've worked to build customer trust in 2014:

We're more resilient

- The performance of our systems has improved with each one of our 130 services available to customers over 99.96% of the time. Through this work, in the second half of the year we have reduced system downtime by 79%.
- Our mirror bank capability now lets our customers access critical services in the event of a system outage. We can now process 90% of debit and credit card transactions for customers during an outage and they can view mini-statements and balances on mobile and online banking systems.
- We upgraded our service to improve stability and reduce the risk of outages associated with our core international payments infrastructure. This has resulted in a significant reduction in the number of outages we experience.
- We upgraded the infrastructure that supports our mobile banking service improving the stability, capacity and availability of this service for customers.
- On 'Black Friday' our systems supported high volumes and values across a number of our customer channels in the UK, including record-breaking figures for our mobile banking app.

We're simpler

- We implemented a new operating model for Services, fully aligned to the customer franchises in Personal & Business Banking, Commercial & Private Banking and Corporate & Institutional Banking, and RBS Capital Resolution.
- We reduced the number of properties we use by 200 to 2,500 today, including some major properties in London.
- Through our Simplifying Customer Life programme, we implemented over 4,000 ideas, generating improvements covering more than 2.6 million customer interactions.
- We used data and analytics to simplify pricing for our Instant Access Savings product (reducing from 70 to 2 different price points) - improving the savings rate for 4.5 million customers in the process.

We're more efficient

- We contributed around £500 million to the bank's cost reduction target.
- We refocused and prioritised our investment and transformation plans, reducing the number of projects we run from 550 to 182.
- We reduced the amount of cash spend on third parties by £800 million, a 17% reduction from 2013.
- We have invested in our data and customer technology, allowing us to personalise content presented to customers in over 1.2 billion interactions (across digital, telephony and face to face).

We're more innovative

- We initiated 23 proof of concepts, and generated a pipeline of over 450 ideas, through our innovation scouting network around the world.
- We teamed up with Silicon Valley-based start-up TokBox, to trial cutting edge video conferencing technology, which increases choice and convenience for customers and entrepreneurs.
- We increased the number of active mobile banking users by around 600,000 customers to 2.9 million, with over 1 billion logins.
- We transformed 127 branches through our Points of Presence programme and installed Wi-Fi in almost 2,000 sites for customers and colleagues.

ATM

Our mirror bank capability now lets our customers access critical services in the event of a system outage.

Through our Simplifying Customer Life programme, we implemented over 4,000 ideas, generating improvements covering more than 2.6 million customer interactions.

We refocused and prioritised our investment and transformation plans, reducing the number of projects we run from 550 to 182.

We transformed 127 branches through our Points of Presence programme and installed Wi-Fi in almost 2,000 sites for customers and colleagues.

Customer Case Study

Malted magic

Muntons supplies malt – an important ingredient in products like beer, whisky and confectionery – to a range of blue-chip customers.

UK owned and based in Suffolk, the firm uses only British barley to make their malt. To successfully build their business and compete on a bigger stage, they knew they would have to increase their global footprint. A recent joint venture in Thailand has added to their sales presence in the USA and Asia, supported by us.

Earlier this year Muntons invested £5.4 million in an anaerobic digestion plant at their Stowmarket headquarters, partly funded by RBS Invoice Finance with an asset-based lending package. This facility will help them manage the major capital spend they'll need to meet their ambitious growth targets both at home and abroad.

Governance at a glance

Board and committee activity remained busy during 2014 with a number of key strategic issues taking centre stage including the delivery of the strategic plan agreed in February 2014. Board committees continued to play a crucial role in our governance framework, undertaking their complex work comprehensively and effectively supporting the work of the Board.

Conduct and regulatory investigations have been key areas of focus and our 2014 results reflect the impact that conduct related matters continue to have on financial and operating performance. The Board will continue to drive cultural change and it is essential that our governance framework continues to evolve to support this.

During 2015, the Board will continue to focus on our key priorities, including customers, conduct, capital and funding, risk and delivery of the strategic plan.

Philip Hampton
Chairman of the Board of directors

Our Board

The Board has ten directors comprising the Chairman, two executive directors and seven independent non-executive directors, one of whom is the Senior Independent Director. Biographies for each director and details of which Board Committees they are members of can be found on pages 43 to 46.

There were a number of changes to the Board's composition during 2014, details of which can be found in the Chairman's Statement on pages 6 and 7.

The Board is collectively responsible for the long-term success of RBS and delivery of sustainable shareholder value. Its role is to provide leadership of RBS within a framework of prudent and effective controls which enables risks to be assessed and managed.

We conducted an internal evaluation of the effectiveness of the Board and its committees in 2014, led by the Chief Governance Officer and Board Counsel. The evaluation has concluded that the Board is operating effectively but has identified some areas for improvement which we will focus on during 2015.

For biographies see pages 43 - 46

Our Board committees

In order to provide effective oversight and leadership, the Board has established a number of Board committees with particular responsibilities. The work of the Board committees is discussed in their individual reports in the 2014 Annual Report and Accounts.

The terms of reference for each of these committees is available on rbs.com and copies are also available on request from RBS Corporate Governance and Secretariat.

Group Nominations Committee

Assists the Board in the selection and appointment of directors. It reviews the structure, size and composition of the Board, and membership and chairmanship of Board committees.

Group Audit Committee

Assists the Board in discharging its responsibilities for monitoring the quality of the financial statements of RBS. It reviews the accounting policies, financial reporting and regulatory compliance practices of RBS. It also exercises oversight over systems and standards of internal controls, and monitors RBS's processes for internal audit and external audit.

Board Risk Committee

Provides oversight and advice to the Board on current and potential future risk exposures of RBS and future risk strategy. It reviews RBS's compliance with approved risk appetite and oversees the operation of the RBS Policy Framework and submissions to regulators.

Board of directors and Executive Committee

Board

Chairman
Philip Hampton

Executive directors

Ross McEwan

Ewen Stevenson

Non-executive directors

Sandy Crombie
(Senior Independent Director)

Alison Davis

Morten Friis

Robert Gillespie

Penny Hughes

Brendan Nelson

Baroness Noakes

Chief Governance Officer and Board Counsel

Aileen Taylor
(Company Secretary)

Executive Committee

The Board is supported by the Executive Committee comprising the executive directors and other senior executives. Details of the composition of the Executive Committee and biographies of its members can be found at www.rbs.com>about us>corporate governance>ceo and board >executive committee

RBS Capital Resolution (RCR) Board Oversight Committee

Provides oversight of RCR's progress against, and compliance with, its primary objective and asset management principles.

Sustainable Banking Committee

Responsible for overseeing and challenging how management is addressing sustainable banking and reputation issues, considering the long term interests of all stakeholder groups.

Group Performance and Remuneration Committee

Responsible for approving remuneration policy and reviewing the effectiveness of its implementation. It also considers senior executive remuneration and makes recommendations to the Board on the remuneration of executive directors.

Executive Committee

Supports the Chief Executive in managing RBS's businesses. It reviews and debates relevant items before consideration by the Board. It is responsible for determining and delivering RBS's strategy and it monitors and manages financial performance, capital allocations, risk strategy and policy, risk management, operational issues and customer issues.

UK Corporate Governance Code

Throughout the year ended 31 December 2014, RBS has complied with all of the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council dated September 2012 except in relation to provision (D.2.2) that the Group Performance and Remuneration Committee should have delegated responsibility for setting remuneration for the Chairman and executive directors. RBS considers that this is a matter which should rightly be reserved for the Board.

For further information on corporate governance see the Annual Report and Accounts 2014 available at rbs.com/annualreport

Risk overview

Capital developments

RBS continued to make good progress in reducing risk and strengthening its capital position. The Common Equity Tier 1 (CET1) ratio improved by 260 basis points to 11.2% and the leverage ratio by 80 basis points to 4.2%.

The key factors were:

- RCR disposals and run-off in 2014 which led to a reduction in funded assets of £14 billion and in risk-weighted asset equivalent of £38 billion (58% of the RCR start point).
- RCR was established with effect from 1 January 2014 to remove risk from the balance sheet, reduce volatile outcomes in stressed environments and to accelerate the release of capital over a three year period.
- A £40 billion reduction in CIB's risk-weighted assets (RWAs), including an orderly run-down of US asset-backed product business.
- Disposal of €9 billion of legacy available-for-sale securities, thereby reducing stressed capital and RWAs.

Despite these and other risk reduction measures, RBS's capital position was close to thresholds under adverse stress scenarios, as evidenced by the European Banking Authority (EBA) and Bank of England (BoE) stress test results published in the second half of 2014:

- EBA: 2016 CET1 ratio (based on 2013 accounts) under the modelled EBA adverse scenario was 5.7%, marginally above the minimum requirement of 5.5%.
- BoE: CET1 ratio under the hypothetical BoE adverse scenario was 4.6% at the end of 2016, slightly above the 4.5% post-stress minimum ratio threshold set by the BoE. After taking account of management actions, the adjusted ratio was 5.2%.

Other risk developments

- Conduct, regulatory, litigation and reputational risk: RBS continued to be affected by conduct issues. Litigation and conduct costs, including those relating to Payment Protection Insurance, Interest Rate Hedging Products, London Interbank Offered Rate (LIBOR), US mortgage securitisations and foreign exchange trading, have exceeded £9 billion since 2011 and continued to demand significant amount of management attention.
- Operational risk: RBS's ongoing transformation is complex and wide-ranging, affecting all business areas and functions. In 2014, a new functional operating model was implemented to embed standardisation and consistency of approach to the management of operational risk. Significant investments were made to improve technology resilience for core banking services. In addition, enhancements were made to cyber security programmes.
- Liquidity: A strong liquidity position was maintained, with a liquidity portfolio of £151 billion at the end of 2014 covering short-term and total wholesale funding by factors of over five and 1.5 respectively. Liquidity coverage ratio was 112% and the net stable funding ratio was 121% at the end of 2014.
- Credit risk: 2014 saw a net release of £1.2 billion of impairment provisions, principally in RCR and Ulster Bank reflecting sustained improvements in economic and asset market conditions in the UK and Ireland. RBS continued to reduce its risk concentrations, notably in commercial real estate and eurozone periphery countries. RBS still has substantial credit risk exposures with credit risk RWAs of £295 billion compared with £357 billion at the end of 2013, a 17% reduction.

- Market risk: RBS's traded market risk profile decreased significantly, with market risk limits being reduced across all businesses. Average trading VaR decreasing to £27.8 million, 35% of the 2013 average. Market risk RWAs also decreased by £6.3 billion to £24 billion.
- Country risk: RBS maintained a cautious stance as many clients continued to reduce debt levels. Total eurozone periphery net balance sheet exposure decreased by £10 billion or 25% to £31 billion. Total exposure to Greece was £0.4 billion but only £120 million after taking into account collateral and guarantees.
- Pension risk: The triennial actuarial funding valuation of the main scheme, agreed in May 2014, showed the value of liabilities exceeded the value of assets by £5.6 billion at 31 March 2013, a ratio of assets to liabilities of 82%. To eliminate this deficit, RBS has agreed to pay additional contributions: £650 million from 2014 to 2016 and £450 million (indexed for inflation) from 2017 to 2023. These contributions are in addition to regular annual contributions of around £270 million.

Top and emerging risk scenarios

A number of top and emerging risk scenarios attracted particular attention.

Macro-economic and other external risks

- Risks related to the macro-economy: A number of scenarios could have a significant negative impact on RBS's revenues and impairments, including a recession in the UK or any of the other major markets in which RBS operates, large falls in UK or Irish property prices, oil prices, a resumption of the eurozone crisis, global deflation or major geopolitical instability. To mitigate these risks, capital, liquidity and leverage ratios have been strengthened, and some higher risk and capital intensive portfolios have been exited.
- An increase in obligations to support pension schemes: If economic growth stagnates, and interest rates remain low, the value of pension scheme assets may not be adequate to fund the pension schemes' liabilities. The deficit in RBS pension schemes as determined by the most recent triennial valuations has increased, requiring RBS to increase its current and future cash contributions to the schemes as noted above. Depending on the economic and monetary conditions and longevity of scheme members prevailing at that time, the deficit may rise further at the next valuation in 2016. To limit pension risk, defined benefit pension schemes have been closed to new members since 2006 and terms for existing members have been altered in recent years.
- The impact of the 2015 UK general election on performance and strategy: Ahead of the upcoming UK election in May 2015, there is uncertainty around how the policies of a newly elected government may affect RBS. The implementation of new policies could significantly affect the operating employment environment and the fiscal, monetary, legal and regulatory landscape.

Conduct, litigation and reputational risk

- Risks to income, costs and business models arising from regulatory requirements: RBS is exposed to the risk of further increases in regulatory capital requirements as well as risks related to new regulations that could affect its business models. Regulatory intervention may result from a competition review of the personal current account and small business banking markets; the ring-fencing proposals from the Independent Commission on Banking or failure to implement the Basel Committee on Banking Supervision's Risk Data Aggregation and Reporting principles. RBS considers the implications of proposed or potential regulatory requirements in its strategic and financial plans.
- The impacts of past business conduct: Future conduct and litigation charges could be substantial. RBS is involved in ongoing class action litigation, securitisation and mortgage-backed securities related litigation, investigations into foreign exchange trading and rate-setting activities, continuing LIBOR related litigation and investigations, anti-money laundering, sanctions, mis-selling and compliance related investigations as well as a number of other matters. Settlements in relation to foreign exchange may result in additional financial, non-monetary penalties and collateral consequences, which may be material. RBS is embarking on a programme to embed a strong and comprehensive risk and compliance culture.

Risk related to RBS's operations

- Impact of Cyber attacks: Cyber attacks are increasing in frequency and severity across the industry. RBS has participated in industry-wide cyber attack simulations in order to help test and develop defence planning. To mitigate the risks, a large-scale programme to improve user access controls is in place. Action has also been taken to reduce the number of external websites and tighten management of them, to strengthen anti-virus protections, and to continue the staff education programme on information protection.
- Failure of information technology systems: RBS's information technology systems may be subject to failure. As such systems are complex, recovering from failure is challenging. To mitigate these risks, a major investment programme has significantly improved the resilience of the systems and more benefits are expected. Back-up system sustainability has improved, and a 'shadow bank' system, to provide basic services, if needed, has been created.
- Increased losses arising from a failure to execute major projects successfully: The successful execution of major projects, including the transformation plan, the recently announced restructuring of CIB and the divestment of Williams & Glyn, is essential to meet RBS's strategic objectives. These projects cover organisational structure, business strategy, information technology systems, operational processes and product offerings. RBS is working to implement change in line with its project plans while assessing the risks to implementation and taking steps to mitigate those risks where possible.
- Inability to recruit or retain suitable staff: RBS is going through a period of strategic and organisational change, leading to the need to implement new business strategies to respond to a changing external environment. Strong competition for staff from peers, the impact of remuneration regulations, and the implications of the new Bank of England Senior Managers Regime may contribute to this risk.

For further information on Capital and risk management see the Annual Report and Accounts 2014 available at rbs.com/annualreport

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

Sustainability

Sustainability at RBS means building trust through long term thinking that focuses on our customers and supporting the communities in which they live. We are committed to being open and transparent regarding the challenges faced by our business, so all our stakeholders can see what we are doing to become a more sustainable bank. You can read more about the issues raised here, as well as about our wider sustainability agenda, at rbs.com/sustainable.

Governance

The sustainability programme at RBS is built on a robust governance framework that provides direction to our sustainability priorities. The Sustainable Banking Committee is a Group Board Committee and membership comprises three independent non-executive directors. The Committee is chaired by independent non-executive director Penny Hughes and attended by senior representatives from the customer-facing businesses as well as Human Resources, Sustainability, Risk, Conduct and Regulatory Affairs, Communications and Marketing, Corporate Services and Strategy. The Chairman of the Board also regularly attends meetings. The work of the Committee is essential to ensuring that our approach to issues is managed effectively and debated at the appropriate level.

The Sustainable Banking Committee has overseen a number of important developments within RBS since it was established in 2010. In 2014 the strategic direction of the Committee was refocused under the themes of bank-wide reputation and trust, Serving Customers and Sustainability/Emerging Issues.

Stakeholder engagement

Operating in a sustainable manner is about managing our business in a way that takes account of the impact of our activities on our stakeholders. As such, we work with a number of stakeholder groups to understand their views of our organisation, and this helps shape the way we do business. As a large company we have many stakeholders and we engage with them in a variety of ways, from focus groups to meetings to online forums. These interactions inform decision making and ultimately improve RBS.

As part of our wider stakeholder engagement programme, the Sustainable Banking Committee runs its own programme of structured stakeholder engagement sessions. In 2014, the Committee took part in six of these stakeholder sessions which act as open forums where advocacy groups and experts can discuss key areas of concern with the most senior decision-makers in RBS.

We will continue to host these sessions to ensure that we understand our stakeholders' priorities.

External commitments

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

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

We are also on the Steering Committee of the UK United Nations Global Compact (UNGC)

Environmental impact table

Assessment Parameters	
Baseline year	2011
Consolidation approach	Operational control
Boundary summary	All entities and facilities either owned or under operational control
Emission factor data source	DEFRA (2014), US Environmental Protection Agency eGRID (9th edition)
Assessment methodology	The Greenhouse Gas Protocol revised edition (2004)
Materiality threshold	Materiality was set at group level at 5%
Intensity ratio	Emissions per full time employee (FTE)
Independent assurance	Limited assurance provided by Deloitte LLP over 2014 Scope 1*, 2** and 3 GHG emissions.

GHG Emissions	2011	2012	2013	2014	Change 2011 to 2014 (%)	Change 2013 vs 2014 (%)
Total Scope 1 CO^2e emissions (tonnes)	61,114	63,809	61,758	52,277	-14%	-15%
Total Scope 2 CO^2e emissions (tonnes)	576,422	509,572	451,476	437,152	-24%	-3%
Total Scope 1 & Scope 2 CO^2e emissions (tonnes)	637,536	573,381	513,234	489,429	-23%	-5%
Total Scope 1 & Scope 2 CO^2e emissions per FTE (tonnes)	4.7	4.5	4.2	4.5	-5%	8%
Scope 3 CO^2e emissions from business travel (tonnes)	141,254	94,993	132,307	97,791	-31%	-26%
Emissions of ozone-depleting gases						
Emissions of ozone-depleting gases (tonnes)	2,447	9,611	4,758	4,710	93%	-1%
Incidents						
Total number of environment incidents, fines and legal non-compliance	0	0	0	0	0	0

Note on data: Reported figures for previous years have changed in some instances. These changes are due to calculation methodology changes in line with carbon management best practice and emission factor changes as recommended by the GHG protocol.

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

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

network. The UNGC is the leading platform for the development, implementation and disclosure of responsible policies and practices in the areas of: human rights, labour, environment and anti-corruption.

Each year RBS receives ratings for its environmental and social performance by external indices. RBS has been included in the Dow Jones Sustainability World Index (DJSI) every year since its launch in 1999, maintaining our best ever score of 82 for a second year in 2014. The DJSI ranks companies' corporate sustainability performance, based on analysis of economic, environmental and social issues like corporate governance, risk management, branding and climate change.

CDP is an independent, investor-driven organisation which facilitates the measurement and disclosure of greenhouse gas emissions for 2,500 organisations in over 60 countries. In 2014, RBS received a disclosure score of 98% and a performance score B.

The FTSE4Good Index Series measures the performance of companies that meet globally recognised corporate responsibility standards. RBS has been included in the FTSE4Good since it was launched 11 years ago.

Transparency and disclosure

At RBS, we have a long way to go to rebuild trust after everything that the company has been through. We are taking a very deliberate approach to be as open as possible about our business, including on-going challenges as well as progress. We were therefore particularly pleased in 2014 to have been ranked as the leading UK company in Transparency International's report on transparency in corporate reporting. In this Strategic Report we present data on our GHG emissions, diversity and our approach to human rights. More sustainability data is contained in our latest Sustainability Report and online at rbs.com/sustainable.

Managing our impact on the environment

We aim to be recognised as a leader among large global financial institutions in managing our own environmental impacts and developing financial services that support sustainable development.

The activities of RBS and those of our clients can present a number of Environmental, Social and Ethical (ESE) risks and it is our responsibility to manage these risks. We have a robust ESE policy framework, with sector specific policies relating to high risk sectors including oil and gas, mining and metals and forestry. Data on client assessments against these policies is included in the main RBS Sustainability Report.

Progress also continues on reducing the environmental impacts of our operations. Data to the end of 2014 showed we had achieved our 2011-2014 targets for energy (15% reduction), water (12% reduction) and waste (10% reduction). However we had not yet met our objective of diverting 70% of our waste away from landfill. New 2020 targets are to be announced in the forthcoming 2014 RBS Sustainability Report.

For further information visit rbs.com/sustainable

RBS in the Community

We run a number of targeted programmes focussed on providing support to the communities where we operate. In addition to this, we have a well established employee volunteering and giving programme in RBS. As well as supporting local causes in our areas of operation and topping up employee fundraising, we also support volunteering during work time.

Diversity at RBS
The bank's ambition is to be number one for customer service, trust and advocacy in every one of our chosen business areas, supported by a people commitment to make RBS a great place to work. Valuing difference is therefore essential for our customers and colleagues. Our inclusion policy standard applies to all our people globally; and our strategy for diversity and inclusion sits with the RBS Board and Executive Committee.

Our approach during 2014/15 focuses on building inclusion into all stages of the employee lifecycle. In 2014 we started rolling out bank-wide unconscious bias learning for all employees, which will continue across 2015. We've introduced a gender target to increase the number of women in senior roles across the bank. And we continue to support our employee-led networks, with membership across the bank at over 15,000 people.

This year RBS has been recognised for its work on Equality, Diversity and Inclusion by retaining our Platinum ranking from Opportunity Now (gender) for the second year; increasing our ranking from Silver to Gold for Race for Opportunity (race); retaining a position in the Times Top 50 Employers for Women for the eighth consecutive year; and improving upon our ranking in the Stonewall Workplace Equality Index (LGBT).

As at 31 December 2014, of our global population of 110,027 employees, 50,816 (46%) were male and 59,211 (54%) female. There were 762 'senior managers', which comprises our executive employee population and individuals who are directors of our subsidiaries, of whom 637 (84%) were male and 125 (16%) female. The RBS Board of directors has ten members, consisting of seven male and three female directors.

Our approach to Human Rights
RBS recognises our corporate responsibility to respect and uphold human rights. We regularly review our policies and procedures to ensure that we avoid infringing on the human rights of others throughout our sphere of influence. We also participated in projects with our peers through the Thun Group and UNEP FI to better understand and implement the human rights responsibilities of banks as defined by the UN Guiding Principles on Business and Human Rights.

We have adopted and contributed to a number of internationally accepted codes, notably the Equator Principles and the UN Global Compact, which specifically address the management of human rights issues.

The RBS Code of Conduct 'Our Code' sets out the standards we expect our people to work to, including a clear commitment to respecting human rights. We conduct regular consultations with employees on key aspects of their working environment, and operate a confidential helpline facility that allows employees to discuss any matter of concern with regards to their wellbeing.

Our Sustainable Procurement Code sets out our expectations of the companies that we work with. It clearly states that our suppliers should not engage in breaches of human rights or labour rights, or in discrimination. We are also committed to equal opportunities for suppliers, and we recognise that diversity strengthens our supply chain.

Our ESE Risk policies include sector-specific human rights risk screenings and are regularly reviewed and updated to ensure best practice. We conduct due diligence on clients relating to human rights standards, and expect our clients to share our commitment to respecting human rights within their operations. In all sectors, we will not provide financial services to companies involved in harmful child labour or forced labour. In 2014, we continued to strengthen human rights due diligence in our ESE policies as well as public disclosure on the details of these policies. They can be seen at rbs.com/sustainable.

For further information
visit rbs.com/sustainable

Partnership Case Study

Accelerate for growth

Over the next two years we'll be building on our successful partnership with Entrepreneurial Spark and increasing our support for entrepreneurs. We're backing eight new business accelerator hubs in locations like Birmingham, Bristol, Cardiff, Leeds, Manchester and Belfast. Each hub will offer workspace, hands-on mentoring, start-up 'boot camps' and a free 18 month programme including advice, support and funding clinics.

The hubs will have physical work spaces for up to 80 entrepreneurs and host two intakes each year, with a graduation event bringing together entrepreneurs, investors and business advisors at the end of each programme. Entrepreneurs from any sector will be able to join the hub, creating valuable network building opportunities. Each business will also have the opportunity to pitch to potential investors and apply for growth awards of up to £50,000.

The aim is to help ambitious entrepreneurs take their businesses to the next level, supporting them to create jobs and growth, boosting the UK economy.

Supplementary information

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Our Board

Chairman

Philip Hampton (age 61)
Date of appointment: 19 January 2009 (Board)
3 February 2009 (Chairman)

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

External appointment(s):
- Senior Independent director of Anglo American plc, chairman of its Remuneration Committee and member of the Audit Committee
- Non-executive director, chairman of the Nominations Committee and chairman designate of GlaxoSmithKline plc

Committee membership(s)
- Group Nominations Committee (Chairman)
- RCR Board Oversight Committee

Executive directors

Chief Executive

Ross McEwan (age 57)
Date of appointment: 1 October 2013

Experience: He became Chief Executive of The Royal Bank of Scotland Group in October 2013.
Between August 2012 and September 2013, he was Chief Executive Officer for UK Retail, joining from Commonwealth Bank of Australia where he was Group Executive for Retail Banking Services for five years. Prior to this he was Executive General Manager with responsibility for the branch network, contact centres and third party mortgage brokers.

Ross has more than 25 years experience in the finance, insurance and investment industries, and prior to Commonwealth Bank of Australia, was Managing Director of First NZ Capital Securities. He was also Chief Executive of National Mutual Life Association of Australasia Ltd / AXA New Zealand Ltd. He has an MBA from Harvard.

External appointment(s):
None

Committee membership(s)
- Executive Committee (Chairman)

Chief Financial Officer

Ewen Stevenson (age 48)
Date of appointment: 19 May 2014.

Experience: Previously at Credit Suisse for 25 years where he was latterly co-Head of the EMEA Investment Banking Division and co-Head of the Global Financial Institutions Group. Ewen has over 20 years of experience advising the banking sector while at Credit Suisse. He has a Bachelor of Commerce and Administration majoring in Accountancy and a Bachelor of Law from Victoria University of Wellington, New Zealand.

External appointment(s):
None

Committee membership(s)
- Executive Committee

Our Board

Independent non-executive directors

Sandy Crombie (age 66)
Date of appointment: 1 June 2009
(Senior Independent Director)

Experience: Previously group chief executive of Standard Life plc and Chairman of Creative Scotland. He was also previously a director of the Association of British Insurers and Chairman of the Edinburgh World City of Literature Trust. In 2007 he was the Prince of Wales' Ambassador for Corporate Social Responsibility in Scotland.

External appointment(s):
- Member and vice-chairman of the Board of Governors of The Royal Conservatoire of Scotland
- President of the Cockburn Association

Committee membership(s):
- Group Performance and Remuneration Committee (Chairman)
- Group Audit Committee
- Group Nominations Committee
- RCR Board Oversight Committee

Alison Davis (age 53)
Date of appointment: 1 August 2011

Experience: Previously, she served as a director of City National Bank and First Data Corporation and as chair of the board of LECG Corporation. She has also worked at McKinsey & Company, AT Kearney, as Chief Financial Officer at Barclays Global Investors (now BlackRock) and as managing partner of Belvedere Capital, a private equity firm focused on buy-outs in the financial services sector.

External appointment(s):
- Non-executive director and member of the audit and compensation committees of Unisys Corporation
- Non-executive director, chair of the compensation committee and member of the audit committee of Diamond Foods Inc.
- Non-executive director, and member of the audit committee of Fiserv Inc
- Non-executive director, Ooma Inc

Committee membership(s):
- Group Nominations Committee
- Group Performance and Remuneration Committee
- Sustainable Banking Committee

Morten Friis (age 62)
Date of appointment: 10 April 2014

Experience: He has 34 years financial services experience and has previously held various roles at Royal Bank of Canada and its subsidiaries including Associate Director at Orion Royal Bank, Vice President, Business Banking and Vice President, Financial Institutions. In 1997, he was appointed as Senior Vice President, Group Risk Management and served as the Chief Credit Officer then Chief Risk Officer from 2004 to 2014. He was also previously a Director of RBC Bank (USA), Westbury Life Insurance Company, RBC Life Insurance Company and of RBC Dexia Investor Services Trust Company.

External appointment(s):
- Member of the Board of Directors of The Canadian Institute for Advanced Research
- Member of the Board of Directors of the Harvard Business School Club of Toronto

Committee membership(s):
- Group Audit Committee
- Group Nominations Committee
- Board Risk Committee

Our Board

Independent non-executive directors

Robert Gillespie (age 59)
Date of appointment: 2 December 2013

Experience: Began his career with Price Waterhouse (now PricewaterhouseCoopers) where he qualified as a chartered accountant. He then moved into banking joining SG Warburg, specialising in corporate finance, and was appointed as Co-Head and Managing Director of its US investment banking business in 1989. Following the acquisition in 1995 of Warburg by Swiss Bank Corporation (which subsequently merged with UBS), he then held the roles of Head of UK Corporate Finance, Head of European Corporate Finance and Co-Head of its global business and CEO of the EMEA region. He relinquished his management roles at the end of 2005, and was appointed Vice Chairman of UBS Investment Bank. Robert left UBS to join Evercore Partners, from where he was seconded to the UK Panel on Takeovers and Mergers, as Director General, from 2010 to 2013. He is a non-executive director of Citizens Financial Group, Inc.

External appointment(s):
- Independent Board Director at Ashurst LLP
- Chairman of Council at the University of Durham
- Chairman of the Somerset House Trust
- Chairman of the Boat Race Company Limited
- Director of Social Finance Limited

Committee membership(s):
- Group Nominations Committee
- Group Performance and Remuneration Committee
- Board Risk Committee
- Sustainable Banking Committee

Penny Hughes, CBE (age 55)
Date of appointment: 1 January 2010

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

External appointment(s):
- Non-executive director, chair of the corporate compliance and responsibility committee and member of the audit, nomination and remuneration committees of Wm Morrison Supermarkets plc
- Trustee of the British Museum

Committee membership(s):
- Sustainable Banking Committee (Chairman)
- Group Nominations Committee
- Board Risk Committee

Brendan Nelson (age 65)
Date of appointment: 1 April 2010

Experience: Former global chairman, financial services for KPMG. Previously held senior leadership roles within KPMG including as a member of the KPMG UK board from 1999 to 2006 and as vice-chairman from 2006. Chairman of the Audit Committee of the Institute of Chartered Accountants of Scotland from 2005 to 2008. President of the Institute of Chartered Accountants of Scotland 2013/14.

External appointment(s):
- Non-executive director and chairman of the audit committee of BP plc
- Member of the Financial Reporting Review Panel

Committee membership(s):
- Group Audit Committee (Chairman)
- Group Nominations Committee
- RCR Board Oversight Committee
- Board Risk Committee

Our Board

Independent non-executive directors

Baroness Noakes, DBE (age 65)
Date of appointment: 1 August 2011

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

External appointment(s):
- Deputy chairman, Ofcom

Committee membership(s):
- Board Risk Committee (Chairman)
- RCR Board Oversight Committee (Chairman)
- Group Audit Committee
- Group Nominations Committee

Chief Governance Officer and Board Counsel

Aileen Taylor (age 42)
Date of appointment: 1 May 2010 (Company Secretary)

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

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

Executive Committee

The Board is supported by the Executive Committee comprising the executive directors and other senior executives. Details of the composition of the Executive Committee and biographies of its members can be found at www.rbs.com>about us>corporate governance>ceo and board>executive committee

Directors' Remuneration Report

Annual Statement from Sandy Crombie
Chairman of the Group Performance and Remuneration Committee

Dear Shareholder,

I became Chairman of the Group Performance and Remuneration Committee with effect from the 2014 AGM having served as a member since 2009. I would like to thank my predecessor, Penny Hughes, for her leadership of the Committee over the past four years.

The Committee must balance the views of our stakeholders with our duty to reward our people fairly, and our responsibility to ensure that we are running a commercial business with the best available talent. We will do our utmost to make balanced decisions and to explain our approach to our many stakeholders.

I believe we are making genuine progress. RBS has been at the leading edge of reform in bringing down how much we pay and changing the structure of how pay is delivered. Over the last five years bonus pools have fallen by around two thirds across RBS and by nearly 90% within the investment bank. Last year we introduced a simplified pay structure for our executive directors with annual bonuses being discontinued. This means that their variable pay will be delivered entirely in long-term incentive awards, aligning executive directors' pay more than ever to shareholder value over the long term.

Our current Directors' Remuneration Policy was approved at the 2014 AGM with over 99% of shareholders voting in favour. No changes are being made to the policy at this time. This letter aims to demonstrate the context in which decisions have been made, the decisions reached for the 2014 performance year and how the Committee intends to approach the year ahead. I would also encourage shareholders to read the full Remuneration Report which can be found on pages 73 to 93 of the Annual Report and Accounts 2014 at rbs.com/annualreport.

Context for our decisions

Last year we set out a new strategy that stated our ambition to become the best bank in the UK for customer service, trust and advocacy by 2020. A remuneration policy that supports our business strategy is an essential part of rebuilding a successful and trusted RBS. We made good progress in 2014. Total pay costs and pay per employee have been reduced, while we have been establishing a platform to deliver good customer outcomes and sustainable returns to shareholders. There is a clear need for management to keep the franchise intact while moving the business towards a more normal and stable position. The Committee's decisions aim to support this process.

One of the main changes during 2014 is that RBS is now operating in a framework that limits variable pay to no more than the level of fixed pay. This change is in line with the views of our majority shareholder, UK Financial Investments (UKFI). Often referred to as the 'bonus cap', this limit applies to all employees who are considered to be Material Risk Takers (MRTs) under regulatory requirements, a population that has increased significantly in line with enhanced criteria from the European Banking Authority (EBA). For the majority of these employees, no changes have been required to their remuneration arrangements.

Role-based allowances have been introduced as an additional element of fixed pay for some MRTs in line with market practice. Allowances for members of the Executive Committee are delivered entirely in shares and are subject to a retention period. Increases in fixed pay have been balanced by longer vesting periods for long term incentives and an overall reduction in the maximum compensation available.

In accordance with Prudential Regulation Authority (PRA) requirements, we have updated our clawback policy. Any variable pay awarded to MRTs from 1 January 2015 will be subject to clawback for seven years from the date of award. Clawback is the recovery of awards that have vested and been paid to employees. Malus allows the Committee to reduce awards (if appropriate to zero) prior to payment taking place. RBS has operated malus for a number of years. The new clawback requirements, together with malus, provide greater scope for the Committee to recover remuneration where new information indicates we should change the pay decisions made in previous years and it is no longer appropriate to make payments at the level originally awarded.

Malus has been applied as part of our accountability review process in light of the fines imposed on RBS by regulators relating to misconduct in foreign exchange trading (FX) and the IT incident that occurred in 2012. The Committee fully appreciates the impact such events have on shareholders and customers. It is only right that this should be reflected in remuneration outcomes for those whose conduct fell short of our standards.

In addition to direct action against specific employees under the accountability review process, significant deductions to bonus pools have been made for material conduct events. This includes deductions for LIBOR, the IT incident and for the FX events. The Committee believes this process strikes an appropriate balance with a significant adjustment being made to bonus pools as a targeted measure to change behaviour, while not disproportionately penalising employees who are not responsible for these events.

It has taken much longer than anyone anticipated to turn the corner on past problems, practices and related fines but a significant amount of remedial action has already been undertaken. A clear message has been sent to employees that there is no place for any misconduct at RBS and wrongdoers will be dealt with. There is a determination to develop and maintain a culture that reflects our commitment to the customer and ethical market practices.

Performance considerations for 2014

2014 has been a year of achievement against a difficult agenda. We are delivering on our plan to make RBS a smaller, safer bank. Citizens Financial Group, Inc. (CFG) was successfully launched on the New York stock exchange in the biggest bank flotation in US history. Once the remaining stake in the CFG business is sold this will further strengthen our capital position. RBS Capital Resolution (RCR) has managed to accelerate the planned removal of assets from our balance sheet contributing c. 110 basis points to the improvement in the CET1 ratio.

Our financial results show that, underneath the conduct issues, litigation and restructuring charges, there are strong customer franchises that are geared towards delivering sustainable returns for investors. The signs of improvement are there in customer feedback, our capital strength and reduced costs. All of these factors have been considered by the Committee in seeking to make objective decisions. Some key messages for 2014 are as follows:

- Operating profit is up significantly to £3.5 billion from a £7.5 billion loss in 2013
- Attributable loss to ordinary and B shareholders of £3.5 billion which includes the loss provision of £4 billion associated with the decision to divest CFG
- Cost reduction of £1.1 billion, excluding the effect of currency movements, which has exceeded the target
- Staff compensation has reduced year on year at both the total and per employee levels
- CET1 ratio has improved over the year from 8.6% to 11.2%
- RCR run off - assets have been reduced by £14 billion and RWA equivalents have reduced by £38 billion
- RBS Total Shareholder Return (TSR) performance in 2014 has been ahead of other UK banks and the FTSE100 index
- In 2014, we have seen some positive Net Promoter Score movements in some of our franchises and there are early signs that customer trust in RBS is stabilising and starting to improve

Pay decisions for our wider workforce

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

The Committee has an important role in helping to create a compelling employee proposition. During 2014, RBS became a fully accredited Living Wage employer. RBS has been an accredited Living Wage employer in London since 2010 and we are pleased to be extending that commitment to our operations and suppliers in the rest of the UK. Some other key decisions are set out below:

- The average annual salary increase amongst our core population of employees in 2015 will be 2%, up from 2014, whereas it will be less than 1% across the most senior RBS employees.

- The bonus pool has fallen from a total of £576 million last year (£536 million excluding CFG) to £421 million excluding CFG in 2014, a reduction of 21% excluding CFG or a 27% overall reduction. Over 90% of this pool will be directed to those below the most senior RBS employees. The Corporate & Institutional Banking (CIB) bonus pool is 53% lower than 2013.

- The bonus pool represents 6% of operating profit (excluding CFG and before variable compensation expense, conduct, litigation and restructuring charges and other one-off items).

- Where employees do receive a bonus, the average amounts remain relatively modest with 51% of employees receiving £2,000 or less and a further 22% receiving less than £5,000.

- Bonus awards above £2,000 are subject to deferral requirements and the Committee approved a 2014 deferral structure for higher earners and MRTs that exceeds current regulatory requirements.

These decisions aim to strike a difficult balance where pay is restrained in a market context but remains at sufficient levels to reward those employees who are building the future franchise. The intention is to demonstrate that good performance and a continuous focus on the right behaviours will be rewarded, while reflecting the impact on all stakeholders of conduct events in the reduction of specific bonus pools.

Pay decisions for executive directors

- No changes to remuneration policy.
- Salary, pension and benefit funding unchanged in 2015.
- Performance measures for long-term incentive awards to be granted in 2015 follow the criteria that applied to awards made in 2014 but incorporating Trust in the Customers & People measure.
- Reflecting a desire from shareholders for longer timescales, the overall vesting period for future long-term incentive awards has been extended from three to five years.

Considerations for the year ahead

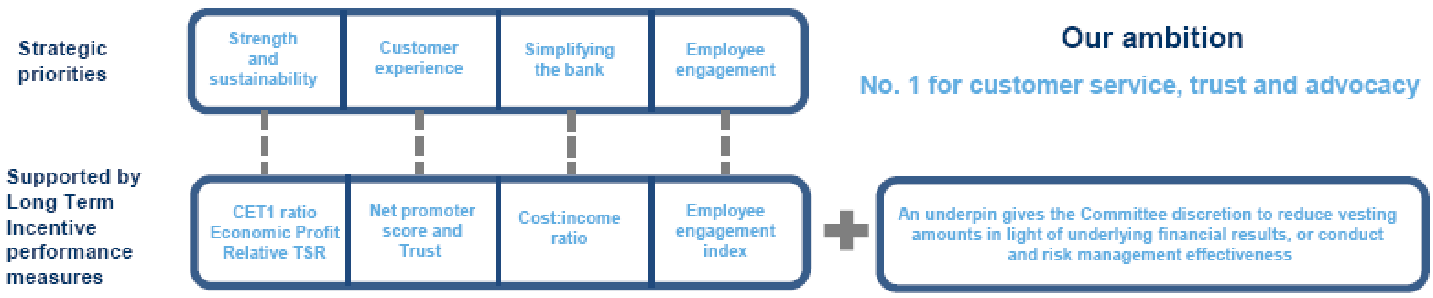
The regulatory environment continues to evolve. Further guidance is expected during 2015 from the EBA on the use of allowances as well as the outcome of the PRA's consultation on extending deferral periods. The Committee also intends to undertake a review of the broader aspects of employee remuneration at RBS during the course of the year.

I would like to conclude by thanking my fellow Committee members and those who support the Committee for their guidance and commitment over the year. I have no doubt we will be responding in 2015 to further developments in remuneration principles and practices. Shareholders continue to have a vital role in developing responsible pay practices and I look forward to working closely with all our stakeholders in the year ahead.

Sandy Crombie
Chairman of the Group Performance and Remuneration Committee
25 February 2015

Annual report on remuneration

Linking remuneration to the business strategy



Total remuneration paid to executive directors for 2014

	Current directors				Former director	
	Ross McEwan (1)		Ewen Stevenson (2)		Nathan Bostock (3)	
	2014 £000s	2013 £000s	2014 £000s	2013 £000s	2014 £000s	2013 £000s
Salary	1,000	250	497	—	313	191
Fixed share allowance	—	—	497	—	—	—
Benefits (4)	143	40	16	—	11	7
Pension	350	88	174	—	109	67
Annual bonus	—	—	—	—	—	—
Long-term Incentive Plan (LTIP) (5)	358	—	—		—	—
Other awards (6)	—	—	1,911	—	—	—
Total remuneration	1,851	378	3,095	—	433	265

Notes:
(1) Ross McEwan's remuneration for 2013 reflected his service from appointment to the Board on 1 October to 31 December 2013.
(2) Ewen Stevenson was appointed to the Board on 19 May 2014 and the table reflects his remuneration for the period since appointment.
(3) Nathan Bostock joined the Board on 1 October 2013 and stepped down from the Board on 28 May 2014.
(4) Benefits figure includes standard benefit funding of £26,250 per annum with the remainder being relocation expenses provided to Ross McEwan.
(5) The value for Ross McEwan relates to an award made on appointment to his previous role as CEO UK Retail to replace awards forfeited on leaving Commonwealth Bank of Australia. This element of the award was subject to RBS performance conditions which ended on 31 December 2014. Details of the performance assessment can be found in the Annual Report and Accounts 2014.
(6) The amount shown for Ewen Stevenson relates to an award made on appointment to replace the value of awards forfeited on leaving Credit Suisse. The award was delivered entirely in shares and subject to deferral, on terms that are no more generous than the terms of the awards replaced.

Chairman and non-executive directors' remuneration for 2014

Remuneration of non-executive directors, excluding the Chairman, was reviewed in 2014. In light of the increased activity of the Nominations Committee, and after consideration of comparable fees paid to directors of other major UK banks, it was agreed that fees for membership of the Nominations Committee should be increased from £5,500 to £10,000 per annum with effect from 1 April 2014. An additional Board Committee was also established to oversee RBS Capital Resolution and the implementation of its strategy. The fees paid during 2014 are set out below.

	Board and Committee fees £000s	Benefits and other fees £000s	2014 Total £000s	2013 Total £000s
Philip Hampton (1)	750	1	751	751
Sandy Crombie	213	—	213	186
Alison Davis	141	—	141	132
Morten Friis (2)	112	—	112	—
Robert Gillespie (3)	149	35	184	7
Penny Hughes	178	—	178	154
Brendan Nelson	183	—	183	164
Baroness Noakes	186	—	186	136
Former non-executive directors				
Tony Di Iorio (4)	34	11	45	136
Philip Scott (5)	125	—	125	164

Notes
(1) Philip Hampton is entitled to private medical cover and the value is shown in the benefits column.
(2) Morten Friis was appointed to the Board with effect from 10 April 2014.
(3) Robert Gillespie is the RBS nominated director of Citizens Financial Group, Inc. (CFG) and is entitled to fees for the period from 1 August 2014 to 31 December 2014. As part of the compensation plan for directors agreed on the IPO of the business in September 2014, Mr Gillespie is also entitled to restricted stock units in CFG which will vest on the date of the CFG AGM in 2015. The value of the fees and restricted stock is shown in the Benefits and other fees column, converted using an average exchange rate during 2014 of $1.647:£1.
(4) Tony Di Iorio became a non-executive director of CFG on 15 January 2014 and the value of fees received for the period to 26 March 2014, the date he retired from the RBS Board, is shown in the Benefits and other fees column, converted using an average exchange rate during 2014 of $1.647:£1.
(5) Philip Scott stepped down from the Board on 31 October 2014.

Financial results

Strategic report

Important note

The Strategic report forms part of the 2014 Annual Report and Accounts (the “R&A”). It does not contain sufficient information to allow for a full understanding of the results of the Group or of the state of affairs of the company. The Group's results and financial condition could be adversely affected by certain risks and uncertainties, including the outcome of litigation and investigations. For further information, the 2014 R&A, the auditor’s report on those accounts and the Report of the directors should be consulted.

Shareholders can obtain a copy of the R&A and may also elect to receive all future R&As, free of charge, by contacting our Registrar, details of which can be found on page 56. A copy can be viewed on the Group’s website rbs.com/annualreport.

Report of the auditor

The auditor’s report on the full accounts and the auditable part of the Directors’ remuneration report for the year ended 31 December 2014 was unqualified and did not include an emphasis of matter or a statement under sections 498(2) (inadequate accounting records or returns or accounts or Directors’ remuneration report not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Companies Act 2006. The auditor’s statement under section 496 (whether the information in the Report of the directors’ was consistent with the accounts) was unqualified.

Discontinued operations

RBS disposed of 29.5% of its interest in Citizens in 2014. Citizens was classified as a disposal group on 31 December 2014; its assets and liabilities at that date have been aggregated and presented in separate balance sheet captions. It has been treated as a discontinued operation and prior periods re-presented.

Financial results continued

Summary consolidated income statement for the year ended 31 December 2014

	2014 £m	2013 £m
Net interest income	9,258	9,017
Non-interest income	5,892	7,720
Total income	15,150	16,737
Administrative expenses	(13,336)	(16,063)
Write down of goodwill and other intangible assets	(523)	(1,403)
Operating expenses	(13,859)	(17,466)
Profit/(loss) before impairment losses	1,291	(729)
Impairment releases/(losses)	1,352	(8,120)
Operating profit/(loss) before tax	2,643	(8,849)
Tax charge	(1,909)	(186)
Profit/(loss) from continuing operations	734	(9,035)
(Loss)/profit from discontinued operations, net of tax		
- Citizens	(3,486)	410
- Other	41	148
(Loss)/profit from discontinued operations, net of tax	(3,445)	558
Loss for the year	(2,711)	(8,477)
Attributable to:		
Non-controlling interests	60	120
Preference shareholders	330	349
Paid-in equity holders	49	49
Dividend access share	320	—
Ordinary and B shareholders	(3,470)	(8,995)
	(2,711)	(8,477)
Per ordinary and equivalent B share (1)		
Basic and diluted earnings/(loss) from continuing operations	0.5p	(85.0p)
Basic and diluted loss from continuing and discontinued operations	(30.6p)	(80.3p)

Note:
(1) Ten B shares rank pari-passu with one ordinary share.

Financial results continued

Summary consolidated statement of comprehensive income for the year ended 31 December 2014

	2014 £m	2013 £m
Loss for the year	(2,711)	(8,477)
Items that do not qualify for reclassification		
Actuarial (losses)/gains on defined benefit plans	(108)	446
Tax	(36)	(246)
	(144)	200
Items that do qualify for reclassification		
Available-for-sale financial assets	807	(406)
Cash flow hedges	1,413	(2,291)
Currency translation	307	(229)
Tax	(455)	1,014
	2,072	(1,912)
Other comprehensive income/(loss) after tax	1,928	(1,712)
Total comprehensive loss for the year	(783)	(10,189)
Attributable to:		
Non-controlling interests	246	137
Preference shareholders	330	349
Paid-in equity holders	49	49
Dividend access share	320	—
Ordinary and B shareholders	(1,728)	(10,724)
	(783)	(10,189)

Financial results continued

Summary consolidated balance sheet as at 31 December 2014

	2014 £m	2013 £m
Assets		
Cash and balances at central banks	74,872	82,659
Loans and advances to banks	43,735	54,071
Loans and advances to customers	378,238	440,722
Debt securities	86,649	113,599
Equity shares	5,635	8,811
Settlement balances	4,667	5,591
Derivatives	353,590	288,039
Intangible assets	7,781	12,368
Property, plant and equipment	6,167	7,909
Deferred tax	1,540	3,478
Prepayments, accrued income and other assets	5,878	7,614
Assets of disposal groups	82,011	3,017
Total assets	1,050,763	1,027,878
Liabilities		
Deposits by banks	60,665	63,979
Customer accounts	391,639	470,880
Debt securities in issue	50,280	67,819
Settlement balances	4,503	5,313
Short positions	23,029	28,022
Derivatives	349,805	285,526
Accruals, deferred income and other liabilities	13,346	16,017
Retirement benefit liabilities	2,579	3,210
Deferred tax	500	507
Subordinated liabilities	22,905	24,012
Liabilities of disposal groups	71,320	3,378
Total liabilities	990,571	968,663
Non-controlling interests	2,946	473
Owners' equity	57,246	58,742
Total equity	60,192	59,215
Total liabilities and equity	1,050,763	1,027,878
Memorandum items		
Contingent liabilities and commitments	241,186	242,009

Shareholder information

Analyses of ordinary shareholders

At 31 December 2014	Shareholdings	Number of shares - millions	%
Individuals	194,957	112.1	1.8
Banks and nominee companies	10,181	6,189.9	97.2
Investment trusts	97	0.7	—
Insurance companies	90	0.3	—
Other companies	903	16.9	0.3
Pension trusts	28	0.9	—
Other corporate bodies	85	45.1	0.7
	206,341	6,365.9	100.0
Range of shareholdings:			
1 - 1,000	178,446	44.6	0.7
1,001 - 10,000	26,206	59.3	0.9
10,001 - 100,000	1,050	29.4	0.5
100,001 - 1,000,000	412	143.2	2.2
1,000,001 - 10,000,000	182	579.0	9.1
10,000,001 and over	45	5,510.4	86.6
	206,341	6,365.9	100.0

Financial calendar

Annual General Meeting
23 June 2015
RBS Conference Centre
RBS Gogarburn
Edinburgh EH12 1HQ

Interim results
30 July 2015

Dividends

Payment dates

Cumulative preference shares	31 May and 31 December 2015
Non-cumulative preference shares	31 March, 30 June, 30 September and 31 December 2015

Ex-dividend date

Cumulative preference shares	30 April 2015

Record date

Cumulative preference shares	1 May 2015

Shareholder enquiries
Shareholdings in the company may be checked by visiting the Shareholder centre section of our website, www.rbs.com. You will need the shareholder reference number printed on your share certificate or tax voucher to gain access to this information.

Listed below are the most commonly used features on the website:

- holding enquiry - view balances, values, history, payments and reinvestments;
- address change - change your registered address;
- e-Comms sign-up - choose to receive email notification when your shareholder communications become available instead of paper communications;
- outstanding payments - reissue any uncashed payments using our online replacement service; and
- downloadable forms - including stock transfer and change of address forms.

You may also check your shareholding by contacting our Registrar:

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

Braille and audio Strategic report with additional information
Shareholders requiring a Braille or audio version of the Strategic report with additional information should contact the Registrar on +44 (0)870 702 0135.

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

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

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

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

Share fraud warning
Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register at www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm’s contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.
- Remember if it sounds too good to be true, it probably is.

Report a scam
If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.gov.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Important addresses

Shareholder enquiries

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

ADR Depositary Bank
BNY Mellon Shareowner Services
PO Box 30170
College Station, TX 77842-3170
Telephone: +1 888 269 2377 (US callers)
Telephone: +1 201 680 6825 (International)
Email: shrrelations@cpushareownerservices.com
Website: www.mybnymdr.com

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