

Annual Review and Summary Financial Statement 2010



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If you haven't already tried it, visit our easy-to-use online Annual Report. Many shareholders are now benefiting from more accessible information and helping the environment too.

We have met, and in some cases exceeded, the targets for the second year of our Strategic Plan.

2010 business achievements

Good progress against Strategic Plan targets

Core bank becoming stronger

Non-Core run-off progressing well

Significant progress on EC disposals

2010 financial highlights

£1.9bn

Group operating profit ⁽¹⁾

13%

Core return on equity ⁽²⁾

10.7%

Group Core Tier 1 ratio

33%

Impairment losses reduction

2.01%

Group net interest margin

56%

Core cost:income ratio

Notes:

(1) Group operating profit/(loss) before tax, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, Asset Protection Scheme credit default swap – fair value changes, gains on pensions curtailment, write-down of goodwill and other intangible assets and RFS Holdings minority interest and excluding movement in the fair value of own debt (FVOD). Statutory operating loss before tax of £399 million for the year ended 31 December 2010.

(2) Indicative Core attributable profit, excluding fair value of own debt, taxed at 28% on Core average tangible equity (circa 70% of Group tangible equity based on risk-weighted assets).

Our 2013 vision

Enduring customer franchises

- A universal bank, anchored by retail and commercial activities with strong, complementary investment banking capability
- A top-tier competitor in our main markets

Safer and more focused

- Capital and liquidity strength meeting the highest international standards
- Gross reduction in funded assets of £500 billion

A valuable, private sector bank

- Consistently profitable, with sustainable shareholder returns targeted at 15% on our tangible equity capital
- The Government will have begun to sell its shares at a profit

Chairman's statement

Philip Hampton, Chairman

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Rebuilding and Recovery

There was a step-change in our overall financial performance last year. The return to operating profit⁽¹⁾ reflects both the internal rebuilding process at RBS and the external recovery in market and economic conditions. We are still a good way from where we want to be in terms of our performance but 2010 represents another big stride towards that goal.

⁽¹⁾ As defined on page 1.

Business achievements

There are two dimensions to the internal rebuilding process at RBS: reducing our exposure to certain assets and risks, and strengthening our core businesses. On asset and risk reduction, we are ahead of schedule. Our programme of business disposals has attracted the most attention, with 20 agreements signed or completed in 2010. But our asset restructuring deals and run-off programme are also contributing to making RBS a stronger and safer bank, with a greatly improved capital position and lower funding needs.

This progress means we can increasingly focus on the core businesses that will drive our future. It has been pleasing to see the early results of our efforts to strengthen them. For example, we have increased our share of the mortgage and savings markets in the UK, with account numbers rising by 44,000 and 579,000, respectively. We are investing heavily in our core businesses, with a strong emphasis on serving customers better and improving our efficiency.

Economic backdrop – getting better

The global economy rebounded strongly in 2010, but the strength of the recovery was unevenly spread across countries, and over time. Among our core markets, the UK and the US both returned to fairly modest growth. Conditions in Ireland remained very challenging.

This general improvement must be viewed against a backdrop of financial market turbulence at various points in the year, especially in Europe. So while our expectation is that the return of economic growth in 2010 will be sustained in 2011, and that interest rates will gradually start to rise during the year, we are vigilant about the downside risks and the possibility of spill-over effects from political uncertainties in some countries and regions.

Public policy – lending and remuneration

In the public policy debate, two issues attracted controversy for UK banks in 2010: lending to companies, especially small and medium enterprises; and remuneration. In February 2011, the leading UK banks reached an agreement with the UK Government with the intention of reducing public controversy and improving constructive relationships.

The agreement involves a series of commitments by the larger banks, including on lending, remuneration and capital support, which are a positive reaction to issues of concern in our communities. We welcome the UK Government's recognition of the contribution of financial services to the economy, and its commitment to support the creation of a level international playing field to promote effective competition.

On lending, it is important that banks give customers confidence that requests for funds for viable businesses will be met. RBS has been active in support of our customers over the last two years of significant downturn. For example, we are on track to meet our current targets for UK lending availability, agreed in March 2010. In the UK, we lent £52 billion to businesses over the first eleven months of the March 2010 – February 2011 period, well ahead of our full year target of £50 billion. Over the same eleven month period we lent over £15 billion to mortgage customers, resulting in net balance growth of more than £8 billion, in excess of our full year mortgage net lending target of £8 billion.

Our lending goals to businesses will now continue in 2011, with additional capacity available to support further growth if demand is higher than expected. This time, we will be joined by the other large UK banks. We hope this initiative will help give confidence to stimulate economic growth. In addition, the banks have agreed to support a new major equity fund targeted at small businesses, and provide capital to the UK Government's "big society" bank.

Our support for business extends beyond lending. This is particularly true in tough economic times when it is even more important to preserve economic activity and jobs. A 500-strong team of our most experienced relationship managers provides intensive support to new and fast-growing companies, who may be experiencing a recession and its aftermath for the first time. We have also grown our team of restructuring specialists who help struggling businesses back to health. We helped around 950 UK businesses to restructure successfully in 2010. We work with companies of all shapes and sizes across the country – from a small road haulage business to higher-profile examples, such as Liverpool Football Club, and large multinationals.

On remuneration, we have been a leading advocate of international, industry-wide reform in the banking sector over the last two years, having focused early on the need for deferrals, clawback and strong alignment of rewards to shareholders' interests by using equity instead of cash.

Following an extensive consultation with both our institutional shareholders and UK Financial Investments, the Board has decided our approach on the key aspects of 2010 remuneration, including performance-related awards, and has balanced the need to attract and retain talented people to serve customers effectively with other key drivers, including regulatory compliance and the control of costs. It will again include a £2,000 cap on immediate cash bonuses.

On tax, the Government will introduce a levy on banks' balance sheets from 1 January 2011. This policy was announced by the Chancellor of the Exchequer in the June Budget, with the details finalised as part of the February 2011 agreement outlined above. If the levy had been applied to the balance sheet at 31 December 2010, the cost of the levy to RBS would be in the region of £350 to £400 million in 2011.

We made a gross contribution of £3.9 billion to the UK Government in 2010. The bulk of this was taxes, including £1.5 billion paid on behalf of employees, directly or indirectly. We also paid around £1.5 billion fees, including £700 million for the Asset Protection Scheme.

Governance – building on the changes we made last year

We made comprehensive changes to the Board and the Executive Management team in 2009, so last year was one of relative stability. I remain confident that the Board has the right blend of skills and experience to succeed. Our management team, under the experienced leadership of Stephen Hester, is doing an excellent job in moving RBS forward.

Penny Hughes joined the Board on 1 January, as a Non-executive Director, and took over as Chair of our Remuneration Committee from 1 June 2010. Brendan Nelson was appointed as a Non-executive Director with effect from 1 April, and took over as Chair of the Group Audit Committee following the 2010 AGM.

Archie Hunter left the Board at the 2010 AGM after six years and I would like to thank him for his work as a director and Chair of the Audit Committee. The commitment he provided during a time of major changes on the Board was very professional and valuable.

Finally, Colin Buchan will stand down from the Board in the summer, after nine years. Again, his commitment as a director and, last year, as chairman of the Remuneration Committee, has been greatly appreciated by the Board.

Sustainable Banking – serving local communities

Financial services provide important benefits to society when they are delivered responsibly and efficiently. Having learned the lessons from the past, the challenge for RBS is to deliver these services in a way that our communities value and that our people can be proud of. I am confident that the changes we are making at RBS in the way we do business, as well as the business we do, will help to achieve this. Much of this work is overseen by the Group's Sustainability Committee, which is chaired by our Senior Independent Director, Sir Sandy Crombie, and reports to our Board.

For example, NatWest and RBS introduced Customer Charters in 2010. These are based on the issues that customers have told us are important to them, such as making banking easy (we will extend our opening hours in our busiest branches). Similarly, Ulster Bank in Ireland and Citizens in the US launched their own commitments, which are already delivering tangible benefits to our customers.

We are also committed to investing in and developing our community programmes. Our long-running MoneySense programme continues to provide education on basic financial matters to thousands of schoolchildren in the UK, and is actively supported by employee volunteers. The Citizens 'Gear for Grades' programme in the US provides school supplies for children whose families are unable to afford them. Since the programme's inception in 2003, Citizens has served over 150,000 school children in the US. Our community activities also include business start-up support and microfinance programmes. Our annual Sustainability Report contains extensive information on our activities in this key area for us in the UK, USA, India and many other countries where we operate.

Value for our shareholders

It is vital that we make a proper financial return on the large amounts of new capital that RBS has raised in recent years, mainly from the UK Government. To make that return, we know that we have to run the businesses efficiently and support our customers effectively. An intrinsic part of our effectiveness comes from being a healthy and safe bank, with sufficient capital and liquidity to meet the demands of customers, markets and regulation. Many banks in the UK and elsewhere, including RBS, operated for a number of years with levels of capital and liquidity which, certainly in hindsight, left them weak and vulnerable. Our job is to make sure RBS remains strong and safe, but also to reward shareholders appropriately through improving financial results. I hope you will agree that the progress we have made is evident in our 2010 Results. Much remains to be done, but we are another important step closer to realising the potential in the businesses that make up the RBS Group.

Philip Hampton
Chairman

Group Chief Executive's review

Stephen Hester, Group Chief Executive

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Two years on from the global financial crisis, our recovery is ahead of schedule. In 2010 we made big strides in risk reduction and an early return to operating profits. We have much work still to do and there are significant obstacles still to overcome. We aim for continued progress this year.

Our goals

Our overriding focus is on achieving three things:

- to serve customers well;
- to restore the Bank to undoubted standalone strength; and
- to rebuild sustainable value for all shareholders, and in so doing to enable the UK Government to sell its holding profitably over time.

Strategy

RBS's strategy, announced in 2009, remains our best route to achieving these goals. It is serving us well in meeting the twin challenges of continuing change in our external environment and the need for radical internal restructuring at RBS.

The new RBS is built upon customer franchises with substantial competitive strengths in their respective markets, our "Core" businesses. Each is being reshaped to provide improved and enduring performance. The Core businesses all generate strong value in their own right, and a still stronger, balanced and more valuable mix together. The business shape and new management disciplines we are establishing can drive RBS to success as a leading bank in its markets for many years to come.

The weaknesses uncovered by the financial crisis – of leverage, risk concentration and business stretch – are being fixed. The successful and continuing run-down and sale of assets which weakened us, or businesses where we have no competitive advantage, illustrates this. These assets were placed in our Non-Core Division and give a focus to our risk reduction objectives. We are changing a balance sheet which could not withstand the crisis and, importantly, the culture that created it.

2010 Results against goals

2010 was a year of good progress and the Group is on or ahead of its published goals for this stage of our Plan. There have been and still are challenges to face into, whether economic, regulatory or political. Our resilience to such events is increasing steadily.

Customers: We are completely clear – success in serving customers is the key to our business future. Overdue investment in service, technology and a changing cultural approach is starting to roll out across RBS. Most of our Core franchises showed gains on a variety of customer measures during the year though we are conscious that much remains to be done. It will take time for our actions to have full effect, in particular where business restructuring has been most marked.

In each of our retail businesses we have re-energised and invested in our customer offering around the organising thought of 'helpful banking'. The proposition in each market is tailored to suit local customers: NatWest has 'Helpful Banking'; RBS has 'Here for You'; Citizens has 'Good Banking is Good Citizenship', and; Ulster Bank has 'Help For What Matters'. This is supporting improved customer attraction and retention and has resonated positively with staff, customers, and the broader communities we serve.

Risk: Excellent progress has been made on the journey towards bringing RBS's risk profile in line with the highest standards of our industry. Our funding and liquidity profile is much improved and no longer an outlier for our industry. Non-Core assets are down a further £63 billion, the loan-to-deposit ratio is 117%, down from 154% at peak and our Core businesses now take in over £1 of deposits for every £1 of loans

made – the “gold standard” we are targeting. Improvements in risk are also evident through reductions in single name and sectoral credit concentrations.

RBS has strong capital ratios – with a Core Tier 1 ratio of 10.7%. The additional protection of the Asset Protection Scheme, as expected, is unlikely to be called upon and we target scheme exit by the end of 2012, subject to continued progress on risk reduction and to regulatory approvals.

Shareholder value: This vital part of our goals is on track but inevitably will take the most time to deliver fully. The potential is there and the performance of the Bank will increasingly speak for itself. 2010 results were a large improvement on 2009 and our budgets for the year. At Group level RBS posted £1.9 billion of operating profits, excluding fair value of own debt (from a £6.1 billion loss in 2009). It was only after the post tax effect of APS (£1.1 billion) that we reported a net attributable loss of £1.1 billion. We are taking significant steps toward repaying the support we have received.

The RBS Core business posted operating profits of £7.4 billion and return on equity of 13%, above its cost of capital. Importantly the quality of results also improved. While still significantly impacted by high credit costs, low interest rates and other economic challenges, our Retail and Commercial businesses increased operating profits by 66% to £3.8 billion with a 10% ROE. Our Irish bank and our Insurance business remained in loss as a result of prior risk exposures which we are working down. Our investment banking arm, despite tough markets, posted £3.4 billion operating profits and a 17% ROE – a competitive result when compared with peers, though down from the record prior year. Adding the related parts of our GTS business gives still stronger returns for our wholesale client activity as a whole.

2010 results were achieved with strong attention to efficiency – beating our cost targets and allowing vital investment right across the Group to enhance future growth and business quality.

In Non-Core progress was also pleasing, though losses will continue in this division during the remaining Plan period as assets are sold and run down. Non-Core assets reduced by £63 billion to £138 billion during 2010, beating our targets. Losses narrowed sharply though they are still significant.

People

Our people are doing a great job in producing the turnaround we have targeted despite great stresses and challenges. I thank all of my colleagues at RBS for this.

Our ability to attract, retain and motivate the best people is still not what we want it to be. Our business challenges and the external environment lead to management compromises that add risk to the achievement of our business goals. We are working hard to move forward and balance staff motivation with external acceptance that past mistakes have been addressed.

Regulation

We support the revolution in regulatory standards that, when complete, and coupled with the dramatic industry changes taking place, will make for a safer financial services industry for everyone. But a safer economy also needs global macro-economic imbalances to be successfully addressed.

The Basel-led process seems likely to get to the right place on bank safety and there is good progress in the design of bank resolution and recapitalisation (“bail-in”) mechanisms, which should remove the need for future state capital support. The impact of these measures materially impacts bank costs and return prospects. These in turn impact cost and availability of customer service, including credit provision. There is an important balance to be struck by policy-makers.

2011 will be noteworthy in the UK for the conclusion of the Independent Commission on Banking (ICB). The ICB has the opportunity to reflect on all of the change under way and to determine if additional measures would be beneficial. There are traps to avoid in areas where UK reform, which is not followed elsewhere, might bring more cost than benefit, hamper banks and the economy and give the illusion of more safety without its reality. The Commission's work is continuing thoughtfully and we are co-operating fully to give insights wherever helpful.

Outlook

RBS is on track to meet its ambitious goals. These goals set out the path for our recovery period but also establish the foundations for the “new” RBS to enjoy strong and enduring prospects well into the future. For 2011, we target continued progress toward published targets. We continue to prioritise risk reduction, strengthening of customer service and building the quality and quantity of Core profits.

We are alert to the risks facing our businesses. In 2010, our results were accomplished despite eurozone market volatility, additional Irish impairments and higher than expected insurance provisioning. 2011 will doubtless have its own challenges as the global economic recovery seeks a firmer footing. Our plans might also face further substantial impacts from national and international regulatory changes.

And, as visible exemplars of the financial crisis, RBS remains vulnerable to “public mood”. The journey from “problem” to “opportunity” is important and our progress will aid customer trust, staff stability and investor confidence. In that context we hope that the opportunity to sell part of the UK Government's shareholding becomes increasingly visible and appealing – a “win win” for the taxpayer and for RBS. That moment will be an emblem of our progress and, in some respects, of progress in the wider UK economy.

RBS in 2011

Our goals for 2011 are clear. External events can still blow us off course and caution is needed until these clarify. But for our part, the strategy is delivering. We are focussing on serving our customers well and better. We are stripping away excess risk inherited from the past. We are building enduring strength and value in the new RBS and supporting the economies we serve.

In conclusion, I would like to thank all of our staff, our shareholders and other stakeholders for their continued support as we build the new RBS.

Stephen Hester

Group Chief Executive

Q&As on progress

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

○ Where are you in the impairment cycle?

The level of Group impairments fell by 33 per cent in 2010, reflecting improvements in the economic environment. Impairments fell in all core businesses, except Ulster Bank, where asset default levels and loss rates remained high in both the retail and corporate portfolios, reflecting difficult economic conditions in Ireland.

We currently expect impairments in Ulster Bank to stabilise in 2011, and to continue falling in our other businesses, assuming the global economic recovery is sustained.

○ When will the UK Government sell its shareholding?

The UK Government set up UK Financial Investments Ltd (UKFI) to manage its investments in financial institutions, including RBS. UKFI has been given a clear mandate by the Government, to protect and create value for the taxpayer as shareholder. As such, decisions around the timing of any sale are outside the remit of the RBS Group. We are acutely aware of our responsibility as part of this process. By successfully implementing our Strategic Plan, we will serve our customers well and achieve the business success needed to attract new investors.

○ Can you explain the treatment of the APS and fair value of own debt?

Our financial performance is affected by two items that do not reflect the day-to-day business of the Group – the Asset Protection Scheme and the fair value of own debt. Both can exhibit counter-cyclical behaviour, in that improving market conditions result in a charge, and vice versa.

The APS is a credit derivative and so must be accounted for at fair value; fluctuations in this value are reflected in the results. If market circumstances are getting better and credit spreads for the assets in the covered portfolio narrow, the value of the protection decreases and a loss is recognised. If spreads widen, the protection is more valuable, giving rise to a gain.

For accounting purposes, the Group values some of its issued debt (e.g. bond issues) at the current market price. Changes in this value are recorded in profit or loss. Part of this change results from market movements in the price of the Group's credit: when the Group's credit spreads tighten a loss is recorded, when they widen a gain is recorded.

○ What has been happening to margins, and why?

We need to rebuild net interest margins (NIMs) if we are to produce adequate profits to service the capital our shareholders have invested in RBS. Encouragingly, we made further progress in 2010: the Group NIM

rose by 25 basis points to 2.01 per cent. This improvement was driven by the Retail & Commercial business, where asset margins recovered across a number of markets, primarily due to the run-off of older business written at unsustainably lower margins.

Progress on liability margins has been more difficult. This reflects strong competition for customer deposits, as the banking sector tries to narrow its funding gap, and the low interest rate environment.

○ What recommendations have you made to the Independent Commission on Banking (ICB)?

The Commission inquiry is a major event for our industry in the UK, and we have sought to engage thoughtfully. Our response was published on the ICB website.

In our view, the debate about banking size and structure can often generate more heat than light. The banks that failed during the crisis didn't fail because they were too big, or because they had an investment bank. They failed because they had some form of concentration risk: in funding, in lending to property, in geography or in proprietary trading.

We should aim for a financial system where the probability of future crises is substantially reduced and there is an effective resolution regime for those institutions that do still fail. If this can be achieved then the size and shape of banks can be driven by the choices of customers and shareholders, within the context of strong and effective regulation.

○ How much progress have you made towards the cost reduction target you set?

Our cost reduction programme continues to deliver material savings. Annualised savings are now just ahead of the £2.5 billion target for 2011 and are forecast to exceed £3 billion by 2013. This reflects better cost control in our day-to-day operations, as well as a number of business disposals.

These cost savings will help to finance the £6 billion of essential investments we have committed to make as part of our five-year recovery plan. These will strengthen our core businesses. Examples include the provision of an integrated Wealth IT platform and enhanced electronic trading facilities for GBM.

○ How much exposure do you have to the sovereign debt crisis?

Our exposure to sovereign bonds in the two countries most deeply embroiled in the crisis – Greece and Ireland – is relatively low (£895 million and £104 million, respectively at 31 December 2010). But we clearly have significant exposure to the Republic of Ireland economy through our Ulster Bank subsidiary (total lending was £43.2 billion at 31 December 2010). To help manage this exposure, we placed c.£15 billion of assets in our Non-Core Division, the vast majority of which relates to commercial property. We are managing this down over time and, where assets are currently non-performing, they are being heavily provisioned.

Our key targets

Key performance indicator	Why?	How are we doing?	2013 target
Return on equity ⁽¹⁾	We need to cover our cost of capital in the long-run, and justify our shareholders' support.	<p>worst point (31%)⁽²⁾ 2009 2010</p>	Core >15%
Cost:income ratio ⁽³⁾	We cannot achieve a 15% RoE without cost control and margin re-pricing to ensure income is efficiently generated.	<p>97%⁽⁴⁾ 53% 56% worst point 2009 2010</p>	Core <50%
Core Tier 1 ratio	We need a strong capital ratio to meet society's expectations of a safer banking system.	<p>4%⁽⁵⁾ 11.0% 10.7% worst point 2009 2010</p>	>8%
Loan:deposit ratio	We want to put our balance sheet on a more secure footing by lending only as much as we have in deposits.	<p>154%⁽⁶⁾ 135% 117% worst point 2009 2010</p>	c.100%
Short-term wholesale funding ⁽⁷⁾	We want to reduce our reliance on short-term money market funding to make our balance sheet less volatile.	<p>£343bn⁽⁸⁾ £250bn £157bn worst point 2009 2010</p>	<£150bn
Liquidity portfolio ⁽⁹⁾	We want to hold strong liquidity buffers, to guard against unexpected funding difficulties.	<p>£90bn⁽⁸⁾ £171bn £155bn worst point 2009 2010</p>	c.£150bn
Leverage ratio ⁽¹⁰⁾	We target a much lower leverage ratio than before. A <20x ratio means that our assets are less than 20 times as large as our equity capital.	<p>28.7x⁽¹¹⁾ 17.0x 16.9x worst point 2009 2010</p>	<20x

Notes:

(1) Based on indicative Core attributable profit, excluding fair value of own debt, taxed at 28% and Core average tangible equity per the average balance sheet (c.70% of Group tangible equity based on RWAs). The 2009 return is based on Core tangible equity as at 31 December 2009 which included the full amount of the B Share investment by HM Treasury in December 2009.

(2) Group return on tangible equity for 2008.

(3) Cost:income ratio excluding fair value of own debt and net of insurance claims.

(4) 2008.

(5) As at 1 January 2008.

(6) As at October 2008.

(7) Amount of unsecured wholesale funding under 1 year (£157 billion) of which bank deposits are currently £63 billion, target £65 billion, other unsecured wholesale funding currently £94 billion, target £85 billion.

(8) As at December 2008.

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

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

(11) As at June 2008.

Operational Objectives	
Customer satisfaction scores	Serving our customers better must be the foundation of everything we do. We have favourable customer satisfaction scores, but our aspirations are higher still.
Market position metrics	We aim to have top five positions in the main customer markets we choose to be in. We will not compete where we cannot succeed for our customers and shareholders.
Employee satisfaction scores	We cannot succeed without a team of motivated employees working towards a common set of goals. Engagement has improved but further progress is required.



Our business and our strategy

Our approach to business

Our core businesses

Progress on our strategic plan

The economic environment



Our approach to risk management

Our over-riding focus is on achieving three things:

to serve customers well;

to restore the Bank to undoubted standalone strength; and

to rebuild sustainable value for all shareholders.

In the second year of our five-year plan, we made progress on all three counts.

Our approach to business

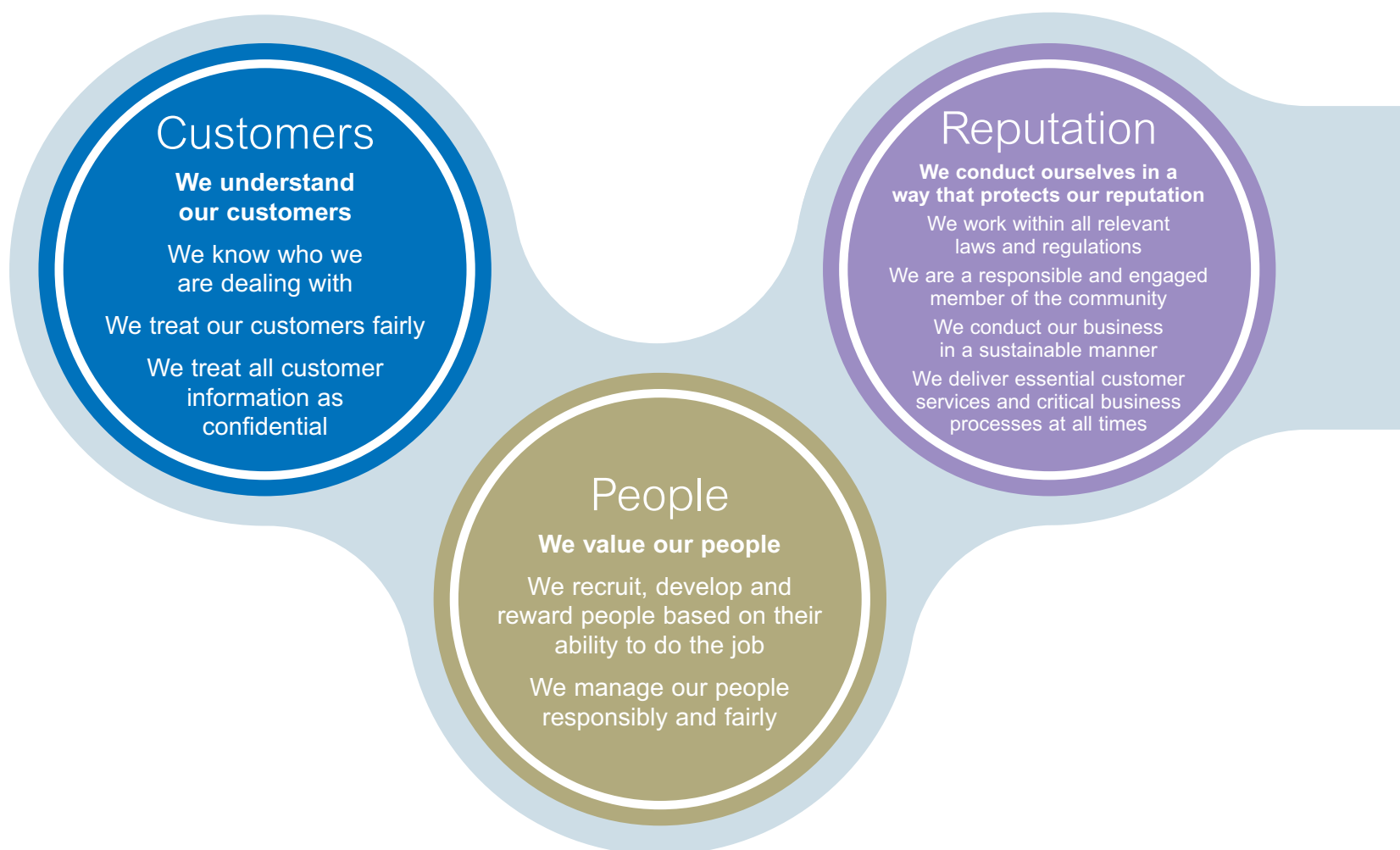
We have three over-riding goals:

- to serve customers well
- to restore the Bank to undoubted standalone strength
- to rebuild sustainable value for all shareholders

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

Customers

Serving our customers well is the cornerstone of the Group's strategy. It is embedded in our Operational Objectives, our Customer Charters and in our 'How we do business' framework, which we describe below. It is encouraging that most of our core franchises showed gains on a variety of customer measures during the year. But we are not complacent. Our customers' needs and preferences change over time, so good service today does not guarantee good service tomorrow. And financial services is a competitive, dynamic industry. So it is important that we work hard to streamline and enhance our customer service proposition.



Standalone strength

Restoring the Bank to standalone strength is crucial. The first part of the challenge is fixing the problems of the past. We took a large step towards this goal in 2009, with significant improvements on both capital and liquidity. We made further progress in 2010. The second part of the challenge is to make RBS safer for the future. To achieve this, we launched a new vision for RBS Risk Management in 2010. That vision is about adopting a more holistic approach towards risk – across the business, the risk function and audit – to create a safe, sustainable and valuable bank for our customers, staff and shareholders.

Sustainable value

Of our three goals, building the sustainable value for all shareholders will inevitably take the most time to deliver fully. We have a strong foundation in our core businesses, which generated a 13% return on equity in 2010, just short of our 2013 target of greater than 15%. We are confident that our core businesses will generate strong value both in their own right and as a cohesive whole, given cross-business synergies and the balance they bring. We outline how they are each performing against their own targets, and together to deliver our Strategic Plan, on pages 12-15.

Rebuilding sustainable value will enable the UK Government to sell its holding profitably over time. We are acutely aware of our responsibility to repay the support we've received from the UK taxpayer. By successfully implementing our Strategic Plan, we will achieve the business success needed to attract new investors.

How we do business

We deliver products and services to millions of customers around the world. So it is important that we are consistent in the way we do business – from how we manage our risks, to how we treat both our customers and our employees.

To achieve this, we have made six statements that describe how we do business. These relate to: our customers, our people, our reputation, the security of our environment, the risks we take, and our finances.

Security

We operate in a secure environment

We protect access to our premises, systems and data

We operate our processes, systems and controls to minimise loss from fraud or error

Finances

We manage our finances carefully

We use the Group's capital and resources efficiently

We account for and report our transactions properly

Risk

We understand and manage the risks we are taking

We identify and manage the level of risk we are prepared to take

Progress on our Strategic Plan

Strategy and business objectives	How are we going to do this?
RBS to generate a sustainable 15% return on equity, powered by market-leading businesses in large customer-driven markets	Market-leading franchises Target and measure market positions and customer satisfaction in all core businesses.
	Income growth Focus on businesses capable of delivering sustainable growth and achieve market-level growth in each.
	Cost control Deliver on the Group's cost programmes, whilst making essential investments in our businesses. Achieve a cost:income ratio that places RBS among the most efficient of its global peers.
	Rigorous capital and cost allocation Accurately deploy the Group's capital and allocate appropriate costs to focus the divisions on returns, as well as on profit growth.
RBS to deliver its strategy from a stable AA category risk profile and balance sheet	Reduced balance sheet scale Continue to de-risk and shrink the Group's balance sheet, including careful control of future asset growth.
	Funding programme Limit over-reliance on wholesale markets to meet the Group's funding requirements, while building up an appropriate liquidity reserve.
	Stable and robust capital support Focus on implementing state of the art risk controls, run-off of excess risk concentrations and maintenance of strong equity capital.
The chosen business mix to produce an attractive blend of profitability, stability and sustainable growth	Strong retail and commercial banking Activity focused on UK, US and Ireland and supported by significant business investment plans.
	Sustain focused customer-driven wholesale banking GBM's strategic plan is progressing well. Having refocused the business on its core franchises, disciplined deployment of capital, technology and human resources support our targeted global client base.
	Exit Non-Core business lines Expeditious run-off or sale of businesses and asset portfolios while maximising the value obtained for the Group.
RBS management hallmarks to include an open, investor-friendly approach, discipline and proven execution effectiveness, strong risk management and central focus on the customer	Publish targets for risk/return balance Demonstrate execution effectiveness by setting clear performance targets for risk and returns, and give regular updates on progress against them.
	Improve levels of disclosure Rebuild confidence and trust with investors by combining clear performance targets with improved disclosure.
	Set customer franchise targets for every business Maintain excellent customer service as a core objective of the Group, now defined with reference to a series of targets.
	Management change At the centre of its efforts to rebuild standalone strength, RBS is dedicated to building continually the strength of its Board and senior management teams.
	Strong risk management Embed the new set of management disciplines to ensure that the RBS of the future is adequately protected, notably by its risk management processes and frameworks.

Our business and our strategy

Progress on our Strategic Plan

Our progress so far	Targets by 2013
We maintained top five positions in the principal markets we compete in. For example: • Top two in UK retail and commercial banking • Top five in US retail and commercial banking in our chosen regional markets • Top five in most principal investment banking markets e.g. foreign exchange. We won't compete where we can't succeed for our customers and shareholders.	All our main Core businesses sustain positions amongst the leaders in their markets
The economic environment showed signs of improvement in 2010 but continued volatility and monetary policy interventions in some countries in which the Group operates meant 2010 was still far from a normal year. Our core businesses remain resilient, and, we believe, are strongly positioned to achieve targeted growth levels when the major economies in which they operate fully normalise.	Sustainable 5-10% organic growth in "normal" times
We have already reached our goal of delivering £2.5 billion of annualised cost savings from across the Group. Annual savings are now forecast to exceed £3 billion by 2013. The Core cost:income ratio was 56% for 2010, down from a peak of 97% in 2008, and on track to hit our 2013 target.	Core cost:income ratio <50%
In 2009, each business was made fully accountable for the costs it incurs and capital it requires through the implementation of divisional level targets for risk weighted assets, return on equity and cost:income ratios. In 2010, this enabled us to focus accurately on the individual performance of our divisions as well as capture the benefits of our universal banking model.	Implemented in 2009 and on going
In 2010, Non-Core run-off accelerated, reducing the division's funded assets to £138 billion, over £100 billion lower than the December 2008 portfolio of £258 billion. Our Tier 1 leverage ratio decreased slightly in 2010 to 16.9x, down from 17.0x in 2009.	Group leverage below 20x, in line with strongest global peers
We improved our Group loan-to-deposit ratio to 117% by the end of 2010, compared with 135% a year earlier, and, by December 2010, our Core businesses were taking in £1 of deposits for every £1 of loans made. We continued to reduce our reliance on wholesale funding, from £250 billion of short-term wholesale funding in 2009 to £157 billion in 2010. Our liquidity reserves were in line with our 2013 target at the end of 2010, at £155 billion.	Group loan:deposit ratio of c.100% Short-term wholesale funding <£150 billion Liquidity reserves of c.£150 billion
Our Core Tier 1 capital ratio was 10.7% at the end of 2010, which although marginally lower than a year earlier, is above our 2013 target and positions the Group well to deal with future regulatory changes in capital requirements.	Core Tier 1 capital ratio >8%
Retail and commercial businesses generated around 51% of the Core operating profit for 2010, moving towards the achievement of our 2013 target. In the UK, we exceeded our £8 billion mortgage net lending target and £50 billion gross business lending target for the 12 month period to February 2011.	Two-thirds of Group profit and revenue to come from retail and commercial banking
GBM reported 2010 performance that was down from a highly unusual 2009. The division sustained its core product and market strengths, supporting its target customer franchises whilst continuing to implement its substantial change programme and invest for future growth. GBM third party assets, excluding derivatives, were down £15.5 billion compared with 31 December 2009 and its proportion of our Core operating profit has reduced during 2010 to 45%.	GBM to account for approximately one-third of Group profit and revenue
We made substantial progress in our disposal programme over the course of 2010; 20 business disposals were signed or completed. The disposal programme reduced Non-Core funded assets by £33 billion over the course of 2010, with a further £12 billion of Non-Core disposals signed and due to complete in the course of 2011. By 31 December 2010 the Group had also completed the sales of GMS and substantially all of its interest in RBS Semptra Commodities, and had agreed the sale of RBS England and Wales and NatWest Scotland branch-based businesses to Santander. This demonstrates solid progress towards the achievement of our EC divestment commitments.	Run-down of the Non-Core Division
We have announced clearly defined financial targets, at both individual division and Group level which we report against on a quarterly basis. Performance against the Group's strategy, as announced in 2009, can be tracked at our "Changing the bank" website (https://changingthebank.rbs.com).	
We provide financial information to the market quarterly.	
We continue to track customer satisfaction scores and market position metrics, for each of our core businesses, to make sure we achieve our goal of serving customers well.	
We made comprehensive changes to the Board and Executive Management team in 2009, so 2010 was a year of relative stability. Brendan Nelson was appointed as a new Non-executive Director with effect from 1 April 2010, and is now Chair of the Group Audit Committee. Penny Hughes joined the Group Board on 1 January 2010, also as a Non-executive Director, and assumed the responsibility of Chair of our Remuneration Committee.	All implemented in 2009 and continuing to 2013
RBS Risk Management is aligned to support the Group's stated objective of standalone strength by 2013, as measured by reaching, and retaining, a standalone credit rating in line with the strongest international peer group. For an overview of how this is working in practice, see pages 17 to 19.	

Our Core businesses

The new RBS is built upon our Core businesses, which have substantial competitive strengths in their respective markets. Each is being reshaped to provide improved and enduring performance. They will generate attractive value in their own right, and a still stronger, balanced and more valuable mix together.

UK Retail

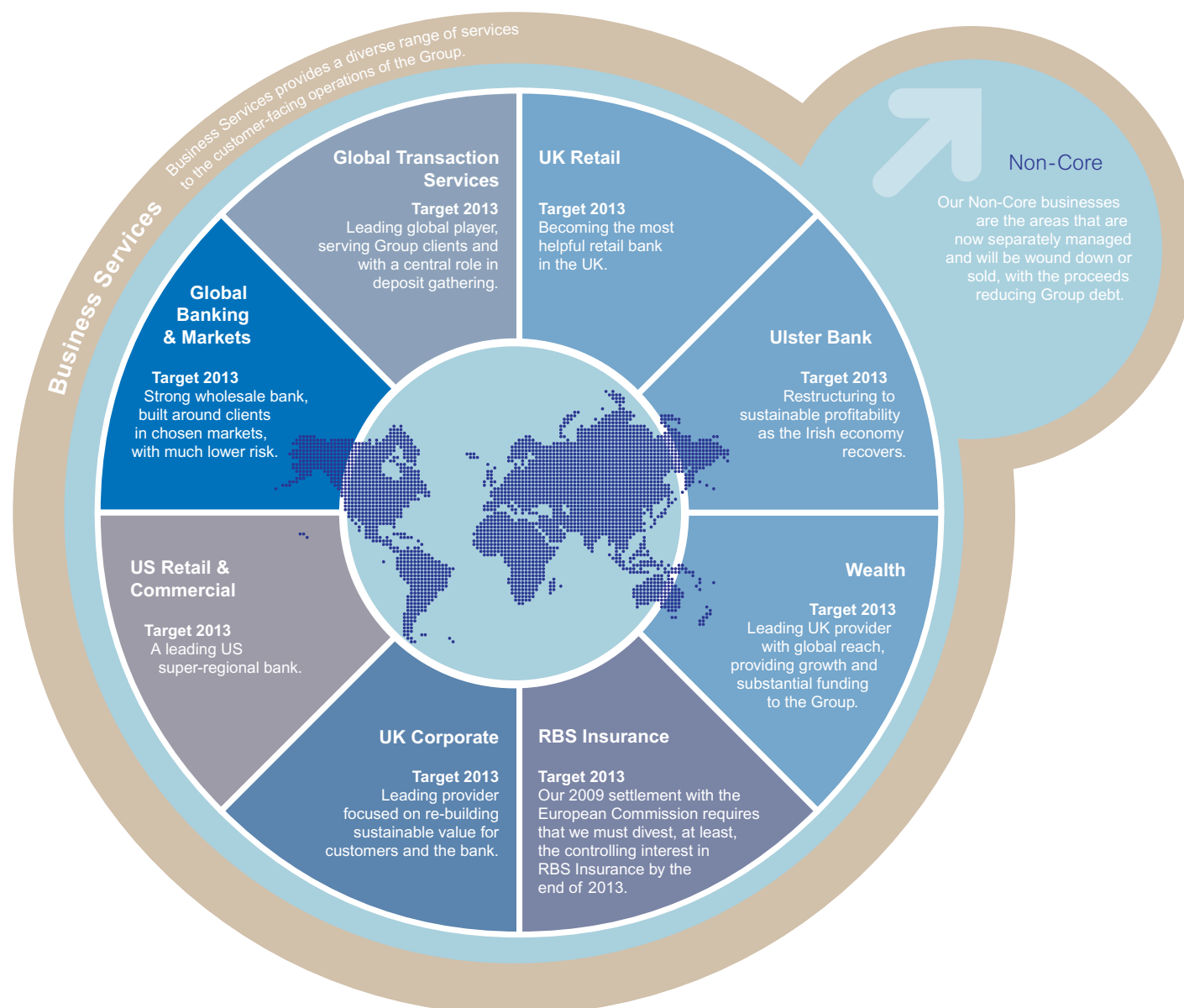
We offer a comprehensive range of banking products and related financial services to the personal market. We serve customers through the RBS and NatWest networks of branches and ATMs, and also through telephone and internet channels.

	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2009	3	60	115
2010	18	52	110
2013	>15	c.50	<105

UK Corporate

We are the leading provider of banking, finance and risk management services to the corporate and SME sector. We offer a full range of banking products and related financial services.

	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2009	9	43	126
2010	12	43	110
2013	>15	<35	<130



Wealth

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

	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2009	30	59	38
2010	19	70	44
2013	—	<50	<30

Global Transaction Services

We offer global payments, cash and liquidity management, trade finance, and commercial card products and services. We are able to support and connect customers across 128 countries.

	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2009	42	59	21
2010	43	57	21
2013	—	<50	<20

Ulster Bank

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

	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2009	(12)	73	177
2010	(21)	59	152
2013	>15	c.50	<150

US Retail & Commercial

We provide financial services primarily in the North Eastern United States through the Citizens Bank, Charter One and RBS Citizens brands. We are engaged in retail and corporate banking activities. We rank among the top five banks in New England.

	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2009	(1)	78	80
2010	4	72	81
2013	>15	<55	<90

Global Banking & Markets

We provide financing, risk management and advisory services to major corporations, financial institutions and public sector clients in 39 countries.

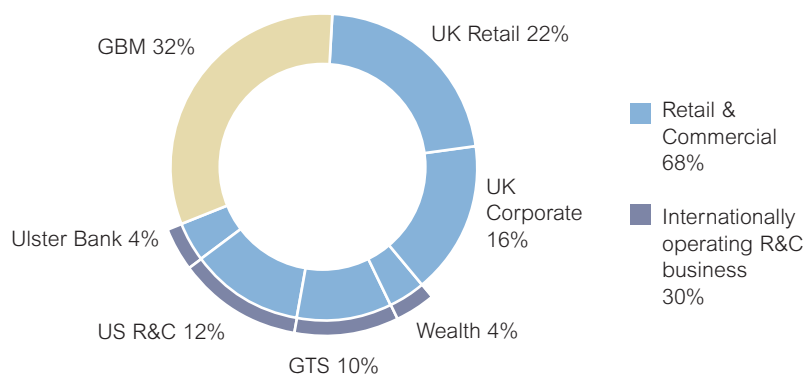
	Return on equity (%)	Cost:income ratio (%)
2009	30	42
2010	17	56
2013	>15	c.55

RBS Insurance

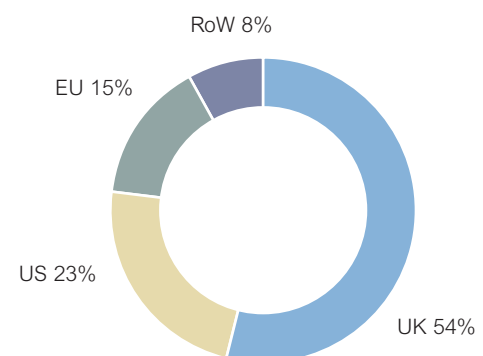
We sell and underwrite retail and SME insurance over the telephone and internet, as well as through brokers and partnerships. Our brands include Direct Line, Churchill, Privilege, Green Flag and NIG.

	Return on equity (%)	Cost:income ratio (%)
2009	2	92
2010	(8)	172
2013	>20	<60

Core revenue by division – 2010



Total revenue by geographic split – 2010



Note: Excluding Fair Value of Own Debt (FVOD), excluding RBS Insurance.

The economic environment

Keep up with our latest economic research and analysis at www.rbs.com/economics

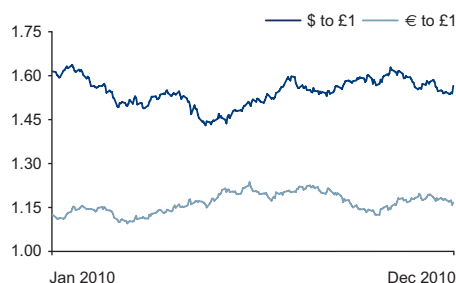
Current position

- UK and US economies in recovery
- Outlook for gradual improvement
- Indebtedness still a headwind
- Emerging economies still outperforming

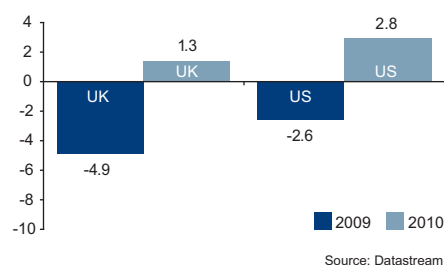
Possible risks

- Interest rates stay near zero bound, or rise too rapidly
- Economic growth falters
- Sovereign credit risks not controlled
- Wholesale funding conditions deteriorate

Sterling exchange rates



GDP growth (% , real terms)



Our markets

In the UK, which is our largest market, economic conditions improved in 2010. Total economic activity, as measured by gross domestic product (GDP), grew by 1.3 per cent in 2010. This followed a contraction of 4.9 per cent in 2009. However, a fall in activity in the final quarter of 2010 served as a timely reminder that, while conditions are generally improving, the recovery is fragile.

The recovery has helped many of our customers. Company trading profits grew for the first time since 2008. The unemployment rate levelled off at around 8 per cent, which is much higher than at the start of the recession, but still relatively low compared with the peak in other recessions. These factors supported commercial property prices, which were 6 per cent higher in December 2010 than they were a year earlier, according to International Property Databank. Most of those gains came in the first half of the year. The residential market was less robust: house prices fell in the second half of the year, dragging the year-on-year growth rate to -1 per cent in December 2010, according to the Nationwide index.

The US economy registered the fastest growth among our main markets. GDP grew by 2.8 per cent, following a contraction of 2.6 per cent in 2009. Despite this, the unemployment rate remained stubbornly high, which prompted a further loosening of monetary and fiscal policy. In Ireland, GDP contracted by an estimated 0.5 per cent in 2010, following a 7.6 per cent reduction in 2009, though there were tentative signs of strengthening towards the end of the year.

The general improvement in economic conditions must be viewed against a backdrop of financial market turbulence at

various points in the year, most notably the sovereign debt crisis that affected the Eurozone periphery. This led to a marked fall in risk appetite in Q2 and, again, in Q4. Equity prices fell in the banking sector and there was a 'flight to quality', which pushed down long-term interest rates on government debt in some countries. This included the UK, where the 10-year gilt rate fell from more than 4 per cent at the start of 2010, to less than 3 per cent in October. UK gilt yields subsequently rose in the final months of 2010, in anticipation of interest rate rises in 2011.

The increase in risk aversion also caused some sharp currency movements. At one point the pound was 11 per cent down against the dollar, but sterling rallied in the second half of 2010, to end the year just slightly lower than where it started (\$1.57 from \$1.61). Sterling rose by 10 per cent against the euro in the first half of the year, before giving up most of these gains, to end the year at €1.17 (from €1.13).

The economic outlook

We expect the global recovery to be maintained, but to remain uneven. The pace of growth in the major developed economies – including the UK and the US – is likely to remain sluggish by historic standards, and volatile. This reflects high levels of indebtedness and the expectation that interest rates will gradually rise. Emerging markets, especially Asia, will continue to outperform as they are less encumbered by balance sheet strains. Moreover, growth in countries like China and India will continue to be underpinned by the process of 'catch-up' with industrial nations.

N.B. All data are from Thomson Datastream unless otherwise indicated.

Our approach to risk management

A new vision for RBS Risk Management

At RBS, Risk Management plays an integral role in delivering the Strategic Plan by embedding appropriate frameworks. With the need for financial strength and resilience at the heart of this, RBS Risk Management is aligned to support the Group's stated objective of standalone strength by 2013, as measured by reaching and then retaining credit standing in line with the strongest international peer group. The Group Board agreed in 2009 four risk objectives which are aligned to the Plan. These are to:

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

Strategy and policy

These strategic risk objectives are the bridge between the Group-level business strategy and the frameworks, measures and metrics we use to set appetite and manage risk in our business divisions. Our Risk Appetite Framework is aligned with business objectives, with underlying and cascading frameworks and limits.

Appropriate and effectively implemented policy standards are a pre-requisite to achieving a standalone credit rating in line with the strongest in our international peer group, and unless we maintain an upper quartile control framework we will not succeed in this objective. In 2010, we began work on a revised Group Policy Framework (GPF) and this will continue to be rolled out as a key component of Risk Appetite during 2011. It has two very specific but correlated objectives which will apply at the individual policy level as well as the aggregate policy standard level:

- to ensure that Risk Appetite is set in accordance with strong standalone credit ratings on a consistent basis; and
- to ensure an upper quartile control environment is maintained against relevant external benchmarks.

An enhanced approach to embedding policies will form an integral part of our communication and training with both our frontline staff and across RBS Risk Management. Our revised GPF is structured to require policy standard owners and policy sponsors to re-assess their policies on a regular basis and where shortfalls against industry practice are identified these are documented and addressed within an agreed timeframe.

Operating model

The risk and liquidity balance sheet management strategies are owned and set by the Group's Board of directors, and implemented by executive management led by the Group Chief Executive. A number of committees supports the execution of the business plan and strategy. Interaction between them helps to promote cross-risk linkages. The roles and responsibilities fulfilled by the key risk committees have been reviewed and more clearly defined during the course of 2010 and further enhancements are planned in 2011.

Equally important as improved governance is strengthening the capabilities of our people and rebuilding trust with our external stakeholders to convince them that the culture which allowed the old RBS to fail has changed and changed for good. Our people agenda is tackling this through our performance management process and the way we incentivise our people as well as our risk skills and capabilities programme. These are as important for our customer facing staff as they are for our risk and control functions.

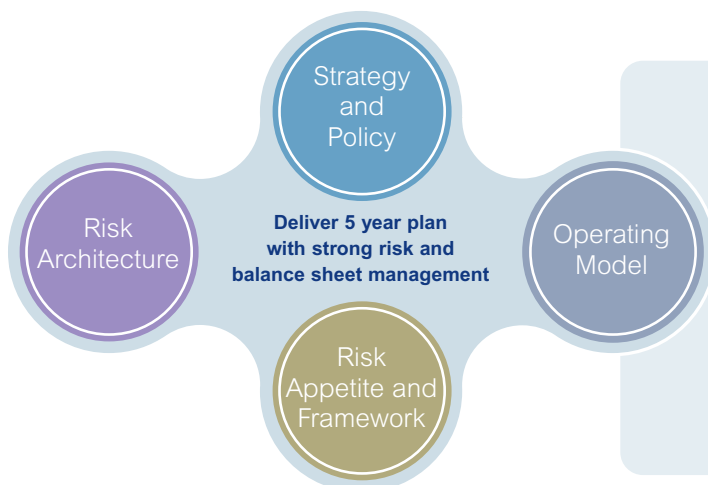
Risk appetite

Risk appetite is an expression of the maximum level of risk that we are prepared to accept to deliver our business objectives. Risk and balance sheet management across the Group is based on the Risk Appetite approved by the Board, who ultimately will agree this for each division and regularly reviews the Group's performance in relation to risk. Risk appetite is defined in both quantitative and qualitative terms, which serve as a way of setting appetite and managing risk performance as we implement an agreed strategy.

- Quantitative: encompassing capital, funding and liquidity, credit, country, market, operational, regulatory and business risks underpinned by stress testing.
- Qualitative: ensuring that the Group applies the correct principles, policies and procedures, manages reputational risk with sound controls and a strong risk culture.

Risk architecture

A key deliverable on our journey to a standalone credit rating in line with our strongest international peer group by 2013 is the design and building of a risk architecture that will support this, and we are doing this as a partnership between the Risk, Finance and Treasury functions. When fully implemented this will provide RBS with consistent reference data and definitions across our three functions and significantly improve the quality of management information and analytical capability we have to manage our major risks.



Strategy and Policy

- Alignment – risk and business strategy
- Group policy framework
- Capital/risk adjusted performance

Risk Architecture

- Risk, finance and treasury architecture
- Risk data quality
- Analytics and modelling
- Risk information and reporting

Operating Model

- Governance
- Organisation, people and culture
- One risk community
- Regulatory and operational risk coverage

Risk Appetite and Framework

- Credit risk approval and control
- Market risk limits and controls
- Risk concentrations
- Asset and product class
- Country risk
- Treasury risk management
- Scenario testing

Our approach to risk management continued

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

Risk Type	Credit risk (including counterparty, country and political risks)	Funding and liquidity risk	Market risk	Insurance risk
Definition	The risk that the Group will incur losses owing to the failure of customers to meet their financial obligations to the Group.	The risk that the Group does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost.	The risk that the value of an asset or liability may change as a result of a change in market factors.	The risk of financial loss through fluctuations in the timing, frequency and/or severity of insured events, relative to the expectations at the time of underwriting.
Features	<p>Loss characteristics vary materially across portfolios.</p> <p>Significant correlation between losses and the macroeconomic environment.</p> <p>Concentration risk – potential for large material losses.</p>	<p>Potential to disrupt the business model and stop normal functions of the Group.</p> <p>Potential to fail to meet the supervisory requirements of regulators.</p> <p>Significantly correlates with credit risk losses.</p>	<p>Potential for large material losses.</p> <p>Potential for losses due to stress events.</p>	<p>Frequent small losses which are material in aggregate.</p> <p>Infrequent large material losses.</p>

How we manage them

Key developments in 2010	Asset quality has broadly stabilised, resulting in aggregate loan impairments 33% lower than in 2009. However, weakness in the Irish economy and falling property values have resulted in the doubling of Ulster Bank Group impairments (Core and Non-Core) in 2010.	Against a backdrop of further market instability, we made progress in meeting our strategic objectives: reduced reliance on short-term wholesale funding; expanded customer deposit franchise; and increased maturity of term debt issuance.	Due to the extended period of market volatility since August 2007, the level of modelled market risk has increased, despite a reduction in trading book exposure.	There were significant losses as a result of bodily injury claims in the UK motor insurance business impacting RBS Insurance.
Risk mitigation	We made further enhancements to the Group's credit risk frameworks as well as the systems and tools that support credit risk management processes. We reduced the risk associated with legacy exposures through further reductions in Non-Core assets.	We strengthened the structural integrity of the balance sheet through active management of both asset and liability portfolios. Also, we have constructed a significant centrally-managed liquidity portfolio (£155 billion).	We have continued to enhance our market risk management framework. We have reduced trading and banking book exposures (with asset sales and write-downs within Non-Core and banking book available-for-sale assets in Core).	In our motor business, we increased pricing in response to bodily injury trends and we made significant progress in removing higher-risk business through targeted rating actions.

Operational risk	Regulatory risk	Compliance risk	Reputational risk	Pension risk
The risk of loss resulting from inadequate or failed processes, people, systems or from external events.	The risks arising from regulatory changes and enforcement.	Risks arising from non-compliance with laws, rules, regulations or other standards applicable to the Group.	The risks arising from the failure to meet stakeholders' perceptions and expectations.	The risk that the Group may have to make additional contributions to its defined benefit pension schemes.
<p>Frequent small losses.</p> <p>Infrequent material losses.</p>	<p>Adverse impacts on business/operating models, including increased complexity.</p> <p>Financial costs adapting to changes or from penalties.</p> <p>Reputational damage from enforcement action.</p>	Breach or alleged breach could result in public or private censure or fine, could have an adverse impact on the Group's business model (including applicable authorisations and licenses), reputation, results of operations and/or financial condition.	Failure of the business to provide an experience which meets customers', regulators' and other stakeholders' expectations.	Volatile funding position caused by the uncertainty of future investment returns and the projected value of schemes' liabilities.
The economic environment improved but continued to impact the level of operational risk in areas such as the scale of structural change occurring across the Group, increased external scrutiny and external threats (e.g. e-crime).	The scale and scope of regulatory change remains at unprecedented levels, particularly in the area of prudential regulation (capital, liquidity, governance and risk management). Increased attention was paid to the treatment of systemically important areas such as recovery and resolution plans, remuneration and capital.	The Group, other global financial institutions and the banking industry have faced increased legal, regulatory and public scrutiny. We have continued to engage in discussions with relevant stakeholders regarding our Group's efforts to satisfy all relevant standards and ensure compliance with applicable existing and prospective laws, rules and regulations.	Government support brings heightened public scrutiny of the way we manage our business including: staff remuneration, how we manage our customers, the levels of lending in the UK and our environmental impact.	The triennial funding valuation for the main scheme was undertaken in 2010 with a schedule of contributions to be agreed with the Trustees.
<p>Our Group Policy Framework (GPF) supports the risk appetite setting process and underpins the control environment.</p> <p>The three lines of defence model gives assurance to the standards in GPF are being adhered to.</p>	<p>We manage regulatory change through active engagement with the FSA, other regulators and governments.</p> <p>The most material risks from new regulations, or changes to existing legislation, are assigned an executive sponsor.</p>	We continue to review and enhance our regulatory policies, procedures and operations. During 2010, there has been specific, targeted focus on enhancing arrangements for handling customer complaints and managing the risks associated with Money Laundering and Sanctions and Terrorism Financing.	In 2010, we established the Group Sustainability Committee. We have also developed a framework for managing environmental, social and ethical risks to support our lending decisions. Businesses consider potential reputational risks and appropriate mitigants.	During 2010, we implemented an enhanced reporting and modelling framework to improve the identification and management of key pension risks. In early 2010 the main scheme increased its bond allocation to better match liabilities.



Divisional review

UK Retail
UK Corporate
Wealth
Global Transaction Services

Ulster Bank
US Retail & Commercial
Global Banking & Markets
RBS Insurance



Business Services
and Central Functions
Non-Core Division
Asset Protection Scheme (APS)

The balance of the Core business is an asset to our customers, shareholders and risk profile – even before cross-business synergies are taken into account.

The changes we are making to strengthen the Core business further can drive RBS to success as a leading bank in its markets for many years to come.

UK Retail offers a comprehensive range of banking products and related financial services to the personal market. It serves customers through the RBS and NatWest networks of branches and ATMs, and also through telephone and internet channels.

Key business highlights

- Operating profit recovered strongly
- Net interest income increased by 18%
- Non-interest income decreased by 11%
- Expenses decreased by 5%
- Impairment losses decreased by 31%
- Risk-weighted assets decreased by 5%

Performance highlights	2010 £m	2009 £m
Net interest income	4,078	3,452
Non-interest income	1,327	1,495
Total income	5,405	4,947
Expenses	(2,873)	(3,039)
Operating profit before impairment losses	2,532	1,908
Impairment losses	(1,160)	(1,679)
Operating profit	1,372	229
Risk-weighted assets (£bn)	48.8	51.3
Return on equity	18.0%	3.0%
Net interest margin	3.91%	3.59%
Cost:income ratio	52%	60%
Loan:deposit ratio	110%	115%

10%
growth in customer
deposits

£1,372m
operating profit

	Return on equity (%)	Cost:income (%)	Loan:deposit ratio (%)
2010	18	52	110
2013 target	>15	c.50	<105



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

For biographies
see pages 50-53

2010 was another challenging year for our customers and for UK Retail, against a backdrop of slow economic recovery, but our results reflect solid progress. We are open for business and we are here to help. Customer lending is up and we are on course to achieve our £8 billion mortgage net lending target for the period to February 2011. Mortgage balances increased by 9% during the year. At the same time, our impairments are down substantially because of our commitment to responsible lending. Customer deposits grew by 10%, faster than the market average, and savings balances grew by 13%. We have lowered our cost to serve by helping our customers understand and make better use of direct channels, as well as addressing inefficiencies through the roll-out of Lean techniques in our branches.

Changing how we work so that we serve our customers better

As part of our determination to become Britain's most helpful bank, in 2010 we changed the way we work:

- we created a single Consumer Distribution business, reflecting the importance we place on delivering a great multi-channel experience to our customers;
- we reorganised our Retail Centre so it's now better set up to support the people serving our customers; and
- we reshaped our Private Banking business so that we can meet better the needs of our affluent customers.

Listening to our customers and being clear about our commitments to them: our Customer Charter

Our customer satisfaction already compares well with our competitors' but we know we can do more. In June, we launched our Customer Charter setting out our commitment to delivering helpful banking. The views of more than 30,000 customers contributed to the Charter, consisting of 14 long-term customer promises. We are now working hard to deliver on the commitments we have made. This won't happen overnight but our Customer Charter is our pledge that we will be held to account against the progress we make, publishing an independently-assured report on our performance every six months.



We have trained over 10,000 designated complaints handlers to ensure we are resolving customer complaints fairly, consistently and promptly.

We launched our Community Fund, providing £1.6 million of financial support to local charities and community projects nominated by our customers.

Listening is what a helpful bank does and we now have a programme in place to ensure our staff, including our Executives, hear first hand about the needs and frustrations of our customers. Through our Customer Charter we will show clearly what we're doing as a result of what our customers tell us. In 2010, we opened early morning and late evening in our 200 busiest branches. In addition, we open 846 branches on a Saturday because customers told us that would make life easier. They also told us to keep things simple so this year we have rewritten all our banking hall literature and improved our customer review process, making it easier for customers to choose the right product for them. We have also simplified our overdraft charging structure for customers who go overdrawn without agreement and introduced 'Act Now' pre-emptive text and e-mail alerts.

While these are early days for the Charter, initial progress has been encouraging. We asked Deloitte LLP to track our progress in the first six months. They told us that we achieved 80% of the goals during that time.

Highlights of their findings include:

- answering 91.4% of calls in under 60 seconds in our UK telephone banking call centres against a target of 90%;
- meeting a commitment to maintain local banking services where we are 'last bank in town', keeping 146 'last bank' branches open across the country, against a target of 100; and
- sending replacement cards within 24 hours to 97% of customers whose debit cards were lost or stolen, against a target of next working day delivery.

Our goals are stretching and we still have work to do as we missed five of our 20 goals, including:

- against a goal of nine out of 10 customers being very satisfied with service, eight out of 10 were very satisfied; and
- against a target of simplifying and rewriting all our branch literature in line with customer feedback, we managed to make available the new literature from end of February 2011.

We will strive to do better, but these first results are a good start and demonstrate our commitment to be a better bank for our customers.

Resolving customer complaints fairly, consistently and promptly

The treatment of complaints was a big focus for the industry in 2010. We worked hard to get better at this. We have trained over 10,000

designated complaint handlers so that we can resolve customer complaints more fairly and consistently and address the root causes of complaints. Through our Customer Charter we are also going one step further by committing to be completely transparent about the top five customer complaints.

Playing an active role in the communities we serve

We know that playing an active role in supporting the communities where we live and work is an important part of rebuilding our reputation. We launched our Community Fund, providing £1.8 million worth of financial support to local charities and community projects nominated by our customers. In addition, all of our employees now have the option of a day's leave to get involved in local volunteering. Our commitment to financial education remains as important as ever. We delivered 30,653 lessons in schools right across the country through our independently accredited MoneySense programme.

Committing to maintaining local banking services

Many of our customers, particularly in Scotland, live in rural areas. Through our Customer Charter, we have made a firm commitment to maintain local banking services in the communities we serve, pledging to stay open if we are the last bank in town and continuing to run our mobile bank service. We have also extended access to our accounts through Post Office counters.

Addressing the legacy of the past

In August 2010, we reached an early agreement on the sale of 318 branches to Santander UK Plc. The sale was required as part of the State Aid agreement reached with the European Commission. It provides greater clarity for our staff and customers and represents another significant step forward in our restructuring for the future. We expect the process to be completed by the end of March 2012. RBS Group remains committed to the UK retail banking market and, even after the sale we will continue to operate the second largest retail branch network in the UK.

Striving to become Britain's Most Helpful and Sustainable Bank

We expect 2011 to be another challenging year but we know that we will succeed as a business by helping our customers through good times and bad. Our commitment to becoming Britain's most Helpful and Sustainable Bank is a long-term one and we are confident we are creating a new kind of retail bank.

UK Corporate is the leading provider of banking, finance and risk management services to the corporate and SME sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, and also through telephony and online channels. The product range includes asset finance through the Lombard brand and invoice finance through RBS Invoice Finance.

Key business highlights

- Operating profit grew by 30%
- Net interest income increased by 12%
- Non-interest income increased by 3%
- Expenses increased by 9%
- Impairment losses were 18% lower
- Risk-weighted assets decreased by 10%

Performance highlights	2010 £m	2009 £m
Net interest income	2,572	2,292
Non-interest income	1,323	1,290
Total income	3,895	3,582
Expenses	(1,671)	(1,530)
Operating profit before impairment losses	2,224	2,052
Impairment losses	(761)	(927)
Operating profit	1,463	1,125
Risk-weighted assets (£bn)	81.4	90.2
Return on equity	12.1%	9.4%
Net interest margin	2.51%	2.22%
Cost:income ratio	43%	43%
Loan:deposit ratio	110%	126%

>5,000

loans to UK businesses
each week

>4,000

hours spent listening to our
customers and people
designing Genesis

	Return on equity (%)	Cost:income (%)	Loan:deposit ratio (%)
2010	12	43	110
2013 target	>15	<35	<130



Chris Sullivan,
Chief Executive,
UK Corporate

For biographies
see pages 50-53

Our success rests on how well we support our customers. We have a responsibility to help them through difficult and uncertain times. That's why our charter for SME customers, published in November 2009, sets out clear commitments on what customers can expect from us and on how we will behave. In 2010, we put it into practice.

We achieved that while boosting operating profit by 30% compared with 2009, a result that reflects strong income growth, as well as lower impairments, partially offset by higher costs.

Helping businesses to start-up and grow

We know that new businesses are vital to the recovering UK economy. In 2010, we opened on average more than 2,200 start-up accounts per week. Each one benefits from free transactional banking services in their first two years of operation.

We launched the Start-Up Hotline, which received nearly 1,700 calls by the end of 2010. It provides practical help and advice to budding entrepreneurs. Business experts can discuss with potential start-ups the factors that affect their market. Our Business Planning Software enables new firms to prepare a business plan, and our free business plan review service provides constructive feedback on its development.

Along with our partners, including the British Chambers of Commerce and Smarta, we launched the 'Fitness for Growth' campaign. It provides firms with information and advice that will be useful as they try to grow. In October, we launched the first of a series of training seminars in conjunction with the Federation of Small Businesses.

Our SME Business Knowledge Hub provides free access to a range of excellent business guides and support materials, including an Online Business Review tool. We recognise that financial management is important for our customers and have produced a practical guide with information on cashflow management. It also highlights the factors the Bank will look at when assessing credit requests.

In times of heightened financial pressures, we know we have to provide more intensive support for some customers. Our Specialised Relationship



We are currently opening more than 2,200 start-up accounts per week.

To date, we have led the field in taking applications for the Enterprise Finance Guarantee, accounting for over 40% of all loans drawn under the scheme.

Management team of over 500 experienced employees continued to provide locally based, hands-on support where needed. In 2010, over 5,600 customers were successfully managed back to financial health.

Giving customers access to finance

Getting access to finance is a key concern for many of our customers. We continue to be open for business. In 2010, we provided on average over 5,000 loans to UK businesses each week. Our approval rate remains high: we continue to accept over 85% of the credit applications we receive.

For the period from March 2010 to February 2011, RBS Group had agreed to make £50 billion of gross new lending facilities available to customers through its Business & Commercial, Corporate and Institutional Banking and GBM businesses. We launched a number of initiatives to ensure firms and their advisers know we are making lending available.

In January, we announced our Manufacturing Fund, pledging to make £1 billion of new loans available on competitive and flexible terms to UK manufacturing businesses.

The Manufacturing Fund won the 'Innovation in Product Design – Business Banking' category at the *Financial World* Financial Innovation Awards. We also created £2.15 billion of specific lending programmes to support infrastructure and public sector developments, including social housing, local authorities and renewable energies.

We supported the creation of the Enterprise Finance Guarantee (EFG) in 2008, which aims to improve the availability of working capital to SME firms. Initially available until March 2010, it was extended to March 2011. By December 2010, we led the field in taking applications for the EFG, accounting for over 40% of all loans drawn under the scheme.

In 2008, we agreed a £250 million funding agreement with the European Investment Bank, whereby funds were provided to eligible customers at preferential borrowing rates. The success of the scheme led to a second £300 million tranche being agreed in July 2010.

We remain a leader in helping UK corporate clients to raise funds from the stock market, as well as a range of debt products. In 2010, we led on the arrangements for two of the top three UK corporate equity deals.

Being fair and transparent in how we treat our customers

In our SME charter, we extended our committed overdraft and price promises to cover 2010. This ensured that a customer's overdraft facility remained in place for the duration of their agreement, unless they

breached conditions or there was a significant deterioration in their risk profile. Our price promise ensures that we will not increase overdraft margins at renewal times, unless there is a significant change in the firm's risk profile. By October 2010, over nine out of 10 small businesses had benefited from overdraft renewals at the same or a lower rate.

Meeting our customer needs

Our customers like the steps we have taken and the support we provide. RBS Group is in the top three banks in the UK for business customer satisfaction. The percentage of our corporate customers describing themselves as 'very satisfied' has remained consistently high. In March, Lombard won Best Leasing and Asset Finance Provider at the Business Moneyfacts Awards for the second consecutive year. Our Invoice Finance business works closely with customers providing products to meet their changing needs. For example, in October, RBS Invoice Finance finalised its first asset backed lending deal for the retail sector, with a flexible £9 million facility to DM London Limited trading under the brand 'Time 2'.

However, we continue to look for ways to improve how we deliver services. A major contribution to that is our transformation programme, which we call Genesis. When we put it together, we spent over 4,000 hours listening to our customers and people in developing the programme's design. We believe that Genesis will make our customers' banking experience simpler, more responsive and better suited to their needs.

Contributing towards the new RBS

The progress we made in 2010 contributes to the wider objectives of making RBS a stronger and safer Bank. We increased our customer deposits by 14%, helping to reduce the gap between loans and deposits by 16%. We continued to enhance our risk control systems, including implementing specific new guidance for Real Estate Finance.

We also took steps to deal with the legacy of the past. In line with the EU's divestment requirements, in August 2010 we announced a sale agreement with Santander UK plc for 318 branches. This includes the SME accounts attached to these branches, as well as our Direct SME business and certain mid-sized corporate customers. Our plans for separating and segregating this business are well advanced and we expect the process to be completed by the end of March 2012. We will try to keep any disruption for customers and staff to a minimum.

2010 was a year of delivering the commitments we have made to support our customers. We are taking the necessary steps to restore the reputation of the Bank, brick by brick, and putting our customers at the heart of everything we do.

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

Key business highlights

- Total income fell by 5%
- Expenses increased by 12%, reflecting additional strategic investment
- Operating profit fell by 28%
- Assets under management grew by 5%

Performance highlights	2010 £m	2009 £m
Net interest income	609	663
Non-interest income	447	446
Total income	1,056	1,109
Expenses	(734)	(656)
Operating profit before impairment losses	322	453
Impairment losses	(18)	(33)
Operating profit	304	420
Risk-weighted assets (£bn)	12.5	11.2
Net interest margin	3.37%	4.38%
Cost:income ratio	70%	59%
Loan:deposit ratio	44%	38%

c.£1m

donated to worthwhile causes
by Coutts Charitable Trust

>£68bn

of assets
under management

	Cost:income (%)	Loan:deposit ratio (%)
2010	70	44
2013 target	<50	<30



Rory Tapner
Chief Executive, Wealth

Our Wealth Management business contains some of our most valuable brands, including Coutts, RBS Coutts and RBS International. The depth of relationship they have with our clients is at the heart of everything they do. These businesses have an international presence, offer a proven suite of products, and between them manage over £68 billion of assets for 290,000 clients in jurisdictions around the world.

Operating profit fell in 2010, driven by lower net interest income and higher expenses – as we invested in the future of the businesses – partly offset by lower impairments. Assets under management grew by 5% and deposits were up, too.

Investing to improve service to our clients

In 2010, we took a hugely important step to enhance the service we give clients by investing in a new IT platform. Although it is invisible to our clients, it will transform how we do business and free our private bankers to spend more time providing a high quality service. This significant investment reflects the Group's commitment to the division, something further demonstrated by support for our ambitious hiring strategy, which enabled us to recruit high quality people across all of our businesses.

Investing to communicate effectively with our clients

We try to communicate with our clients in the ways that best suit them. Demand for online access has been growing. In response to client feedback, our Coutts & Co and Adam & Company websites were completely rebuilt, enabling clients to navigate our products and services in a smarter, simpler way.

2010 also saw Coutts embrace social media. A Twitter service was launched in January and the Coutts YouTube channel went live in December. These steps on the social media ladder enable us to share our knowledge around investments and financial markets faster than ever before.

Many clients like to keep in touch by phone and our specialist service, Coutts24, which provides round-the-clock support, handled over one million calls in 2010. Client feedback on the service is extremely positive



Our sponsorship of London Fashion Week is part of a programme designed to build our profile with young entrepreneurs.

Our investment in new systems is designed to improve the service we give our clients.

and the Coutts24 team pride themselves in 'going the extra mile' when responding to enquiries. This was evident during the volcanic ash cloud restrictions. Stranded clients experienced a range of financial and travel issues but received support from Coutts24 with payments, short-term credit sanctioning, booking new journeys and reserving hotels.

Supporting entrepreneurs

In 2010, we hosted our 5th annual Coutts Prize for Family Businesses, with MI Dickson and Shepherd Neame winning the top awards in their turnover category.

Our launch of the Coutts Social Enterprise Advisory service demonstrated our commitment to entrepreneurs. It aims to match clients with social entrepreneurs looking for funding and/or mentoring. The Entrepreneurs' magazine and Coutts Entrepreneur's video were launched – the former reached 1,500 clients, the latter showcased the breadth of industries across which our entrepreneurs work. In RBS Coutts, our businesses on the Isle of Man and Jersey continued to focus on entrepreneurs, sponsoring awards and events to raise our profile. And our sponsorship of London Fashion Week was part of a programme designed to build our profile with entrepreneurs from the creative industries, which play such a vital role in their contribution to our economy.

Focusing on women clients

We ran more than 60 events solely for women, which were attended by around 1,900 clients and prospects. The continuing success of the Coutts Woman website has led to plans for a global roll-out in 2011. The RBS Coutts FT "Women in Asia" awards helped us to build on the launch of the RBS Coutts Woman initiative and lay the foundations for a global approach to targeting this valuable segment. The year also saw the creation of the Coutts Women Network (CWN), a series of tailored events. Using mentoring and professional development programmes, it aims to create an inclusive and supportive environment for women.

Being recognised for the quality of our service

RBS International launched its three customer promises in 2010, a campaign which saw the business achieve world class levels of Net Promoter Scores. It was also shortlisted in five categories at the National Customer Service awards, with a Jersey employee winning 'Frontline Professional of the Year'. In addition, two RBS International products, Autopilot and Navigator, won the Innovation Award in the 2010 Investment Life and Pensions Moneyfacts awards.

Supporting good causes

In 2010, the Coutts Charitable Trust donated around £1 million to worthwhile causes and Wealth Management staff in the UK have raised around £300,000 for charities like the NSPCC, Maggie's Cancer Centres and the Prince's Trust. The Coutts Senior Client Partners chose ChildLine as their nominated charity in 2010, raising over £215,000, which would fund a ChildLine supervisor for three years.

The team at RBS International led an active sustainability programme in their business and raised more than £160,000 for Macmillan Cancer Support.

The MoneySense for Schools programme is an online, interactive financial education programme to help 11–18 year olds prepare to manage their finances in the future. Specially trained RBS International employees helped to deliver over 100 lessons in schools and colleges during the year.

Our tradition of supporting the performing arts goes back over 150 years and continued in 2010. This included Coutts' principal sponsorship of the Almeida Theatre in London (for the eighth successive year) and Adam & Company's sponsorship of the Scottish Ballet's Autumn Season, Geometry and Grace, for which it received a Commendation in the Arts & Business Scotland Awards. These sponsorships are an important element of our client centric service. It's an approach that has helped us to acquire new clients across Wealth Management. In Coutts for example, there were 4,833 new clients in 2010. And of these, over 1,000 were referred to us from other divisions within RBS, demonstrating the breadth of relationships we have across the Group.

Looking ahead

In 2011, we have a strategy for growth and a desire to develop further a well-balanced business across all of our jurisdictions. The second phase of our IT project will also see us roll out the platform in Coutts. It promises to be a busy and exciting year.

Global Transaction Services

Global Transaction Services (GTS) ranks among the top tier of global transaction banks, offering payments, cash and liquidity management, trade finance, and commercial card products and services. Through our network and our extensive partner bank agreements we are able to support and connect customers across 128 countries and we offer Merchant Acquiring Services via our association with WorldPay.

Key business highlights

- Income increased by 3%
- Expenses broadly in line with 2009
- Operating profit increased by 12%
- Risk-weighted assets fell by 4%

Performance highlights	2010 £m	2009 £m
Net interest income	974	912
Non-interest income	1,587	1,575
Total income	2,561	2,487
Expenses	(1,464)	(1,475)
Operating profit before impairment losses	1,097	1,012
Impairment losses	(9)	(39)
Operating profit	1,088	973
Risk-weighted assets (£bn)	18.3	19.1
Net interest margin	6.73%	9.22%
Cost:income ratio	57%	59%
Loan:deposit ratio	21%	21%

>4.6bn
worldwide payments
per year

16
product innovations
in the year

	Cost:income ratio (%)	Loan:deposit ratio (%)
2010	57	21
2013 target	<50	<20



Brian Stevenson,
Chairman, Global Transaction
Services

GTS helps our customers manage their cash and liquidity, make and receive payments and support their trade requirements across the world. Our vision is to be the leading transaction bank of choice for the Group’s clients. We have laid the foundations to achieve this, by strengthening our close working relationships with other divisions and offering innovative products based on our customers needs, now and in the future.

Healthy income growth, combined with lower impairments and good cost control led to an increase in operating profit of 12%. With a 21% loan-to-deposit ratio, GTS remains an important source of liquidity for the wider Group.

Leveraging our global network

GTS processes over 4.6 billion worldwide payments per year in 43 different currencies and we administer 4,600 global trade transactions each day. We use our international branch network to help customers do more business in more countries.

We established a new UK exporter initiative which recognises the key role that exports can have in the UK economic recovery. This provides a package of business support for potential exporters, including online training, help and advice, and telephone hotlines.

We partnered with the Government’s UK Trade & Investment initiative, through their Asia Task Force, to present a series of events entitled Doing Business in Asia: Meet the Experts. The events helped British businesses explore opportunities in Asia, and our Global Trade Advisory and Asia experts provided advice. We expect over 1,500 firms to have attended these events by the time they conclude in early 2011, of which around half will be considering doing business in Asia for the first time.

We worked closely with colleagues in Global Banking & Markets (GBM), Citizens, Ulster Bank and UK Corporate to develop and fine-tune our products and services. Following its 2009 launch, our Global Network Banking (GNB) business, a joint initiative with GBM, has concentrated on fast-growing markets, such as China and India, and set up an international network advisory team. It also introduced a joint programme with UK Corporate to showcase our business capabilities in China.

Divisional review

Global Transaction Services



We partnered with the Government's UK Trade & Investment initiative, through their Asia Task Force, to present a series of events entitled Doing Business in Asia: Meet the Experts.

We administer 4,600 global trade transactions each day.

Innovating to enhance customer service

In 2010, we embarked on a significant investment programme, designed to drive innovation and deliver new technologies to our customers. Our new products and services provide customers with greater flexibility and transparency, and in many cases help to improve risk management and lower costs.

We were one of the first global banks to facilitate cross-border trade settlement in Chinese Renminbi (RMB) and to offer RMB accounts, currency exchange and trade finance services. For financial institutions, we unveiled the new Euro Trade Deduct product that maximises the benefits available from our cash and trade services.

The launch of the RBS SWIFT Service Bureau throughout our Global Payments network enables us to offer comprehensive, global solutions to large corporate customers. Users can become quickly established on the universal banking platform and with less capital investment than before.

Other innovations included:

- *PayAway-IP Direct*, a remote access web-based payment service for RBS and NatWest customers.
- *GTS Salesline*, which since its launch in May 2010 has helped more than 1,000 customers to arrange and complete transactions.
- *accessMOBILE*, introduced by Citizens as an easy-to-use smartphone application enabling clients to manage commercial banking transactions on a convenient and portable basis.
- Our Netherlands investment product, the Yield Call Demand Account, rewards longer-term deposits while also ensuring funds are accessible if needed. It has also been successfully rolled out in Singapore.
- *MaxTrad Digsuite* provides a secure online service for firms with global supply chains and reduces the need for expensive documentation and courier services.

Being recognised for the quality of our service

Our awards in 2010 reflect the quality and international coverage of our businesses. Global Finance magazine awarded us:

- Best Bank for Liquidity Management (Western Europe)
- Best Continuous Linked Settlement Bank (Western Europe and North America)
- Best Trade Finance Bank (Netherlands)
- Best Supply Chain Finance Provider

Positioning for the future

We continued to build upon the foundation of the Group's 2009 Strategic Plan. Our risk management programmes have been enhanced, with the first phase of a new model for credit risk and portfolio management. This provides a more streamlined credit approval process for customers and strengthens accountability across business divisions.

Our people agenda seeks to align employees with customer needs and our business strategy. In 2010, we identified a set of values for GTS based upon empowered leaders, customer focus, the drive to succeed, connectivity, and risk awareness. Our employees are encouraged to engage fully through discussion forums, focus groups and roadshows. Fostering teamwork throughout our business creates an inclusive workplace and we are active in creating a trusted adviser role with our clients.

In April, we completed the legal separation and integration of the former ABN AMRO NV businesses. The parts acquired by RBS now operate under a unified brand which gives us greater opportunities for our business and our clients. Our new banking platform in the Netherlands successfully migrated more than 40,000 corporate accounts to RBS.

In line with the settlement agreed with the EC in 2009, we announced and completed the divestment of our Global Merchant Services ('WorldPay') business to Advent International and Bain Capital. Under the terms of the sale, RBS will retain a 19.99% stake in the business, and will refer our customers to WorldPay for merchant acquiring products and services.

Going onto the front foot

The launch of our new customer proposition highlights the strengths of our business, enhances our market profile and helps to differentiate us from the competition. The combined strengths of our business include our global reach, product expertise, customer service, technology platforms and most importantly our people. These are underpinned by our continuing commitment to customers and our ability to generate new ideas and products.

In 2011, we will continue to build on the momentum of 2010 and to position GTS as a stable and powerful transaction bank for our customers and our shareholders. GTS will move forward under new leadership, with Scott Barton taking over as CEO in January 2011. Brian Stevenson will work with Scott in his new capacity as Chairman, GTS.

Ulster Bank is a leading bank in Northern Ireland and the Republic of Ireland. It provides a comprehensive range of financial services through both its Retail Markets division, which has a network of branches and operates in the personal and bancassurance sectors, and its Corporate Markets division which provides services to business customers, corporates and institutional markets.

Key business highlights

- Net interest income decreased by 1%
- Non-interest income decreased by 14%
- Expenses decreased by 24%
- Impairment losses increased by £512 million

Performance highlights	2010 £m	2009 £m
Net interest income	761	780
Non-interest income	214	254
Total income	975	1,034
Expenses	(575)	(753)
Operating profit before impairment losses	400	281
Impairment losses	(1,161)	(649)
Operating loss	(761)	(368)
Risk-weighted assets (£bn)	31.6	29.9
Return on equity	(21.0%)	(11.7%)
Net interest margin	1.84%	1.87%
Cost:income ratio	59%	73%
Loan:deposit ratio	152%	177%

8%

increase in customer
deposit balances in
constant currencies

45

branches opened on
Saturday for the first time

	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2010	(21)	59	152
2013 target	>15	c.50	<150



Cormac McCarthy,
Chief Executive,
Ulster Bank

Conditions in Ireland's economy remained very challenging indeed throughout 2010 and our results reflect that. Continuing stresses in property markets, together with pressure on borrowers who depend on consumer spending resulted in increased losses on corporate lending. Higher unemployment and lower disposable incomes contributed to higher mortgage impairments. In Northern Ireland too, the economy was weak and unemployment increased over the year.

These factors lie behind the increase in our impairment losses to £1.2 billion and our operating loss of £761 million. Despite lower income, an impressive 24% reduction in costs contributed to a pre-impairment operating profit of £400 million.

Lower costs was one objective of the five-year strategy we published in 2009. We will continue to make changes inside our business to help us achieve those aims. But we recognise that if 2010 was tough for us, it was just as difficult for our customers and we have tried hard to support them. In 2010, we said that we wanted to become Ireland's most helpful bank, across the whole island. Helping our customers helps our business too, making it stronger and more resilient for the future.

Listening to customers and providing 'Help For What Matters'

In September, we launched the 'Help For What Matters' programme. We listened to what our customers need and developed commitments that focus on the issues that matter to them.

For personal customers this means:

- making banking easy, including extended branch opening hours, Saturday openings, less queuing and helpful service;
- treating our customers fairly, including text alerts to avoid unnecessary charges and assistance with debt problems; and
- local support, including no branch closures, a community fund and a 'Give a Day' volunteering programme.



We became the first bank in the Republic of Ireland to launch an iPhone mobile banking application.

Our online business resource initiative www.smallbusinesscan.com attracts over 15,000 SME visitors each month.

For SME business customers this means:

- access to credit and working capital. We will continue to make credit available to viable businesses and maintain overdrafts for their full term, unless there is a breach of terms. An appeals process is available for unsuccessful applications;
- clarity about what customers can expect concerning the costs, terms and conditions of credit and the factors that influence the price of a loan; and
- understanding and support for businesses, including two-year free transactional banking for start-ups and an on-line business support programme.

We are still at an early stage in the programme, but we are already delivering on these commitments. For example, in 2010 we opened 45 branches on Saturdays for the first time. We now have more branches open on Saturdays across Ireland than any other bank. By opening on Saturdays and extending our weekly opening hours, we are giving our customers an extra 30,000 hours each year to visit our branches.

Focusing on customers and service

We are working with our personal and business customers every day to support them in dealing with any financial difficulties they may be experiencing. Initiatives such as Flex and Breathing Space in retail banking demonstrate to our customers that we are committed to them over the long-term. Our *smallbusinesscan* online community in business banking is well received and continues to grow. It now attracts over 15,000 small and medium enterprise visitors each month, allowing them to access knowledge and share insights, ideas and experiences with like-minded peers to assist the survival and growth of their businesses.

In 2010, we increased the numbers of new retail customers to Ulster Bank and made strong progress in growing our deposit franchise. We also extended our Private Banking business into the Republic of Ireland, with new relationship managers based in Dublin and Cork.

We became the first bank in the Republic of Ireland to launch an iPhone mobile banking application. In October, we extended our mobile phone banking services to a wider range of mobile phones, enabling our customers to manage their money on the move and helping them reduce avoidable current account charges.

In business banking, over the course of 2010 we achieved an average Customer Satisfaction Index of 89% for all our business banking touchpoints. We continued to forge strong links with key small business support and lobbying bodies island-wide through our business engagement programme.

In September, we launched a new campaign to support early-stage businesses, including access to a Start Up Knowledge Centre and Start Up Live events in 14 different locations.

Investing in our people

Our employees are central to our ambition of becoming Ireland's most helpful bank. Through the Ulster Bank People Plan, we are taking steps to ensure our people feel engaged, motivated and that we give them opportunities to develop to their full potential. In January, we launched the Ulster Bank Academy, with over 3,500 of our people attending learning and development courses throughout the year.

Getting fit for the future

The 'Lean' programme is part of our strategy to transform the way we do business so that we can serve customers better. It will also help us to become more efficient. Behind every interaction with a customer is a process and it is important to get this process right from start to finish. If we do that, it will help us to be Ireland's most helpful bank.

We're using the experience of our people in making these changes, for example in designing new procedures for call-handling, feeding back on call quality and coaching the telephony agents. As a result, we've reduced the Average Handling Time of a call by 23% since January 2010. This means we are able to speak to more customers each day. It has also provided stronger links between our businesses, with our telephony agents able to hand over more customer leads to the Retail Direct Sales Centre.

Significant economic and business challenges remain. However, over the last two years we have proven our ability to adapt to change and support our customers. This, combined with the continued strong support of RBS, leaves us very well positioned for the future.

US Retail & Commercial

US Retail & Commercial provides financial services primarily through the Citizens Bank, Charter One and RBS Citizens brands. It is engaged in retail and corporate banking activities through its 1,500 branch network in 12 states in the northeastern quadrant of the United States and through non-branch offices in other states. It ranks among the top five banks in New England (based on deposit market share).

Key business highlights

- Net interest income increased by 8%
- Non-interest income increased by 8%
- Expenses decreased by 1%
- Impairment losses decreased by 26%
- Operating profit increased by £419 million

Performance highlights	2010 £m	2009 £m
Net interest income	1,917	1,775
Non-interest income	1,029	949
Total income	2,946	2,724
Expenses	(2,123)	(2,135)
Operating profit before impairment losses	823	589
Impairment losses	(517)	(702)
Operating profit/(loss)	306	(113)
Risk-weighted assets (£bn)	57.0	59.7
Return on equity	3.6%	(1.3%)
Net interest margin	2.85%	2.37%
Cost:income ratio	72%	78%
Loan:deposit ratio	81%	80%

50%

reduction in average time
to answer a customer call
over the last two years

81%

loan to deposit ratio

	Return on equity (%)	Cost:income ratio (%)	Loan:deposit ratio (%)
2010	4	72	81
2013 target	>15	<55	<90



Ellen Alemany
Chief Executive,
Citizens and Head of
Americas

For biographies
see pages 50-53

In 2009, we set out our five-year plan to create a stronger, more resilient business. 2010 saw us take significant steps along this path, with investments in products, customer service, infrastructure and people.

We have seen a return to operating profitability and a substantial increase in new accounts opened. We are better placed to respond to external factors, such as regulatory changes and a subdued and uncertain US economic recovery. Though we are still at the early stages of our plan, momentum is building towards our aim of being a leading super-regional bank.

Strengthening customer relationships

In May, Citizens Bank and Charter One launched the "Good Banking is Good Citizenship" brand platform. The initiative underscores our long-standing heritage and helps to restore trust in the banking industry, and has received a positive response from new and existing customers. It brings to life our central and long-standing belief that a bank should contribute to the growth and vibrancy of its communities, operating through all of the channels in which the bank interacts with its customers and the community.

US Retail & Commercial added more than 52,500 new customer accounts and 12,500 small business accounts in the year to 30 September 2010. Commercial Banking has expanded its reach into niche markets with significant growth opportunities, including Commercial Enterprise Banking, Health-Care Banking, Capital Markets/Debt Syndication and Franchise Finance.

Our Home Lending Solutions first mortgage business is ranked nationally among the top 20 retail originators by Inside Mortgage Finance, having moved up the rankings in the past two years. In addition, we see well-managed home-equity lending as a strategic product, attracting new customers and serving as an anchor for stronger customer relationships. Nearly 90% of home-equity customers also have deposit relationships with us.

Good customer service is at the heart of our ability to attract and retain customers. Citizens' Contact Centers have made significant improvements in the customer experience, reducing the average time to answer a customer call by 50% over the last two years.

In September, we launched a new Mobile Banking application for the iPhone. It allows retail customers to check account balances, transfer funds, find ATM and branch locations, and make payments. We also



New client acquisition in the Commercial Enterprise Banking segment tripled from the prior year.

Citizens was named second in the US in delivering the best experience for small business customers, moving up from No.10 in 2009.

launched the Student Money Bundle, a new packaged account offering a range of services and incentives for students. GoalTrack Savings is a programme that allows customers to set their own savings goals and earn a bonus for achieving them. Since it was introduced in December 2009 it has seen over 26,000 new enrolments, with more than \$42 million in committed savings goals.

Re-investing in the core franchise

We are committed to upgrading our infrastructure, with a 41% increase in capital investment in 2010 compared with the previous year. Key initiatives include new commercial loan and mortgage systems, a new teller system with image capture at our branches, and online banking enhancements, as well as the iPhone mobile banking.

Restructuring for the future

In line with the settlement agreed with the EC in 2009, we announced and completed the divestment of our Global Merchant Services (GMS) business, including RBS WorldPay in Atlanta. Under the terms of the sale to Advent International and Bain Capital, RBS will retain a 19.9% stake in the business, and can refer its customers to them for global merchant products and services. In May 2010, we also completed the exit of our joint arrangement with Kroger Personal Finance.

Strengthening risk management

Enhancing our risk-management capabilities is a critical business objective within our Strategic Plan. We have created two new Risk Management groups and made several appointments to our risk leadership team, including a Chief Risk Officer for Citizens Financial Group. We're being swift and strategic as we respond to the changing environment we face.

Leveraging commercial capabilities

Through Global Transaction Services (GTS), we introduced accessMOBILE, an easy-to-use smart phone application that enables clients to manage commercial banking transactions on a convenient and portable basis. We were the first bank in our footprint area to offer such a service. We also worked closely with GTS on a fall sales campaign, strengthening our partnership for the benefit of serving our customers.

Commercial Banking has partnered with Business Services to implement AFS, our new loan origination and servicing platform. This will enhance our relationship managers' ability to respond quickly to their customers' needs. We also invested in over 150 days of training programmes aimed at enhancing sales management skills across different products and areas. More than 700 staff from Commercial Banking, GTS and Foreign Exchange desks participated in the training.

The Commercial teams are capitalizing on market disruption, as three in five mid-sized companies (\$10 million to \$500 million in annual sales) are actively seeking a new provider or would consider it if presented with a compelling offer. We are also leveraging strong client loyalty, with 86% of the \$5 million to \$25 million client segment and 75% of the \$25 million to \$500 million client segment saying they would continue using Citizens for future banking needs.

Our new Commercial Enterprise Banking division addresses the needs of companies with \$5 million to \$25 million in annual revenues. CEB's \$10 million in technology and people investments included Citizens' first shared, uniform credit delivery and portfolio management business model, as well as a larger sales force to improve market coverage and better serve existing clients.

Community response

Often we experience events outside our control. A profound example is the historic flooding that occurred in New England in late March and early April. Citizens responded with special financing and grants for local businesses, non-profit agencies and individual customers. We supported our colleagues who suffered damages of their own through the company's Emergency Assistance Fund. This event was more than a disaster recovery exercise – it was leadership at its finest.

Recognition

We received a range of awards that recognised our industry leadership and commitment to staff, customers and the communities where we do business:

- Citizens was named second in the US in delivering the best experience for small-business customers by the 10th Power 2010 Small Business Banking Study™, moving up from No.10 in 2009.
- In New Hampshire, Citizens Bank was named the Business of the Decade in the financial services category by Business NH Magazine.
- In Connecticut, we received a Green Business Award from Business New Haven for our GreenSense programme. The RBS Americas Headquarters building in Stamford also received a Climate Change Leadership Award from Connecticut's Governor.
- Citizens Financial Group was recognised by Conceive magazine, for the third consecutive year, as the top company nationwide for offering family-building benefits to its staff, including fertility treatment and adoption assistance. For the fourth consecutive year, we were also recognised by the Dave Thomas Foundation as the Best Adoption-Friendly workplace in financial services.

Global Banking & Markets (GBM) provides financing, risk management and advisory services to major corporations, financial institutions and public sector clients in 39 countries.

Key business highlights

- Operating profit excluding fair value of own debt fell by 42%, reflecting sharply reduced revenue, partially offset by lower costs and a significant improvement in impairment losses
- Expenses fell by 6%
- Impairment losses were £489 million lower than in 2009

Performance highlights	2010 £m	2009 £m
Net interest income	1,276	2,243
Non-interest income	6,636	8,815
Total income	7,912	11,058
Expenses	(4,397)	(4,660)
Operating profit before impairment losses and fair value of own debt	3,515	6,398
Impairment losses	(151)	(640)
Operating profit before fair value of own debt	3,364	5,758
Fair value of own debt	139	(49)
Operating profit	3,503	5,709
Risk-weighted assets (£bn)	146.9	123.7
Return on equity	16.6%	29.8%
Net interest margin	1.05%	1.38%
Cost:income ratio	56%	42%
Loan:deposit ratio	193%	194%

39

GBM is present
in 39 countries

16.6%

return on equity

	Return on equity (%)	Cost:income ratio (%)
2010	17	56
2013 target	>15	c.55



John Hourican
Chief Executive,
Global Banking & Markets

For biographies
see pages 50-53

“Only by truly understanding our clients’ needs can we apply our expertise to its best effect. That is why long-term customer relationships are so important at RBS.”

In 2010, we made good progress implementing the GBM strategy and achieving our ambitions. Our people found ways to work more intelligently to help clients rebuild from the financial downturn at a time when competition was fierce, the regulatory landscape changed and market conditions were subdued.

GBM had a reasonable set of financial results. Even as the make-up of our business made the revenue environment challenging, we reduced costs and impairments to post an above-target return on equity of 16.6 per cent. We invested in reinforcing our core platforms and contributed to the restructure of the RBS Group, working with the Non-Core Division on the sale of a GBP1.4 billion portfolio of primarily senior leveraged loans and of GBP3.9 billion of project finance assets.

Focusing on clients

We continued to focus on improving our client offering. We refined how we interact with clients to make it more customer focused and efficient, including aligning operations in our core Fixed Income, Currencies & Commodities business. We deployed our expertise to support our customer’s ambitions, leading to notable transactions including:

- **The World Bank:** Joint bookrunner for the first US dollar global benchmark bond launched by The World Bank in 2010, a USD3.5 billion, three-year deal.
- **Cheung Kong Infrastructure and Power Assets Holdings:** Sole financial advisor and lead mandated arranger in the GBP5.8 billion purchase of EDF’s UK electricity distribution networks.
- **SAS AB:** Joint lead manager and joint bookrunner on a SEK5 billion fully underwritten rights issue.
- **RWE:** Joint bookrunner on the largest ever euro corporate hybrid bond sale.
- **CIBC:** Inaugural USD2 billion three-year and USD1.85 billion five-year covered bonds, which re-opened the US market after a three-year hiatus.
- **Scottish and Southern Energy:** Structuring advisor and joint lead manager on the GBP750 million and EUR500 million corporate hybrid for SSE. It was the first ever hybrid in sterling from a UK-listed company and reopened the global market.

Divisional review

Global Banking & Markets



Our clients voted us in the global top five for foreign exchange and one of the top five dealers for derivatives.

Our debt and capital markets business was voted Euromoney Best Debt House in the UK and the Netherlands.

Our clients valued the work we did for them in 2010 and rewarded us accordingly. They voted us in the global top five for foreign exchange (2010 Euromoney FX Survey) and one of the top five dealers for derivatives (2010 Risk Interdealer Poll). Our debt capital markets business was voted Euromoney Best Debt House in the UK and the Netherlands. The Banker magazine gave us the Deal of the Year award for equities and sovereign bonds in Europe, financial institutions in the Middle East and loans in Asia.

GBM engaged with regulators to help our clients, and our own people, fully understand the various changes proposed to banking supervision. We invited expert regulatory speakers to client meetings in cities in Europe, Asia Pacific and the US, giving our customers the rare opportunity to ask technical questions on how changes will affect their businesses. We also acted as bookrunner on the first Solvency II-compliant issue in the market.

Making global connections

We maximised our 39-country network to help customers manage risks between regions and access funding around the world, cementing our position in the world's biggest economies and increasing our presence in high-growth markets.

In Europe, we delivered some of the largest transactions of the year. These included Switzerland-based Glencore's USD2.5 billion repurchase of the Prodeco coal mine in Colombia and the EUR3.6 billion sale of German drugs producer Ratiopharm. Improvements in the equities business led to Greenwich Associates ranking us number one in Overall Service Quality for retail structured products in Europe.

In the US, GBM cemented our place as a leader in the bond market. We were ranked the Number Two Manager by Asset-Backed Alert after the US ABS team closed 73 deals worth USD58 billion and we executed covered bonds that re-opened the US market after a three-year gap. In September alone, GBM was active bookrunner on about USD11 billion of investment grade debt offerings.

In India, we completed one out of every three foreign-currency bond issues in 2010, including the country's biggest corporate and financial institutions bond sales. In November, we became the first UK bank given preliminary permission to form a joint venture securities company in China, which will allow us to underwrite equity and bond sales in the domestic market.

Investing in risk management

We continued to improve how we manage risk, introducing systems and processes that optimised capital and made us more efficient. We improved the way in which we manage our exposure to derivatives and introduced an Operational Data Cache, which consolidated all sources of data into a single real-time database. A global investment programme, launched in 2009, is nearly complete and on target to deliver its objective of establishing front-to-back systems that improve client transactions and support business growth. We envisage further investment.

Investing in our people and communities

Our achievements in 2010 were made possible by our people. We focused on attracting the best talent – welcoming more than 200 new graduates globally. We nurtured almost 300 new joiners through our revamped induction programme and hired experienced leaders. We combined these efforts with activities that embedded our GBM Values of accountability, connectivity, thoughtful decisions and success among employees.

We helped GBM reach out in our local communities and make a difference to young people from disadvantaged backgrounds. The GBM in the Community programme, launched in September, provided an avenue through which employees volunteered their time and donated money. Together we gave GBP1.7 million to communities in which we operate and donated more than 16,000 hours of employee time.

RBS Insurance sells and underwrites retail and SME insurance over the telephone and internet, as well as through brokers and partnerships. Its brands include Direct Line, Churchill and Privilege, which sell general insurance products direct to the customer, as well as Green Flag and NIG. Through its international division, RBS Insurance sells general insurance, mainly motor, in Germany and Italy.

Key business highlights

- Performance was adversely affected by significant weather events in Q1 and Q4 and the impact of bodily injury claims
- Net claims were 9% higher than in 2009
- International own brands in-force policies grew by 15%
- Expenses were reduced by 7%

Performance highlights	2010 £m	2009 £m
Insurance net premium income	4,311	4,354
Total income	4,092	4,155
Expenses	(703)	(759)
Net claims	(3,961)	(3,635)
Impairment losses	—	(8)
Investment income	277	305
Operating (loss)/profit	(295)	58
Return on equity	(7.9%)	1.7%
Expense ratio	13%	14%
Combined operating ratio	115%	106%

250,000

Direct Line for Business
Customer policies

220,000

times that Green Flag was
called to reach and help
stranded customers in
January and February 2010

	Return on equity (%)	Cost:income ratio less claims (%)
2010	(8)	172
2013 target	>20	<60



Paul Geddes
Chief Executive,
RBS Insurance

For biographies
see pages 50-53

2010 was a disappointing year financially. A 2% fall in income and increased claims, offset partly by a 7% reduction in expenses led to a loss of £295 million. However, the actions we took to deal with the challenging environment contributed to a clear improvement in our underlying financial performance in the final quarter.

In addition, the fundamental strengths of our business enabled us to build on market leading positions, while setting out plans to transform and enhance how we do business in the future.

Working hard for customers

2010 saw some of the worst weather conditions in the UK for over 20 years. Drivers got stuck in the snow, cars failed to start and the treacherous conditions led to traffic collisions. Our accident repair centres concentrated on getting customers back on the road, repairing nearly 60,000 vehicles in January and February alone. Green Flag was called out over 220,000 times in January and February, battling through difficult conditions to reach and help stranded customers.

It was a challenging year for air travellers, too. The volcanic ash cloud brought air travel to a temporary standstill in Europe, while several holiday companies and airlines went out of business. Our travel insurance brands assisted over 12,000 customers by taking a flexible approach to their policies' terms and conditions.

The increase in bodily injury claims continued to affect our financial results. We took steps to meet genuine claims more efficiently and ensure that suspect cases can be highlighted at an earlier stage. We also implemented changes to mitigate any future impact of bodily injury claims. This included NIG exiting its personal lines broker business to focus on its expanding commercial business.

Restoring profitability

We remained the largest personal lines insurer in the UK, built around strong brands such as Direct Line, Churchill and Privilege. We are now the UK's largest home insurer, adding to the position that we already held as the UK's largest motor insurer. We continue to provide support and reinsurance to millions of UK motorists through our Green Flag breakdown recovery service.

Divisional review

RBS Insurance



Our travel insurance brands assisted over 12,000 customers during the Icelandic volcanic ash cloud episode.

We are now the UK's largest home insurer, adding to the position that we already held as the UK's largest motor insurer.

Gross written premiums in our international business grew 25% in Euro terms compared to 2009, with the Italian business reporting 35% growth. Combined, the Italian and German businesses surpassed the landmark 1 million insured vehicles at 1.1 million. Direct Line for Business also accomplished a new landmark, growing rapidly from its launch in 2007 to reach over 250,000 customer policies. It offers insurance products direct to small business customers, providing them with a straightforward way to insure their firm.

We implemented pricing changes that reflect the increased risk and frequency of bodily injury claims. To reduce this risk further, a new 'rating engine' was implemented in the own brands motor business. It dramatically increases the flexibility in pricing risk, reducing the time required to deliver new risk and pricing strategies. It will continue to be rolled out among other products.

A pro-active programme of investment in people, processes and technology ensured that we were ready for the introduction in April of the Ministry of Justice's new insurance claims handling procedure. The reforms enable genuine personal injury claimants to receive fair compensation more quickly and provides greater control over costs for insurers.

In October, we sponsored an event at the Houses of Parliament to discuss the challenging environment the UK's 'compensation culture' has created for the insurance industry. We continue to work alongside the Association of British Insurers in support of Lord Justice Jackson's recommendations for reforming personal injury compensation claims.

Putting customers first

Our customer satisfaction ratings remain strong. We scored 85.8% for Sales and Service and received the same result for Claims. In October, our commitment to the highest standards of service and behaviour was affirmed as we signed the Aldermanbury Declaration. It sets out the professional standards we will meet in areas including: Commitment to Excellence; Training and Development; and standards for broking, underwriting, claims and management procedures.

We are committed to protecting customers from the scourge of uninsured drivers. In November, Direct Line hosted a seminar with the industry, politicians and police to promote wider discussion about the impact of uninsured drivers and potential measures to stop it.

Direct Line celebrated its 25th birthday in 2010. Its spirit of innovation continued as it launched its free "On the Road" application for the iPhone. This provides a route planner and live traffic updates to help plan journeys. Should an accident happen, it also features an easy-to-use tool to record and store key information and to send the details straight through to the Direct Line claims team.

NIG extended its free Risk Aware risk management service to new customer areas. It provides a tailored assessment of risk management procedures and assists with the implementation of any recommended improvements. NIG also rolled out a new mapping tool, covering the whole of the UK, which provides underwriters with specific geographical data on issues such as the risks of flood.

Our dedication to customers, innovative products and hard working employees was recognised through a variety of awards in 2010. We received three 'Your Money' awards, with Direct Line winning for the Best Online Travel Insurance, Churchill for Best Pet Insurance and Green Flag for Best Breakdown Cover. For the second consecutive year, Green Flag received the Institute of Transport Management's award for UK Roadside Assistance Company of the Year. RBS Insurance's investment in the learning and development of its people was honoured with a prestigious National Training Award. Our vocational training programme supports employees in their jobs and provides the opportunity to gain qualifications and strengthen key skills.

Refocusing for the future

We announced plans to restructure our UK office network to create new Centres of Excellence. This will help to make better use of our properties, lower costs and promote best practice across our functions. Fewer sites will enhance our ability to serve customers by allowing new technology and telephony systems to be introduced at a faster pace in the future.

The settlement agreed with the European Commission in 2009 means that RBS must divest, at least, the controlling interest in RBS Insurance by the end of 2013. We continue to explore the available options for meeting this commitment in the most effective way for customers, staff and investors. 2010 has been an important year for RBS Insurance in refocusing the business for an independent future and we will continue to be managed in a way that meets customer and shareholder needs.

Business Services and Central Functions

Business Services provides specialist services and expertise for the divisions, helping to provide greater value to our customers and to deliver our Strategic Plan objectives. In 2010, we focused on innovating, managing change, managing operational risk and becoming more efficient.

Central Functions comprises group and corporate functions, such as treasury, funding and finance, risk management, legal, communications and human resources. The Centre manages the Group's capital resources and Group-wide regulatory projects and provides services to the operating divisions.

389,000m²

reduction in property
footprint since 2009

94%

of GBM calls handled at
first point of contact by our
Corporate Services Centre

Business Services

Becoming more efficient

We work closely with the other divisions to identify efficiencies and opportunities to create value through innovation. We've played a key role in delivering on the Group's target of more than £2.5 billion of cost savings by 2011.

In 2010, several programmes helped to improve the service we provide to customers. 'Intelligent Working' is designed to improve how we use property and to give our staff flexible working opportunities. Since its 2009 launch, it has allowed us to reduce our property footprint by 389,000m², more than Heathrow Airport's Terminal 5. An upgrade to our Building Management Systems enabled us to reduce energy use in our buildings by £2.3 million, which would power 1,584 average UK households for a year.

Our 'Lean' programme is designed to become embedded in how people work, looking for ways to improve customer experience and staff engagement, whilst eliminating activities that don't add value. It has achieved significant results, including an increase in the volume of GBM customer calls handled at first point of contact by our Corporate Service Centres from 55% to 94%.



Ron Teerlink, Chief
Administrative Officer

For biographies
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Managing change

RBS is undertaking one of the largest ever corporate restructurings, so we face a huge and varied change agenda. Helping divisions to plan, implement and adapt to change is hugely important. In 2010, Business Services provided specialist support for the processes involved with the EU mandated divestments, including the sale of 318 UK branches and associated infrastructure.

The level of restructuring that is required unfortunately involves some difficult decisions. As part of our own strategic review, we announced plans in 2010 for a further 3,500 potential redundancies in the UK, to be implemented over the next two years. We have committed to be open and transparent, communicating upfront with our staff. We have engaged with UNITE in the UK and other partners globally to explain the rationale for the change and to gain their co-operation in how it is implemented.

To minimise the need for compulsory redundancies, we try hard to redeploy affected staff within the Group.

Innovating

We focus on innovation in our operations. We use leading edge technologies in service innovation. New consumer devices and networking technologies enhance the connections between our customers and employees. Since its launch in 2009, our 'Mobile Money' application has attracted over 600,000 users and we have helped to launch similar products across other areas of the Group.

Technology Services runs a programme to deliver innovative solutions, which includes building its own RBS 'App Store' to develop new business applications that boost productivity and enhance customer value.

Managing operational risks

Our Security & Risk team aims to protect our customers, our information and our people against security and fraud threats. We help the business and our customers to understand the operational threats and to take action to minimise risks. For example, our 'Trusteer Rapport' free software has been downloaded by over four million customers, helping to protect their online banking details and reduce the risk of identity theft and fraud.



Bruce Van Saun, Group
Finance Director

For biographies
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Elaine Arden, Group Human
Resources Director

We provide business continuity support, enabling the Group to continue to deliver key products and services in the event of disruption.

Investing for the future

Business Services offers a range of scale benefits, including purchasing, and specialist knowledge for the Group. Our focus is on improving on these services, whilst managing risk. Together, the actions we took in 2010, and will continue to implement in future years, are designed to make the Group more efficient and enable it to provide a better service to our customers.

Central Functions

RBS Risk Management

RBS Risk Management is responsible for developing and embedding risk policy, measurement and frameworks to ensure that risk is identified, managed and controlled across the Group. The management of risk is a fundamental activity performed throughout all the Group's Businesses. It underpins the Group's performance and future success. It is critically important that the adequacy and effectiveness of our risk management processes are of the highest standard and subject to continuous review and enhancement.

Finance

Finance is responsible for the external reporting of the Group's performance and financial position, including regulatory and central bank reporting. As part of our mission to rebuild investor confidence and trust, we have greatly improved the quality and transparency of RBS's external reporting, and we provide financial information to the market quarterly. Finance has a critical role in partnering with our divisions to monitor performance against the Group Strategic Plan, and is helping the business achieve our strategic aims using enhanced forecasting tools and thoughtful analytics.

The Treasury function has focused on driving improvements to the Group's liquidity, funding and capital position. In 2010, Finance has played a central role in the initiative to dispose of EU-mandated divestments as well as assessing the implications of changes in the regulatory environment.

Finance's key objectives include a transformation programme to improve the efficiency of the function over the next three years. The programme envisages the creation of a world class finance function through a number of initiatives including substantial investment in finance and risk systems infrastructure.

Human Resources

A new leadership capability framework has been launched to ensure our leaders are assessed and developed against behaviours that support the delivery of our strategic plans and our emerging culture. The behaviours are assessed in a 360-degree feedback tool which is an integral part of how we review our Executives' performance. The behaviours we focus on include: Strategic Progress, Business Delivery & Financial Performance, Customers' Expectations, Risk, Efficiency and Control, People Management, and Personal Skills. The outputs of 360-degree feedback help to prepare personal development plans and inform leadership development priorities.

Group Strategy and Group Corporate Finance

Our Group Strategy and Corporate Finance team supports the Chief Executive, Chief Financial Officer and the Executive Committee in the development of the Group's strategy. Its objective is to ensure that the Group has the right portfolio of businesses, active in the right markets, supported by the appropriate allocation of capital and other resources. The team plays a key role in the Group's disposal activity.

Group Legal, Secretariat and Regulatory Affairs & Compliance

Our Group Legal, Secretariat and Regulatory Affairs & Compliance functions play a vital role in setting a framework within which the Group can deliver long term sustainable returns. The team works in partnership with the businesses it supports. It adopts a commercial approach but retains its independence and professional judgement in order to drive a culture of compliance and good governance designed to protect the Group's franchise.

RBS Communications

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

Non-Core Division

The Non-Core Division separately manages assets that the Group intends to exit from by 2013. The division contains a range of businesses and asset portfolios, primarily originating from GBM, linked to proprietary trading, higher risk profile asset portfolios (including excess risk concentrations) and other illiquid portfolios. It also includes a number of portfolios and businesses that the Group has concluded are no longer part of its core strategy.

Performance highlights	2010 £m	2009 £m
Net interest income	1,959	1,534
Non-interest income	1,074	(3,835)
Total income	3,033	(2,301)
Expenses	(2,325)	(2,447)
Operating profit/(loss) before other operating charges and impairment losses	708	(4,748)
Insurance net claims	(737)	(588)
Impairment losses	(5,476)	(9,221)
Operating loss	(5,505)	(14,557)
Risk-weighted assets (£bn)	153.7	171.3
Net interest margin	1.16%	0.69%
Cost:income ratio	77%	(106%)

62%
fall in operating losses

4
wholesale country
exits in the year

Helping to deliver the Strategic Plan

The Non-Core Division is a central pillar of the Group's Strategic Plan, helping to make RBS stronger and safer. We help to lower the Group's risk exposure, strengthen its funding position and allow management to focus on the Core Bank. As we approach the mid-point of our five-year journey, we have achieved significant progress and are on-track to meet our targets.

But we don't take further progress for granted. Our Definition to Delivery programme ensured we moved from defining and structuring the division in 2009 to delivering huge strides in reducing assets and managing risk in 2010. Moving into the next stage, we are exploring options for exiting from our assets. The division's leadership team



Nathan Bostock
Head of Restructuring & Risk

For biographies
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has been strengthened. We are in a good position to continue the momentum of progress into 2011.

Exiting from Non-Core assets

In 2010, we passed the £100 billion milestone in our journey, reducing third party assets ("TPAs") to £138 billion at year-end, down from the initial December 2008 portfolio of £258 billion. We also reduced our portfolio of derivatives from an initial £85 billion to £16 billion. Despite sometimes challenging market conditions, careful preparation and asset management enabled us to take, and sometimes accelerate, exit opportunities.

While our disposal programme has attracted the most attention, the run-off programme and asset restructuring deals have also been important.

- International Businesses & Portfolios made huge progress in the disposal of non-core country or whole businesses. Sale agreements were reached for our Non-Core businesses in Latin America, India, Kazakhstan, Pakistan and the United Arab Emirates, as well as for part of our Asset Management business and for our Invoice Finance businesses in Germany and France. We completed the transfer of assets in six Asian countries to ANZ Group.
- Portfolio & Banking agreed deals to dispose of non-core portfolio assets. Examples included the sale of a portfolio of US and European private equity fund interests, the sale of Leveraged Finance assets through a Collateralised Loan Obligation and the sale of property assets, such as the Cumberland and five other hotels.
- Non-Core Markets achieved significant progress in reducing assets through sales and the unwinding of facilities and risk exposures. Markets TPAs fell from £24.4 billion at the start of the year to £13.6 billion at the end of 2010.
- Across all areas, our run-off programme has helped to deliver significant reductions through holding assets to maturity, exploring ways to achieve earlier repayment and identifying options for assets to be refinanced elsewhere.
- In line with the settlement agreed with the EC in 2009, we completed the sale of substantially all of RBS's interest in RBS Sempra Commodities.

Though the Non-Core Division was established to separately manage and exit from the portfolio of non-core assets, we work closely with other parts of RBS Group in achieving these aims. For example, colleagues in GBM have provided invaluable assistance in structuring and delivering several deals.

Divisional review

Non-Core Division

Asset Protection Scheme (APS)



Rory Cullinan
Head of Non-Core Division

We passed the £100 billion milestone in our journey, reducing third party assets to £138 billion at year-end.

We continue to target an exit from the APS within the last two years of the Strategic Plan (2012-13), subject to regulatory approval.

Maximising shareholder value

We achieved a significant reduction in the division's operating loss from £14.6 billion in 2009 to £5.5 billion, largely due to improvements in income from trading activities and lower impairments.

The active management of our market risk exposures helped to achieve a significant improvement in income from trading activities, turning a £5.2 billion loss in 2009 into a £31 million loss in 2010. Our exposure to monoline insurers has been managed down, while hedging and credit protection helped to reduce day-to-day swings even when market volatility was high.

Impairments continued to fall, reflecting the reduction in assets and improvements in the underlying quality of the remaining portfolio. Impairments totalled £5.5 billion in 2010, down from £9.2 billion in 2009.

Taking risk 'off the table'

We also concentrated on strengthening risk management, through reducing risk exposures and responding to risks that emerge. In the

markets area, risk management has reduced the daily income volatility of traded assets, helping to protect the Bank against sudden market changes.

However, there was upward pressure on Risk Weighted Assets from pro-cyclical increases in risk weights and from regulatory changes. Offsetting this has been the progress achieved in asset disposals, run-offs and strengthened risk management. As a result, RWAs have reduced from £171 billion at the start of the year to £154 billion at year-end.

Looking ahead

The Non-Core Division is central to the strategy that will return RBS to stand-alone strength. The encouraging progress made so far provides a solid foundation for meeting the challenges ahead.

We are ahead of our plan and gathering momentum for the further work ahead. We are confident that we have the team in place to continue to deliver one of the largest corporate restructurings ever undertaken.

Asset Protection Scheme (APS)

The APS is a key part of the UK government's measures to restore stability and confidence in the banking sector. It provides RBS with credit protection in the unlikely, though still possible, event of a severe downturn in the economy. RBS Group's participation in the APS is managed centrally within the Restructuring & Risk area.

Following the agreement of the terms of the Scheme in December 2009, we have enhanced and widened our training programme for staff and have restructured our operating procedures to accommodate the

Scheme's requirements. We continue to work closely with the Asset Protection Agency (APA) with regard to the day-to-day stewardship of assets covered by the Scheme.

It is our opinion that the APS continues to provide valuable support during our restructuring, providing additional confidence to the market against the backdrop of economic uncertainty. But we continue to target an exit from the APS within the last two years of the Strategic Plan (2012-13), subject to regulatory approval.

The amount of assets covered by the scheme has fallen from an initial £282 billion to £195 billion at the end of 2010. We estimate, on the basis of expected future recoveries, the expected loss on triggered assets at 31 December 2010 to be approximately £25 billion, equivalent to 42% of the £60 billion first loss threshold under the APS. RBS does not currently expect that losses on covered assets will exceed the first loss provision over the lifetime of its participation in the Scheme.





Building a sustainable RBS

'Sustainability is fundamental to how RBS is changing the way we operate. It is a core part of our thinking and we have made improvements in this area over the last year. However, we are mindful that there is still a long way to go.'

Philip Hampton, Chairman

At RBS, sustainability means two things. First, we consider the environmental, social and ethical consequences of our activities and then we manage our business appropriately. Secondly, we look to capitalise on the opportunities for our businesses that sustainable technologies present.

Our sustainability activities focus on five themes that we chose because our stakeholders have told us that they are the topics that matter most to them. The themes are:

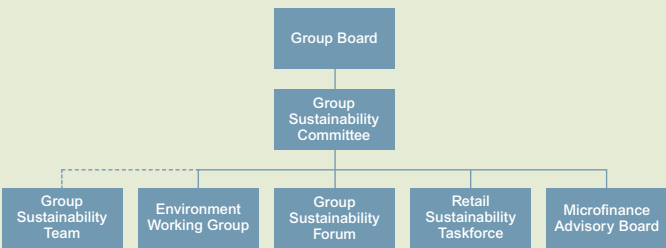
- **Fair banking**
- **Supporting enterprise**
- **Employee engagement**
- **Safety and security**
- **Citizenship and environmental sustainability**

In addition, we have a number of targeted community programmes that enable us to enhance our contribution to society. We aim to invest Group resources to maximise our impact, creating real and sustainable benefits in the communities in which we operate.

Taking sustainability seriously

One of the ways we show the world that we take sustainability seriously is by embedding it in the way we run the business, from the highest levels to the responsibilities of individual employees. Our Senior Independent Director, Sir Sandy Crombie chairs the Group Sustainability Committee (GSC). Other members of the GSC include the Chief Executive Officers of a number of our divisions. The GSC reviews the Group's overall sustainability strategy, values and policies.

The **Group Sustainability Forum** is a network of senior managers from each division that makes sure we put into practice the priorities the GSC sets. The executive-led **Environment Working Group** monitors environmental developments, commercial opportunities, operational impacts, and communications and engagement. The **Retail Sustainability Taskforce** focuses on the sustainability issues that most affect our Retail division. The **Microfinance Advisory Board** comprises senior members from a range of stakeholder groups and provides external oversight and support for microfinance and supporting enterprise programmes across the Group's international business.



"To ensure that we are operating as a sustainable business in every sense of the word, we will have to develop and work to a set of principles which guide our management on social and ethical issues."

Sir Sandy Crombie, Senior Independent Director



Sustainability in practice

Stakeholder feedback

We work actively with stakeholders to find out what they think about us and how we do business. The table below outlines some of the ways we consulted stakeholders in 2010.

Stakeholder group	Types of consultation
Customers	We started to change how we gather our customers' opinions. We launched a new Public Opinion Survey and we spoke to over 21,000 people through surveys. This work, along with the regular feedback we receive from our customers is a key component in how we shape our business.
Employees	Our Employee Opinion Survey gathered the views of over 119,000 employees, a response rate of 81%.
Investors	Last year the Group engaged with over 1,200 institutional investors. Socially responsible investment continues to grow in importance and last year we took part in regular meetings with analysts on this issue, including meetings with our Chairman and senior executives focused exclusively upon sustainable investment.
Industry Forums	The Group is involved in a number of industry forums including both the Equator Principles (EPs) and UN Global Compact (UNGC) which have a specific focus on sustainability issues. Last year we took the lead in one of the EPs working groups and became Chair of the UK Network of the UNGC.
Consumer Groups	In 2010, we substantially increased our dialogue with consumers groups. We met a wide variety of groups to discuss a range of issues from debt advice to our Group Customer Charter.
Non-Governmental Organisations (NGOs)	We regularly consult with NGOs, which in 2010 included direct engagement with both our Chairman and the Group Sustainability Committee.



Ulster Bank extends MoneySense

Building on its commitment to widen access to financial education, Ulster Bank launched its own MoneySense for Single Parents Guide in 2010. This was produced with OPEN in the Republic of Ireland and Gingerbread in Northern Ireland. This is the first in a set of financial 'life guides' designed to give more practical support based on people's specific circumstances.

Our five key themes

Fair banking

We are committed to treating our customers to the highest of standards, and being transparent about the products and services they can expect from us. This theme covers: responsible lending practices, customer service (including dealing with customer complaints), access to financial services, and financial education.

Supporting enterprise

One of our main responsibilities is to provide tailored support to a broad range of businesses. There are a number of ways that we demonstrate our commitment to enterprises: from lending to small and medium enterprises (SMEs), to funding microfinance institutions in India, to making finance available to social enterprises and facilitating youth enterprise through working with partners

Employee engagement

Our employees are the core of our organisation and it is very important that we treat them fairly and responsibly. It has been a difficult year for some of them as we continue to restructure the Group. So it's vital that as we build the new RBS we support our people throughout these changes by involving and listening to them as much as possible.

Safety and security

Protecting the security of our customers' money and data is a fundamental responsibility of the Group. We have continued to invest heavily in the prevention of financial crime. This theme also includes how we safeguard the safety, health and wellbeing of our employees.

Citizenship and environmental sustainability

As a global organisation we have to manage our broader economic, social and environmental impacts. This includes wider citizenship issues such as business and human rights and bribery and corruption as well as environmental concerns. We fully support the transition to the more sustainable use of natural resources.

How others have judged us

Every year independent, external bodies judge our performance and compare us with our peers.

We received the AA1000 (2008) reporting and assurance accreditation for our 2008 and 2009 annual Sustainability Reports. We were also short-listed for the ICSA/Hermes award for best sustainability and stakeholder disclosure for the Sustainability Report 2009.

We have participated in the Carbon Disclosure Project since its inception and in 2010 received the joint highest score for financial services globally, scoring 93 and an 'A' rating for performance, a significant improvement since 2009. We were also included in the Dow Jones Sustainability Index for the third year running, scoring 75%, and in the FTSE4Good index.

Newsweek magazine placed us 27th in their recent 'Green Rankings' where three environmental research organisations ranked the world's 100 biggest listed companies across a number of environmental issues.

Our community programmes

We recognise our responsibility to play an active role in the communities we serve. This begins with providing the services our customers want, and operating in a sustainable way. We then go further through our community programmes, which allow us to make more of a difference in areas that we can have an impact. Our efforts centre on our MoneySense, Supporting Enterprise, and Employee and Community Engagement programmes.

MoneySense

The aim of our MoneySense programme is to increase financial education, capability and inclusion, which is part of our wider commitment to Fair Banking.

We continued to invest in our Group MoneySense programmes in 2010. We improved and expanded our MoneySense for Schools programmes by developing new online resources, holding teacher training days and completing the 3rd annual MoneySense Panel Research. This research revealed the attitudes towards money of over 10,000 12-19 year olds. The 2nd annual RBS Personal Finance Education Awards for Schools recognised the 2010 achievements of primary and secondary schools.

We introduced a new magazine called Pocket Money for families, reaching an audience of over 600,000 people in the UK. New Business Start-Up Guides were launched on NatWest.com, and our MoneySense booklets for adults were revised and written in plain English as part of the UK Customer Charter commitment to make banking easier.

Over the last three years our funding to Macmillan cancer support helped them to expand their benefits helpline by 50%. In 2010, three new face to face Macmillan advice services were launched. Together this helped 9,500 people unlock over £20 million of funds to help with the impact of their cancer diagnosis. At the end of 2010, the RBS Group agreed to fund Macmillan for a further three years to increase delivery of face-to-face money guidance for people living with cancer across the UK.

The Group continued to assist our key partners. We remain to be one of the largest corporate sponsors of the Money Advice Trust and in 2010 provided funding for key projects or areas of research to Mind, RNIB, Gingerbread, Transact, Toynbee Hall, and Citizen's Advice. We will continue to work with the charities in 2011 to fund projects which will improve access to information, increase the number of quality financial education and training resources available, and meet the specific needs for the members of each charity organisation.

Our Ulster Bank MoneySense for Schools programme was launched in 2007 and is already the largest financial education programme for secondary schools in Northern Ireland and Ireland, with 380 volunteers from Ulster Bank. The Youthbank programme run by Ulster Bank also helps to develop a range of skills in young people by distributing grants for youth-led projects in their communities.

The Community Reinvestment Act in the US encourages banks to lend to low and moderate income communities. In 2010, Citizens and Charter One provided more than 275 financial literacy programmes, educating over 13,000 people. Citizens has also partnered with the Federal Deposit Insurance Corporation to provide Money Smart Training, helping people outside the financial mainstream enhance their money skills and create positive banking relationships. Citizens' 'Gear for Grades' programme provides school supplies for children whose families cannot afford them. Since its inception in 2003, 'Gear for Grades' has served over 150,000 school children.

Supporting enterprise

Our Supporting enterprise programme works with partners to support potential business start-ups and helps to build the capability of alternative means of finance and support for would-be entrepreneurs who would not normally qualify for direct support from banks.

We have a long standing relationship with The Prince's Trust. We are the largest corporate sponsor of The Prince's Trust Enterprise Programme, which helped nearly 5,000 young people in 2010. We are proud sponsors of their new practical guide to starting up your own business. This book condenses the years of expertise The Prince's Trust has gained when helping young people in business and includes real life stories of success and advice from business leaders. This is just one of the ways we have supported them through our corporate partnership. We also provide support for The Prince's Scottish Youth Business Trust.

smallbusinessscan provides guidance and support to help small businesses in the UK and Ireland and is supported by Ulster Bank.

This programme provides simple and practical tools to help small businesses gain insights and build a network of trusted contacts, enabling start ups to progress and promote growth.

In 2010, we launched a partnership with the British Academy of Film and Television Arts (BAFTA) and its Youth Mentoring Programme, delivered in conjunction with Media Trust. In this programme, BAFTA members, award-winners and leading practitioners volunteer as mentors to disadvantaged young people on media projects, enhancing their knowledge, skills and personal development to give them new opportunities in life.

We also sponsor Youth Business International projects in Russia, Hong Kong and France that provide opportunities for would-be young entrepreneurs in those countries.

Our microfinance programme in India goes further than simply lending to Microfinance Institutions (MFIs). We have also invested in 'technical assistance' to create and sustain robust, creditworthy MFIs in underserved regions. This programme has supported 37 MFIs, facilitating access to finance for over 200,000 households. Also in India, our Livelihood projects improve communities' income generating abilities through a range of interventions including training, investment and market linkages. We currently have 17 Livelihood projects across 14 states, reaching over 63,000 households.

2010 also saw the launch of the RBS SE100 Index, a unique report that provides information on the growth and impact of the top 100 social enterprises in the UK. This will play a vital role in promoting the success and diversity of this sector.

Employee and community engagement

Our Employee and community engagement programme supports the great work that our employees already do in their communities and encourages further involvement to strengthen our support for the communities we live in.

As part of our UK Customer Charter we launched the Community Fund in 2010, a way of putting real benefit back into the communities, at the choice of our customers. To date £1.8 million has been given to charities chosen by our customers and employees from their local branch and 7,547 days off have been given to branch staff to help support the causes important to them.

Our volunteering programme provides a range of team activities that our employees can take part in during work time. We run the activities through nine charities so that our employees can deliver the skills, services or fundraising that they need. This year 4,100 employees engaged in 225 activities.

Our Global Banking and Markets division launched a new, bespoke volunteering programme across all of its businesses, targeting four areas where it hopes to have a lasting impact on the lives of children and young people: education, health, social welfare and enterprise and employability. In 2010, over 1,000 employees volunteered their time in support of this programme.

In 2010, the Citizens Charitable Foundation invested more than \$14 million in charitable grants to more than 1,000 non-profit organisations across 12 states.



The Prince's Trust

We sponsored the launch of The Prince's Trust's first start-up guide book – Make It Happen. Years of expertise and knowledge have been distilled into this highly practical book, designed to get young entrepreneurs started. Our sponsorship will ensure that The Trust will be able to give a free copy to every young person they start up in business for the next three years, around 6,000 copies in total.

The Group Community Cashback scheme allows employees to claim cash for the charities they support by volunteering or fundraising in their own time. In 2010, 4,300 awards totalling £1.2 million were given to over 2,500 charities. We continue to match donations our employees make to charity via their salary, and this year we supported over 3,000 charities directly in this way.

We also launched a new recognition scheme in 2010 for our employees – Community Stars. We give £65,500 per year to support the fantastic work employees do for the causes they are passionate about and to recognise

that they are great ambassadors for the Group. Citizens' Colleagues in Action also recognises community involvement and provides the opportunity for colleagues to take a three month sabbatical to serve as a volunteer on a longer-term project.

Overall, more than 39,500 employees gave their skills, time and money to make a difference in the communities that we operate in. The Group supported those efforts financially and by giving employees almost 170,000 hours off work to volunteer.

Highlights of how we focus action across our businesses

	Fair banking	Supporting enterprise	Employee engagement	Safety and security	Citizenship and environmental sustainability
Products and services	The Group Customer Charter set out 14 clear commitments to our UK retail customers in 2010. Within these, we set ourselves 25 specific and stretching goals and we achieved 20 of these outright in the first 6 months.	RBS supports the Business Finance Taskforce and its measures to increase investment, provide more business mentors and introduce new lending principles for SMEs.	We provide a suite of competitive employment policies, training and development opportunities and a bespoke benefits package and provide support when it is needed through our Employee Assistance programme.	Our free online data protection software, Rapport, currently protects 4.6 million online customers from fraud.	Since 2006, we have provided more finance to wind power projects than any other type of energy project.
	The Citizens CollegeSaver account rewards customers who save money for a child with a \$1,000 bonus plus the accrued interest when the child turns 18. The enrolment age was extended from 6 to 12 years in 2010.	Our Technical Assistance programme in India facilitated work with 37 MFIs across 13 states in India, increasing the reach of microfinance to more than 100,000 additional poor families.	We measure engagement through our employee opinion survey and take action in response to employee feedback.	Customers have access to services such as SMS text alerts to inform them of any activity on their accounts, or when there has been fraudulent activity.	Our Business Mentor Environmental scheme continues to provide expert environmental advice to customers who need it, 24/7.
Corporate partnerships	We work with a range of Community Development Finance Institutions and Credit Unions as part of the Trusted Partner programme.	In order to be able to support a wide selection of different business clients, we work with partners to bridge the gap in funding for organisations such as social enterprises and charities.	We have nine charity partners: BTCV, Prince's Trust, Oxfam, Barnardo's, Fairbridge, Marie Curie, Macmillan, Help the Hospices and Cancer Research in the UK.	The Security and Risk team work closely with authorities to share information and help prevent financial crime. This includes a focused intelligence sharing partnership with Greater Manchester Police, UK.	BTCV is an environmental charity and one of our nine charity partners that provides volunteering opportunities for employees to get involved in.
	We worked with the National Housing Federation to launch a new affordable credit provider pilot, My Home Finance (MHF) in 2010. MHF provides loans to the financially excluded.	We support youth enterprise through sponsoring the Prince's Trust Enterprise Programme, the Prince's Scottish Youth Business Trust and Youth Business International in Hong Kong, France and Russia.	We work with partners that support our Diversity & Inclusion programme including Stonewall, Employers Forums on Belief; Age; and Disability, Opportunity Now, Working Families and Race for Opportunity in the UK and Asia Network (DIAN).	During 2010 we developed a global occupation health programme in partnership with International SOS to review the occupational health service provision across our international business.	We are actively involved in the management of the United Nations Global Compact and Equator Principles initiatives. We are sponsoring Climate week in the UK, a national awareness raising campaign.
Employee contribution	In 2010, 774 employees helped to deliver our MoneySense programme throughout the UK by devoting their time to give lessons in schools.	In 2010, 380 employees volunteered for The Prince's Trust, raising a total of over £250,000.	Our Group Employee Volunteering programme engaged 39,500 employees in 2010 who were given over 24,000 days off to make a contribution to the causes supported by our nine charity partners.	A number of employees get involved in Safety, Health and Wellbeing programmes.	We have over 600 environmental champions in the Group helping to engage colleagues and make a difference to our carbon footprint at a local level.
Operations and supply chain	We use a number of third-party organisations to assist with credit checking, helping to ensure that we lend responsibly.	Through our supply chain we spend nearly £8.5 billion each year on goods and services, of which £6.2 billion is spent in the UK.	We aim to extend our employee engagement activities as far as possible to temporary employees and contractors working in our organisation.	Every year we review our suppliers to ensure that the appropriate controls are in place to ensure customer information is protected.	Our ethical code for suppliers sets out our commitments to working with openness and integrity, which we also expect from our suppliers.

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Board of directors and secretary



Chairman

Philip Hampton (age 57) N (Chairman)

Appointed to the Board on 19 January 2009 and to the position of Chairman on 3 February 2009. Philip Hampton was previously chairman of J Sainsbury plc and group finance director of Lloyds TSB Group plc, BT Group plc, BG Group plc, British Gas and British Steel plc, an executive director of Lazard and a non-executive director of RMC Group plc. He is also former chairman of UK Financial Investments Limited which manages the UK Government's shareholding in banks. He is currently a non-executive director of Anglo American plc.

Executive directors

Stephen Hester (age 50) Group Chief Executive

Appointed to the Board on 1 October 2008 and to the position of Group Chief Executive on 21 November 2008, Stephen Hester was chief executive of The British Land Company PLC. He was previously chief operating officer of Abbey National plc and prior to that he held positions with Credit Suisse First Boston including Chief Financial Officer, Head of Fixed Income and co-Head of European Investment Banking. From February 2008 to October 2008 he served as a non-executive deputy chairman of Northern Rock plc. He is also a trustee of The Foundation and Friends of the Royal Botanical Gardens, Kew.

Bruce Van Saun (age 53) Group Finance Director

Appointed to the Board on 1 October 2009, Bruce Van Saun has more than 25 years financial services experience. From 1997 to 2008 he held a number of senior positions with Bank of New York and later Bank of New York Mellon, most recently as vice chairman and chief financial officer and before that he was responsible for the Asset Management and Market Related businesses. Prior to that, he held senior positions with Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co. He has served on several corporate boards as a non-executive director and has been active in numerous community organisations.

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Key to pictures

1. Philip Hampton, Chairman
2. Stephen Hester, Group Chief Executive
3. Bruce Van Saun, Group Finance Director
4. Colin Buchan
5. Sandy Crombie
6. Penny Hughes
7. Joe MacHale
8. John McFarlane
9. Brendan Nelson
10. Arthur 'Art' Ryan
11. Philip Scott
12. Aileen Taylor

Abbreviations

- A Member of the Audit Committee
- N Member of the Nominations Committee
- R Member of the Remuneration Committee
- Ri Member of the Board Risk Committee
- * Independent non-executive director

Group Secretary

Aileen Taylor (age 38)

Aileen Taylor assumed the role of Group Secretary in May 2010 and provides secretariat and corporate governance advice and support to the Group Board and its senior Committees. Aileen was appointed Deputy Group Secretary and Head of Group Secretariat in 2007, and prior to that held various legal, secretariat and risk roles at divisional and business level. Aileen is a Fellow of the Chartered Institute of Bankers in Scotland and a Fellow of the Industry and Parliament Trust.



Non-executive directors

Colin Buchan* (age 56) A, N, Ri

Appointed to the Board in June 2002, Colin Buchan was educated in South Africa and spent the early part of his career in South Africa and the Far East. He has considerable international investment banking experience, as well as experience in very large risk management in the equities business. He was formerly a member of the group management board of UBS AG and head of equities of UBS Warburg, and was the former chairman of UBS Securities Canada Inc. He is chairman of Standard Life Investments Limited and a director of Standard Life plc and Black Rock World Mining Trust Plc. Colin is a fellow of the Chartered Institute of Bankers of Scotland.

Sandy Crombie* (age 62) Senior Independent Director, N, R, Ri

Appointed to the Board in June 2009, Sandy Crombie was previously Group Chief Executive of Standard Life Plc. He was also previously a director of the Association of British Insurers and a member of the Chancellor of the Exchequer's High Level Group. In 2007, he was the Prince of Wales' Ambassador for Corporate Social Responsibility in Scotland. He currently serves as Chairman of the Edinburgh UNESCO City of Literature Trust and Creative Scotland, as Vice Chairman of the Board of Governors of the Royal Scottish Academy of Music and Drama, and President of The Cockburn Association.

Penny Hughes* (age 51) N, R (Chair)

Penny Hughes joined the Board on 1 January 2010 and is currently a non-executive director of Home Retail Group plc, Cable & Wireless Worldwide plc and Wm Morrison Supermarkets plc. She is a former non-executive director of Gap Inc, Vodafone PLC and Reuters PLC. Penny chairs the Remuneration Committee of Home Retail Group. Penny was a director and chairman of the Remuneration Committee of Skandinaviska Enskilda Banken AB until she stepped down on 20 October 2009. Penny spent the majority of her executive career at Coca-Cola where she held a number of leadership positions. In 1992, she was appointed as President, Coca-Cola Great Britain and Ireland. She is also a Trustee of the British Museum and President of the Advertising Association.

Joe MacHale* (age 59) N, Ri

Appointed to the Board in September 2004, Joe MacHale is currently a non-executive director and chairman of the remuneration committee of Brit Insurance Holdings plc, and a trustee and treasurer of MacMillan Cancer Support. He held a number of senior executive positions with J P Morgan between 1979 and 2001 and was latterly chief executive of J P Morgan Europe, Middle East and Africa Region. He is a fellow of the Institute of Chartered Accountants and the Chairman of Prytania Group.

John McFarlane* (age 63) N, R

Appointed to the Board on 1 October 2008, John McFarlane is former chief executive officer of Australia and New Zealand Banking Group Limited. Previously he was a group executive director of Standard Chartered and was head of Citicorp/Citibank in the UK and Ireland. He is currently a non-executive director of Westfield Holdings Limited and a director of Old Oak Holdings Limited. He is a former president of the International Monetary Conference and a former chairman of the Australian Bankers Association. He has previously served as a director of the London Stock Exchange and a member of the Auditing Practices Board.

Brendan Nelson* (age 61) A (Chairman), N, Ri

Appointed to the Board on 1 April 2010, Brendan Nelson is the former global chairman, Financial Services for KPMG. Previously, he held a range of senior leadership roles within KPMG including as a member of the KPMG UK board from 1999 until 2006 and as vice chairman from 2006. He has been a board member of the Financial Services Skills Council since 2008 and was chairman of the Audit Committee of the Institute of Chartered Accountants of Scotland from 2005 until 2008. He joined the Board of BP plc in November 2010.

Arthur 'Art' Ryan* (age 68) N

Appointed to the Board on 1 October 2008, Art Ryan is the former chairman, chief executive officer and president of Prudential Financial Inc. Previously he held senior positions with Chase Manhattan Bank NA. He is currently a non-executive director of Regeneron Pharmaceuticals Inc. and an active member of numerous community boards. He was a founding member of the Financial Services Forum.

Philip Scott* (age 56) A, N, Ri (Chairman)

Appointed to the Board on 1 November 2009, Philip Scott has wide-ranging experience of financial services and risk management, including previous responsibility for Aviva's continental European and international life and long-term savings businesses. He held a number of senior executive positions during his career at Aviva, including his role as Group Finance Director until January 2010. Philip is also an experienced non-executive director and is currently on the board of Diageo plc. He is a Fellow of the Institute of Actuaries and The Association of Certified Public Accountants.

Executive Committee



The Executive Committee provides executive input to the Group Board, and monitors and reports to the Group Board on all operational and day to day activities in relation to the Group’s businesses.

It is responsible for managing Group wide issues and those operational issues material to the broader Group.

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- Key to pictures**
- 1 Stephen Hester, Group Chief Executive
 - 2 Bruce Van Saun, Group Finance Director
 - 3 Ellen Alemany, Chief Executive, Citizens and Head of Americas
 - 4 Nathan Bostock, Head of Restructuring & Risk
 - 5 Paul Geddes, Chief Executive, RBS Insurance
 - 6 Brian Hartzel, Chief Executive, UK Retail, Wealth and Ulster Bank
 - 7 John Hourican, Chief Executive, Global Banking & Markets
 - 8 Chris Sullivan, Chief Executive, UK Corporate
 - 9 Ron Teerlink, Chief Administrative Officer

Executive Committee

Stephen Hester, Group Chief Executive

Bruce Van Saun, Group Finance Director

For biographies **see page 50**

Ellen Alemany (age 55)

Chief Executive, Citizens and Head of Americas

Ellen Alemany joined the RBS Group in June 2007 as Chief Executive Officer of Citizens Financial Group, Inc. and Head of RBS Americas. She became Chairman of Citizens Financial Group, Inc. in March 2009. Prior to this appointment, Ellen was the CEO for Global Transaction Services at Citigroup, one of Citi's 12 publicly reported product lines. Ellen joined Citibank in 1987 and has held various positions including EVP for Commercial Business Group, Chairman and CEO for Citibank International plc and Citibank's European Bank.

Nathan Bostock (age 50)

Head of Restructuring & Risk

Nathan Bostock joined the RBS Group in June 2009 as Head of Restructuring and Risk with responsibility for the Non-Core Division & APS, the Global Restructuring Group and the control functions of Group Legal & Secretariat and Risk Management. Before joining RBS, Nathan spent eight years with Abbey National plc in several roles and was latterly the CFO and main Board Director responsible for Products & Marketing, HR, Insurance and Cards. Before joining Abbey in 2001, Nathan spent ten years with RBS in a number of roles, including Chief Operating Officer of Treasury and Capital Markets and Group Risk Director. A Chartered Accountant, Nathan worked with Coopers & Lybrand, before starting his career in banking. He spent seven years in Chase Manhattan Bank in a variety of areas and functions. He also holds a BSc (Hons) in Mathematics.

Paul Geddes (age 41)

Chief Executive, RBS Insurance

Paul Geddes graduated from Oxford in 1990, where he read Politics, Philosophy and Economics. His career started at Procter & Gamble, in the UK and Europe. He entered retailing in 1997, holding senior roles in Kingfisher and GUS Groups before joining the RBS Group in 2004 as Managing Director, Products and Marketing, Retail Banking. He was appointed CEO, Retail Banking in December 2006 and CEO, UK Retail in February 2009, before taking overall responsibility for some of the UK's best-known insurance brands, including Direct Line, Churchill, Privilege and Green Flag as CEO, RBS Insurance in August 2009. Paul is a Fellow of the Chartered Institute of Bankers in Scotland.

Brian Hartzler (age 44)

Chief Executive, UK Retail, Wealth and Ulster Bank

Brian Hartzler has been the Chief Executive Officer for Retail, Wealth and Ulster Bank since August 2009. He joined RBS from ANZ in Australia, where he was Chief Executive Officer – Australia, as well as Global Segment Lead for Retail and Wealth. Brian joined ANZ in 1999 as Managing Director, Consumer Finance, and later ran ANZ's Personal Banking division. Prior to joining ANZ, Brian spent ten years as a financial services consultant in New York, San Francisco, and Melbourne. Brian is a graduate of Princeton University and holds joint US and Australian citizenship.

John Hourican (age 40)

Chief Executive, Global Banking & Markets

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

Chris Sullivan (age 53)

Chief Executive, UK Corporate

Chris Sullivan was appointed Chief Executive of the UK Corporate Banking Division and the GTS Division in August 2009. His previous role was Chief Executive of RBS Insurance, the second largest general insurance provider in the UK. Prior to this, Chris was Chief Executive of Retail and Deputy Chief Executive of Retail Markets. Chris is Vice Chairman of the Association of British Insurers, Chairman of the General Insurance Council and a member of the CBI President's Committee. He spent five years as Chief Executive of Lombard Asset Finance and under his leadership it attained a leading position in the UK and Europe. Chris Sullivan earned his Fellowship of Chartered Institute of Bankers Scotland for his services to Scottish Banking.

Ron Teerlink (age 50)

Chief Administrative Officer

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

Management Committee

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

It comprises members of the Executive Committee plus:

Elaine Arden, Group Human Resources Director

Scott Barton, Chief Executive, Global Transaction Services

Chris Campbell, Group General Counsel

Mark Catton, Chief Executive, UK Corporate & Institutional Banking

Rory Cullinan, Head of Non-Core Division

John Cummins, Group Treasurer

Jennifer Hill, Group Director – Strategy & Corporate Finance

Suneel Kamlani, President of Global Banking & Markets

Marco Mazzucchelli, Global Head of Banking & Deputy CEO, GBM

Cormac McCarthy, Chief Executive, Ulster Bank

John McCormick, Chief Executive, GBM Asia Pacific

Andrew McLaughlin, Head of Communications and

Group Chief Economist

Peter Nielsen, Global Head of Markets

David Stephen, Deputy Group Chief Risk Officer

Brian Stevenson, Chairman, Global Transaction Services

Rory Tapner, Chief Executive, Wealth Management

Our approach to Governance

“We strive to achieve high standards of corporate governance and the principles of good governance are embedded throughout our culture, the people and the systems we employ.”

Philip Hampton, Chairman

How does RBS comply with key corporate governance standards?

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

Throughout the year ended 31 December 2010, the company has complied with all of the provisions of the Combined Code issued by the Financial Reporting Council in June 2008 (the “Code”) except in relation to the provision that the Remuneration Committee should have delegated responsibility for setting remuneration for the Chairman and executive directors. The company considers that this is a matter which should rightly be reserved for the Board. No director is involved in decisions regarding his or her own remuneration.

Although not applicable to the current accounting period, the company has also complied with the main provisions of the UK Corporate Governance Code issued by the Financial Reporting Council in May 2010 (the “new Code”) except as noted above. The company has also taken steps to implement the recommendations arising from the review of governance in banks and financial institutions undertaken by Sir David Walker (the “Walker Review”).

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

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

How has the structure and composition of the Board changed?

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

Gordon Pell retired as an executive director on 31 March 2010 and Archie Hunter retired as a non-executive director on 28 April 2010.

Penny Hughes and Brendan Nelson joined the Board as non-executive directors on 1 January 2010 and 1 April 2010 respectively.

Brendan Nelson took over as Chairman of the Audit Committee following Archie Hunter's retirement. Penny Hughes took over from Colin Buchan as Chair of the Remuneration Committee on 1 June 2010, when Colin stepped down from the Committee.

Successful governance starts at the top

The Board is the main decision-making forum for the company. It has overall responsibility for management of the business and affairs of the Group, the establishment of Group strategy and the allocation and raising of capital, and is accountable to shareholders for financial and operational performance. The Board considers strategic issues and ensures the Group manages risk effectively through approving and monitoring risk appetite, considering Group stress scenarios and agreed mitigants and identifying longer term strategic threats to the Group's business operations. The Board has a formal schedule of matters detailing key aspects of the company's affairs reserved to it for its decision. This schedule is reviewed bi-annually.

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

The roles of Chairman and Group Chief Executive are distinct and separate, with a clear division of responsibilities. The Chairman leads the Board and ensures the effective engagement and contribution of all executive and non-executive directors. The Group Chief Executive has responsibility for all Group businesses and acts in accordance with the authority delegated by the Board. Responsibility for the development of policy and strategy and operational management is delegated to the Group Chief Executive and the Group Finance Director.

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

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

How often are directors re-elected?

With effect from the 2011 Annual General Meeting, all directors will stand for annual re-election. Colin Buchan will stand down as a non-executive director on 5 August 2011 following the announcement of the Group's interim results, having served just over nine years on the Board.

How often does the Board meet?

There were eleven scheduled Board meetings during 2010. The directors were supplied with comprehensive papers in advance of each meeting. The Group Chief Executive provides a written report on business activities at each Board meeting. In addition to the scheduled meetings, there were fifteen ad-hoc meetings of the Board and Committees of the Board, indicating the commitment of the directors to making time available to fulfil their duties.

What is the role of the Board Committees?

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

The Board Risk Committee is comprised of at least three independent non-executive directors. It is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures of the Group and future risk strategy, including determination of risk appetite and tolerance.

The Remuneration Committee is comprised of at least three independent non-executive directors. It is responsible for the overview of the Group's remuneration policy and remuneration governance framework, ensuring that remuneration arrangements are consistent with and promote effective risk management. The committee also makes recommendations to the Board in respect of remuneration arrangements for executive directors.

The Nominations Committee comprises all of the non-executive directors, and is chaired by the Chairman of the Group. It is responsible for assisting the Board in the formal selection and appointment of directors, having regard to the overall balance of skills, knowledge, experience and diversity on the Board as well as considering succession planning and reviewing the structure, size and composition of the Board, Audit Committee, Board Risk Committee and Remuneration Committee.

The Group Sustainability Committee is chaired by the Senior Independent Director and is attended by the Chairman and members of the Group executive and senior management. It reports to the Board and is responsible for reviewing the Group's overall sustainability strategy, values and policies.

How do the Committees interact?

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

The members of the Audit Committee are also members of the Board Risk Committee. This common membership ensures effective governance across all finance and risk issues, and that agendas are aligned and overlap is avoided. The Audit Committee and Board Risk Committees also have strong links with the Remuneration Committee, with particular regard to ensuring that relevant finance and risk matters are factored in remuneration decisions.

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

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

To give directors a better understanding of the Group, members of executive management attend and make regular presentations at meetings of the Board. Additionally, the Audit Committee and Board Risk Committee undertake an annual programme of visits to the Group's business and control functions. An invitation to attend is extended to all non-executive directors.

Board induction and continuing professional development

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

The company has undertaken a comprehensive review of the ongoing professional development programme for directors. Directors are advised of appropriate training and professional development opportunities and undertake the training and professional development they consider necessary in assisting them to carry out their duties as a director.

How does the Board review its performance?

The Board reviews its performance annually. Following the external Board evaluation carried out in 2009, a number of initiatives were implemented aimed at improving the overall performance and effectiveness of the Board, including greater advance planning in relation to Board agendas to allow more in-depth discussion of businesses and enhancement of Board engagement in risk management and setting risk appetite.

Formal and rigorous internal evaluations of the performance of the Board, Board Committees and individual directors during 2010 have been carried out. A detailed framework of questions was used to structure individual meetings held with each director. Amongst the areas reviewed were the role and organisation of Board and Board Committees, Board and Committee composition, Board processes, the structure and frequency of meetings, Board and Committee reporting, and external relationships including those with shareholders and regulators. Separate evaluations were carried out for each of the Audit Committee, Board Risk Committee and Remuneration Committee.

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

Letter from the Chair of the Remuneration Committee

Dear Shareholder,

I am pleased to be presenting the Group's Remuneration Report for 2010.

During the year, the Remuneration Committee has built on the progress made during 2009 when significant changes were made to the structure of rewards to staff following a thorough review of remuneration policy. We have continued to embed these practices throughout the organisation to ensure that they are aligned with good corporate governance and robust risk management.

Our focus is to ensure that our remuneration policy continues to support delivery of the Group's Strategic Plan. We are working hard to complete a hugely challenging and complex turnaround and are on track to deliver across a range of measures. The Group plays an important economic role, both as an employer and a lender. If we are going to achieve our strategic objectives and deliver a return to our shareholders including the UK taxpayer, we need talented and motivated management and employees. This requires us to pay them fairly within the context of the markets in which they operate. In setting pay policy, we take account of our duties to shareholders and our strategic objectives and seek to ensure that shareholder interests are not damaged as a result of staff retention, recruitment or motivation issues. Our commitment is to reward success not failure, and we are also very conscious of the need to demonstrate restraint.

Across the Group we operate a range of incentive structures which are designed to reinforce messages about what employees are being asked to achieve, and deliver pay for performance. Our key objective in determining bonus awards is not to pay more than is warranted given business performance. In this context performance includes financial and non financial measures, risk performance and any other relevant factors. Our aggregate bonus awards for 2010 are lower than prior year as a result of lower profits and bonuses in the investment banking division and our recognition of the need for moderation. There is clear focus on differentiation, so that individually and by business, the best performers and the best performance will continue to be rewarded. There is strong central governance and oversight of both bonus pools and individual awards, and each year a significant proportion of staff will receive zero bonus.

The key elements of our remuneration policy are:

Pay for performance

Performance related pay is designed to reflect success or failure against the range of targets which we set for our people, taking into account the context in which results were achieved. By way of example, the pay arrangements for executive directors are aligned to the performance of the Group and performance related pay is paid entirely in shares over several years. Executive directors have "no reward for failure" provisions in their service contracts.

Performance management

We operate a structured process to ensure that all employees have clear objectives that are linked to long-term plans designed to drive business objectives including financial performance, risk, people and customer measures. Assessment of individuals' performance is subject to a rigorous review of achievements against their objectives.

Risk adjustment

Focus on risk is achieved through clear risk input into incentive plan design and target setting, as well as a thorough risk review of performance, bonus pools and clawback. The Remuneration Committee has been supported in this by the Board Risk Committee and the RBS Risk Management function.

Deferral

The Remuneration Committee is acutely aware of the external focus on the role of incentive payments in the financial sector. The reality is that these remain a key part of the structure of pay across the industry. However, we have radically reformed our incentive plans. For our more senior employees annual awards are deferred over three years and a portion of the awards are paid in shares which increases alignment with the interests of shareholders. There will be a £2,000 cap on cash bonuses paid in March 2011, as was the case last year.

Clawback

We have had clawback provisions in place since 2009, which means that, in certain circumstances, the Group can reduce deferred annual incentives and long-term incentive awards up to the point they are released. Clawback allows us to respond appropriately if the performance factors on which reward decisions were based turn out not to reflect the corresponding performance in the longer term.

Shareholder consultation

In early 2011, we consulted extensively with institutional shareholders and other stakeholders on our remuneration approach. The consultation process involved one to one meetings and a roundtable session hosted by the Association of British Insurers and National Association of Pension Funds. Our presentation covered our wider remuneration policy as well as executive directors' remuneration and we have been pleased with both the level of engagement with investors and the positive feedback we have received.

Topics discussed with investors included pay positioning, scale and design of incentive structures, risk alignment of remuneration, deferral, clawback and remuneration disclosures. We have listened to the feedback from investors and have made a number of enhancements to disclosures in the Remuneration Report as a result.

Investors recognised the difficult challenge faced by the Remuneration Committee in positioning pay competitively to support business goals, while being mindful of the wider economic environment and the need to show restraint. The Remuneration Committee and the Board have considered carefully their responsibilities and have applied judgement to achieve a balance whereby remuneration policy supports business goals without causing unacceptably high people risks.

The retention and motivation of our executive directors is crucial over the next three years and whilst most aspects of our remuneration policy remain unchanged, we are making some changes to enhance the overall effectiveness of executive director remuneration. These include replacing the annual bonus plan with a long-term Share Bank and changes to the performance measures for the Long Term Incentive Plan ("LTIP"). We have introduced a scorecard of measures relating to risk and strategic goals to sit alongside the existing measures of total shareholder return and economic profit. These measures ensure that rewards for executive directors are aligned with achieving a sustainable long-term platform for the future success of the Group across a range of areas including risk, profitability, franchise strength and people. Details of these changes are set out in the Remuneration Report in the Group's 2010 Report & Accounts.

While the primary focus of the remuneration policy clearly has to be to support the business to deliver the Strategic Plan, some shareholders asked for reassurance that the Remuneration Committee had in place sufficient tools to be able to adjust remuneration appropriately should another financial crisis occur. I am pleased to confirm that a huge amount of progress has been made in this respect.

The starting point is making sure we set the right objectives in the first place. Risk is a key factor when setting annual and long term objectives and an independent review of risk objectives is undertaken by the RBS Risk Management function and the Board Risk Committee. At the end of each performance period, performance outcomes and bonus pool proposals are subject to rigorous review by the control functions, independent of the businesses/divisions. Our LTIP also has a risk underpin whereby awards will not vest unless the Remuneration Committee is satisfied on risk performance. Both annual and long term awards are subject to clawback and, accordingly, the Remuneration Committee has discretion to reduce the number of shares under award or determine that no shares will vest

Changes to approach

In addition to the changes made to executive directors' remuneration arrangements, the Remuneration Committee reached decisions on the following key areas during 2010:

- establishing a governance framework for incentive plans and bonus funding across the Group, involving the Finance, Risk and Human Resources functions at all key decision points;
- a structure of deferment for incentives for up to three years, with the ability to clawback if appropriate; and
- the introduction of a new Long Term Incentive Plan following consultation with a number of institutional shareholders.

The new LTIP received the approval of over 99% of shareholders at the Annual General Meeting in 2010, and at the same meeting the Remuneration Report received overwhelming shareholder support.

External developments

A number of external developments have impacted remuneration and remuneration policy in 2010, including the publication of the FSA's revised Remuneration Code (the "FSA Code"). In light of the FSA Code, a review was undertaken of the remuneration policy and governance arrangements. I am pleased to report that the Group has been fully compliant with all aspects of the FSA Code from 1 January 2011.

The Remuneration Committee supports the UK Government's position that an international approach is required in relation to regulation on remuneration and disclosure. To rebuild the value of the company, an international level playing field that allows the Group and other UK banks to compete fairly with international competitors is essential.

On 9 February 2011, the UK Government issued a statement in connection with Project Merlin, which represents commitments by the UK's four largest banks, including the RBS Group, on matters including lending, shareholder engagement and pay disclosures. The banks have agreed that aggregate UK bonus pools will be lower than last year reflecting consideration of the public mood and engagement with key stakeholders. Furthermore, as a result of the Project Merlin agreement, we are disclosing in this year's Remuneration Report the pay of our two executive directors and the pay of the five highest paid senior executive officers. The Remuneration Committee has also reviewed the remuneration of the ten highest paid staff in each of the Group's divisions.

Throughout 2010 we continued to work through a period of unprecedented restructuring. The Group has delivered remuneration arrangements that are FSA compliant, take proper account of the public mood and call for restraint and support the overarching objective of maximising shareholder returns and delivering a profit for the taxpayer. Importantly, these arrangements are consistent with the Project Merlin agreement.

On behalf of the Remuneration Committee I would like to place on record our sincere appreciation for our people who have continued to focus on service to our customers, managing risk and driving the performance of our core and non-core businesses. Our people are working hard to help return the Group to financial strength and the Remuneration Committee is committed to creating an environment in which they can meet their ambitions.

Penny Hughes
Chair of the Remuneration Committee
23 February 2011

Summary remuneration report

Executive remuneration policy

Components of executive directors' remuneration

Salary

Base salaries of executive directors are reviewed annually. It has been agreed that the Group Chief Executive will receive no increase in base salary in 2011. The annual salary for the Group Finance Director will be increased from £725,000 to £750,000 with effect from 1 April 2011.

Benefits

Executive directors are eligible to receive various employee benefits or a cash equivalent from a flexible benefits account, on a similar basis to other employees.

Gordon Pell retired from the Group and the Board on 31 March 2010, shortly after his normal pension age of 60. Following Gordon Pell's retirement, no current director is a member of the Group's defined benefit pension plans.

For all executive directors joining on or after 1 October 2006, pension provision is in the form of a pension allowance which may be used to participate in The Royal Bank of Scotland Group Retirement Savings Plan which is open to all employees, or to invest in alternative pension arrangements, or to take all or some of the allowance in cash. In addition, as employees, executive directors are eligible to participate in Sharesave and Buy As You Earn Plans. These plans are not subject to performance conditions since they are operated on an all-employee basis. Executive directors also receive death-in-service cover.

In addition to salary and benefits, executive directors receive variable remuneration in the form of annual and long-term incentives.

Annual incentives

Following consultation with UKFI and other institutional shareholders, a Share Bank arrangement has been put in place for the executive directors' annual incentive awards for 2010 and 2011. The Share Bank arrangement replaces the previous annual incentive arrangement and means that the executive directors will receive no cash bonus.

2010

The 2010 targets covered progress against the Strategic Plan, financial performance, risk efficiency and control measures as well as stakeholder and people management. Executive directors have a normal maximum incentive opportunity of 200% of salary (with an exceptional maximum of 250% of salary).

The Remuneration Committee has reviewed the annual incentive awards for the executive directors for 2010 performance, taking into account performance against targets set at the beginning of 2010. Performance was assessed across a broad range of quantitative and qualitative measures and was supported by a robust performance management framework including a formal half year review.

During 2010, performance has been strong and all the Group's main performance indicators are ahead of the Strategic Plan both in terms of timing and outcomes. More information on the Group's performance can be found on pages 12 and 13. There are, however, a small number of areas where the Group is not performing well ahead of the targets which have been set. Accordingly, the Remuneration Committee has recommended, and the Board (excluding executive directors) has agreed, that the Group Chief Executive and Group Finance Director should receive annual incentive awards of 170% and 186% of salary respectively.

For 2010 performance, the executive directors' annual incentive will be delivered entirely as an allocation into Share Bank. The allocated shares will vest in two equal tranches in March 2012 and 2013, and must then be held for a further six months. The Group Chief Executive has voluntarily agreed to a total holding period of twelve months after vesting. Clawback provisions will again apply prior to vesting of the shares.

2011

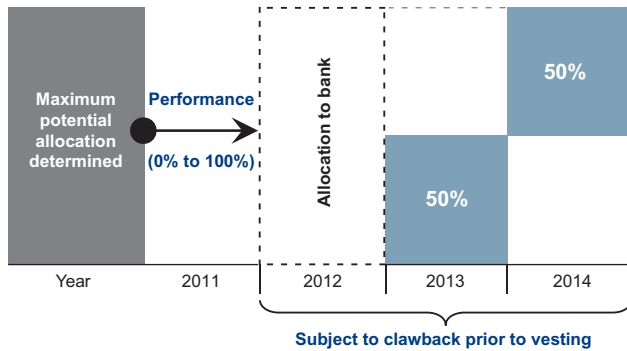
The maximum potential allocation of shares in respect of the 2011 financial year under Share Bank will be 6.0 million shares for the Group Chief Executive and 3.75 million shares for the Group Finance Director. These allocations were agreed following consultation with shareholders at the beginning of 2011. The potential allocations represent normal maximum annual incentive levels for executive directors based on the share price prevailing at the start of the consultation period and will be assessed for final allocation in 2012 on that basis. Depending on share price movement during the performance period, the value of the final allocation could further increase or decrease.

Between 0% and 100% of the maximum potential allocation will be formally allocated into Share Bank in March 2012 based on 2011 performance across five performance categories: strategic direction; business delivery and financial performance; stakeholders including delivery against UK government lending commitments; risk and control; and capability and development. Fixing the number of shares in this way avoids unintended consequences arising from share price volatility around award dates and provides a clear alignment with shareholder interests through the year.

The Remuneration Committee will determine the actual allocation to Share Bank by reference to the extent to which executive directors have met the performance targets. Shares allocated in respect of 2011 performance will vest in two equal tranches in March 2013 and 2014 respectively. Clawback provisions will apply to shares allocated to Share Bank for the period prior to their vesting.

Share awards made as part of Share Bank will be delivered under the rules of the Deferral Plan approved by shareholders in 2009.

An illustration of Share Bank for the 2011 performance year is set out below:



To comply with the FSA Code, shares will be subject to a holding period of six months after vesting.

Long-term incentives

The Group provides long-term incentives which are designed to link reward with the long-term success of the Group and recognise the responsibility participants have in driving its future success and delivering value for shareholders.

Long-Term Incentive Plan (LTIP)

The LTIP was approved by shareholders in April 2010. It replaces both the Executive Share Option Plan and the Medium-Term Performance Plan. Employees in senior roles (executive level and selected senior management) are eligible to receive annual awards of long-term incentives. The awards will be structured as performance-vesting deferred shares.

The performance conditions for the LTIP awards focus on shareholder value, while factoring in the growing regulatory emphasis on risk-adjusted financial metrics.

As in 2010, awards in 2011 will be granted under the LTIP, and will be entirely in the form of shares (rather than share options).

Awards to executive directors have a normal maximum limit of 400% of salary. Whilst the award policy for executive directors may be increased in exceptional circumstances, prior shareholder consultation would be undertaken. For 2011, awards made to executive directors' will be capped at 375% of agreed salary.

Performance criteria for awards granted to executive directors under the LTIP in 2011 and 2010 and ESOP and MPP in 2009

Awards made to executive directors under the ESOP and MPP in 2009 are subject to relative and absolute TSR measures, both weighted equally.

Awards to executive directors under the LTIP in 2010 are subject to improvement in Economic Profit (50%) as well as relative TSR (25%) and absolute TSR (25%).

Performance conditions for the 2011 LTIP awards have been chosen to align executive directors directly with outcomes for shareholders but also with those key actions required to deliver shareholder value over the long term. Vesting of these awards is based on the following performance conditions:

- Relative Total Shareholder Return ("TSR") (25%);
- Core Bank Economic Profit (25%);
- Balance Sheet & Risk (25%); and
- Strategic Scorecard (25%).

Relative TSR provides a direct link between the rewards received by executives and the returns achieved for our shareholders. For this reason this metric has been retained unaltered from previous years.

For 2011 LTIP awards, the Economic Profit measure will focus on the Core bank. Economic Profit, being a risk-adjusted financial measure, is consistent with adherence to the FSA Code, and also provides a balance between measuring growth, and the cost of capital employed in delivering that growth. At the end of the performance period for these awards, the value of the Group will be largely determined by the ability of the Core bank to generate enduring value for shareholders. For this reason, Economic Profit is based on the core bank.

Resolution of Non-Core and development of the Group's risk profile consistent with being a highly rated standalone bank are fundamental to our strategy. These are therefore measured under a separate Balance Sheet and Risk measure under the LTIP.

To ensure that the Group is positioned to deliver sustainable value for shareholders beyond the initial turnaround timeframe, the balanced scorecard rewards management for delivering a robust basis for future growth in terms of the strength of our franchise, efficiency, reputation, and the strength and engagement of our employees.

Finally, there is an underpin whereby awards will only vest if the Committee is satisfied that risk management during the performance period has been effective and that financial and non-financial performance has been satisfactory in line with the Group's Strategic Plan. In assessing this, the Committee will be advised independently by the Board Risk Committee.

Summary remuneration report *continued*

Shareholding guidelines

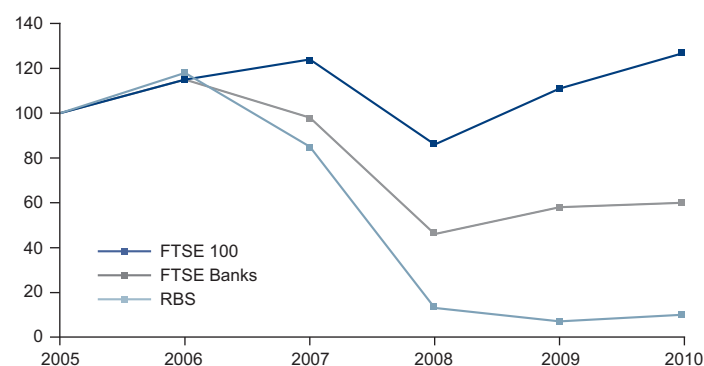
The Group operates shareholding guidelines for executive directors. The target shareholding level is 200% of gross annual salary for the Group Chief Executive and 100% of gross annual salary for executive directors. Executive directors have a period of five years in which to build up their shareholdings to meet the guideline levels.

Non-executive directors

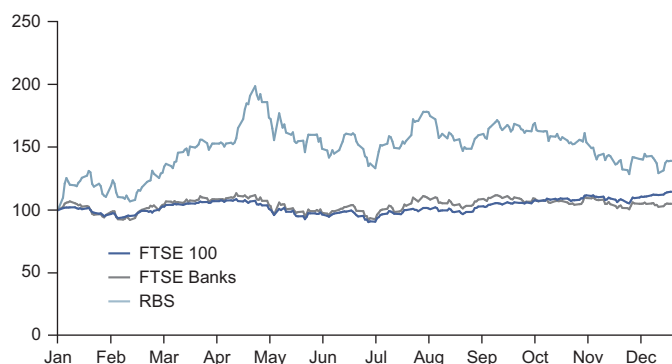
The level of remuneration for non-executive directors reflects their responsibility and time commitment and the level of fees paid to non-executive directors of comparable major UK companies. Non-executive directors do not participate in any incentive or performance plan. Non-executive director fees are reviewed regularly.

Total shareholder return performance

The performance graph below illustrates the performance of the company over the past five years in terms of total shareholder return compared with that of the companies comprising the FTSE 100 Index. This Index has been selected because it represents a cross-section of leading UK companies. The total shareholder return for FTSE banks for the same period has been added for comparison. The total shareholder return for the company and the indices have been rebased to 100 for 2005. The second graph below illustrates the same performance of the company during 2010.



Total shareholder return – one year



Service contracts

The company's policy in relation to the duration of contracts with directors is that executive directors' contracts generally continue until termination by either party, subject to the required notice, or until retirement. The notice period under the service contracts of executive directors will not normally exceed twelve months. In relation to newly recruited executive directors, subject to the prior approval of the Remuneration Committee, the notice period may be extended beyond twelve months if there is a clear case for this. Where a longer period of notice is initially approved on appointment, it will normally be structured such that it will automatically reduce to twelve months in due course.

All new service contracts for executive directors are subject to approval by the Remuneration Committee. Those contracts normally include standard clauses covering the performance review process, the company's normal disciplinary procedure, and terms for dismissal in the event of failure to perform or in situations involving actions in breach of the Group's policies and standards.

Any compensation payment made in connection with the departure of an executive director will be subject to approval by the Remuneration Committee, having regard to the terms of the service contract and the reasons for termination.

No compensation was paid to Gordon Pell on his retirement from employment of the Group on 31 March 2010.

Directors' remuneration

	Salary/ fees £000	Performance bonus £000	Benefits £000	2010 Total £000	2009 Total £000
Chairman					
Philip Hampton ⁽¹⁾	750	—	—	750	700
Executive directors					
Stephen Hester	1,219	2,040	8	3,267	1,227
Bruce Van Saun ^(2,3)	725	1,349	224	2,298	700
Former executive director					
Gordon Pell ⁽⁴⁾	233	—	1	234	933

Notes:

- (1) Remuneration for 2009 reflects Philip Hampton's appointment as Deputy Chairman and Chairman-designate on 19 January 2009 and his appointment as Chairman on 3 February 2009.
(2) Remuneration for 2009 reflects Bruce Van Saun's appointment to the Board on 1 October 2009.
(3) Benefits include costs for Bruce Van Saun's relocation to the UK during 2010.
(4) Retired with effect from 31 March 2010.

As disclosed in the 2009 remuneration report, no payment for loss of office was made to Guy Whittaker (who ceased to be a director on 30 September 2009). After leaving the Group, Mr Whittaker was paid a total of £729,381, representing salary and benefits due under his contract of employment for the balance of his notice period.

Gordon Pell is currently Deputy Chairman of Coutts & Co and a non-executive director of RBS Coutts Bank Limited. He receives a combined annual fee of £100,000 in respect of these roles.

The table below sets out the remuneration paid to non-executive directors for the year ended 31 December 2010. No changes were made in relation to non-executive director fees during 2010 except to standardise the Board Risk Committee, Audit Committee and Remuneration Committee membership fee at £25,000 with effect from 1 January 2010. Fees paid to the Chairs of the Board Risk, Audit and Remuneration Committees have also been standardised at £150,000. This constitutes an increase in the fee payable to the Chair of the Remuneration Committee, reflecting the increased workload of that Committee and the time commitment required from the Committee Chair. For individual directors, differences in remuneration between 2009 and 2010 reflect any change in Committee responsibilities and, where applicable, the date they were appointed to the Board during 2009 or 2010, as set out in the notes below.

	Board fees £000	Board committee fees £000	2010 Total £000	2009 Total £000
Non-executive directors				
Colin Buchan ⁽¹⁾	73	77	150	152
Sandy Crombie ⁽²⁾	150	—	150	88
Penny Hughes ⁽³⁾	130	—	130	—
Joe MacHale ⁽⁴⁾	73	68	141	111
John McFarlane	73	30	103	93
Brendan Nelson ⁽⁵⁾	111	—	111	—
Art Ryan	73	30	103	92
Philip Scott ⁽⁶⁾	150	—	150	25
Former non-executive director				
Archie Hunter ⁽⁷⁾	24	31	55	166

Notes:

- (1) Stepped down as a member and Chairman of the Remuneration Committee on 1 June 2010.
(2) Appointed as Senior Independent Director on 1 June 2009. Fee is inclusive and covers all Board and Board Committee work.
(3) Appointed 1 January 2010 and became Chair of the Remuneration Committee on 1 June 2010. From 1 June 2010 fee is inclusive and covers all Board and Board Committee work.
(4) Stepped down from the Audit Committee on 30 April 2010. Member of the Asset Protection Scheme Senior Oversight Committee since January 2010.
(5) Appointed on 1 April 2010 and became Chairman of the Audit Committee on 28 April 2010. Fee is inclusive and covers all Board and Board Committee work.
(6) Fee is inclusive and covers all Board and Board Committee work.
(7) Retired with effect from 28 April 2010.

No director received any expense allowances chargeable to UK income tax or compensation for loss of office/termination payment. The non-executive directors did not receive any bonus payments or benefits.

Financial results

Summary financial statement

Important note

This summary financial statement is a summary of information in the 2010 Report and Accounts (the "R&A"). It does not contain sufficient information to allow for a full understanding of the results of the Group or of the state of affairs of the company and of its policies and arrangements concerning directors' remuneration. The Group's results and financial condition could be adversely affected by certain risks and uncertainties, including the outcome of litigation and investigations. For further information, the 2010 R&A, the Auditor's report on those accounts and the Report of the directors should be consulted.

You can obtain a copy of the R&A and may also elect to receive all future R&As, free of charge, by contacting our Registrar, details of which can be found on page 71. A copy can be viewed at www.rbs.com

Summary directors' report

Activities and business review

A review of the activities and business of the Group for the year ended 31 December 2010, of recent events and of likely future developments is contained on pages 2 to 47.

Going concern

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

Directors

Photographs and brief biographical details of the directors are shown on pages 50 and 51.

Report of the auditors

The auditor's report on the full accounts and the auditable part of the Directors' remuneration report for the year ended 31 December 2010 was unqualified and did not include an emphasis of matter or a statement under sections 498(2) (inadequate accounting records or returns or accounts or Directors' remuneration report not agreeing with records and returns) or 498(3) (failure to obtain necessary information and explanations) of the Companies Act 2006. The auditor's statement under section 496 (whether the information in the Report of the directors' was consistent with the accounts) was unqualified.

Additional information

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

Share capital

Details of the ordinary and preference share capital as at 31 December 2010 are provided below.

Allotted, called up and fully paid

	£m	Number of shares – thousands
Ordinary shares of 25p	14,614	58,458,131
B shares of £0.01	510	51,000,000
Dividend access share of £0.01 ⁽¹⁾	—	—
Non-cumulative preference shares of US\$0.01	1	209,609
Non-cumulative convertible preference shares of US\$0.01	—	65
Non-cumulative preference shares of €0.01	—	2,044
Non-cumulative convertible preference shares of £0.01	—	15
Non-cumulative preference shares of £1	—	54
Cumulative preference shares of £1	1	900

Note:

(1) One dividend access share in issue.

The rights and obligations attaching to the company's ordinary shares and preference shares are set out in the company's Articles of Association, copies of which can be obtained from Companies House in the UK or at www.rbs.com.

On a show of hands at a general meeting of the company every holder of ordinary shares and cumulative preference shares present in person or by proxy and entitled to vote shall have one vote. On a poll, every holder of ordinary shares present in person or by proxy and entitled to vote shall have one vote for every share held. On a poll, holders of cumulative preference shares present in person or by proxy and entitled to vote shall have four votes for every share held. The voting rights of holders of non-cumulative preference shares are set out in Note 29 of the 2010 R&A. The notices of Annual General Meetings and General Meetings specify the

deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the meeting.

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

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

The rules governing the appointment of directors are set out in the company's Articles of Association. The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

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

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

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

The Royal Bank of Scotland plc 1992 Employee Share Trust, The Royal Bank of Scotland Group plc 2001 Employee Share Trust and The Royal Bank of Scotland Group plc 2007 US Employee Share Trust hold shares on behalf of the Group's employee share plans. The voting rights are exercisable by the Trustees, however, in accordance with investor

protection guidelines, the Trustees abstain from voting. The Trustees would take independent advice before accepting any offer in respect of their shareholdings for the company in a takeover bid situation.

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

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

Non-cumulative preference shares

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

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

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

Note:

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

Financial results *continued*

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

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

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

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

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

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

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

Shareholdings

The table below shows shareholders that have notified the Group that they hold more than 3% of the total voting rights of the company at 31 December 2010.

Solicitor For The Affairs of Her Majesty's Treasury as Nominee for Her Majesty's Treasury	Number of shares	% held
Ordinary shares	39,644,835,194	67.8
B shares (non-voting)	51,000,000,000	100.0

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

We have examined the summary financial statement for the year ended 31 December 2010 which comprises the summary consolidated income statement, the summary consolidated statement of comprehensive income, the summary consolidated balance sheet, the summary directors' report and the summary remuneration report.

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

Respective responsibilities of directors and auditor

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

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

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

Basis of opinion

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

Opinion

In our opinion, the summary financial statement is consistent with the full annual accounts, the Report of the directors and the Directors' remuneration report of The Royal Bank of Scotland Group plc for the year ended 31 December 2010 and complies with the applicable requirements of section 428 of the Companies Act 2006, and the regulations made thereunder.

Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
23 February 2011

Financial results continued

Summary consolidated income statement for the year ended 31 December 2010

	2010 £m	2009 ⁽¹⁾ £m
Net interest income	14,209	13,388
Non-interest income (excluding insurance premium income)	12,531	14,372
Insurance net premium income	5,128	5,266
Non-interest income	17,659	19,638
Total income	31,868	33,026
Administrative expenses	(16,078)	(15,251)
Depreciation and amortisation	(2,150)	(2,166)
Operating expenses*	(18,228)	(17,417)
Profit before other operating charges and impairment losses	13,640	15,609
Insurance net claims	(4,783)	(4,357)
Impairment losses	(9,256)	(13,899)
Operating loss before tax	(399)	(2,647)
Tax (charge)/credit	(634)	429
Loss from discontinued operations, net of tax	(633)	(105)
Loss for the year	(1,666)	(2,323)
Loss attributable to:		
Non-controlling interests	(665)	349
Preference shareholders	105	878
Paid-in equity holders	19	57
Ordinary and B shareholders	(1,125)	(3,607)
	(1,666)	(2,323)
Basic loss per ordinary and B share ⁽²⁾	(0.5p)	(6.4p)
Diluted loss per ordinary and B share ⁽²⁾	(0.5p)	(6.4p)

*Integration and restructuring costs included in operating expenses comprise:

	2010 £m	2009 £m
Administrative expenses	1,012	1,268
Depreciation and amortisation	20	18
	1,032	1,286

Notes:

(1) Re-presented for the reclassification of the results attributable to other Consortium Members as discontinued operations.

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

Summary consolidated statement of comprehensive income for the year ended 31 December 2010

	2010 £m	2009 £m
Loss for the year	(1,666)	(2,323)
Other comprehensive income/(loss)		
Available-for-sale financial assets	(389)	2,016
Cash flow hedges	1,454	684
Currency translation	81	(3,300)
Actuarial gains/(losses) on defined benefit plans	158	(3,665)
Other comprehensive income/(loss) before tax	1,304	(4,265)
Tax (charge)/credit	(309)	430
Other comprehensive income/(loss) after tax	995	(3,835)
Total comprehensive loss for the year	(671)	(6,158)
Total comprehensive loss recognised in the statement of changes in equity is attributable as follows:		
Non-controlling interests	(197)	(1,346)
Preference shareholders	105	878
Paid-in equity holders	19	57
Ordinary and B shareholders	(598)	(5,747)
	(671)	(6,158)

Directors' remuneration	2010 £000	2009 £000
Non-executive directors – emoluments	1,093	823
Chairman and executive directors		
– emoluments	5,243	4,971
– contributions and allowances in respect of defined contribution pension schemes	321	—
	6,657	5,794
– amounts receivable under long-term incentive plans	1,097	1,103
	7,754	6,897

No directors are accruing benefits under defined benefit schemes (2009 – one), one director is accruing benefits under defined contribution schemes (2009 – nil).

Financial results *continued*

Summary consolidated balance sheet as at 31 December 2010

	2010 £m	2009 £m
Assets		
Cash and balances at central banks	57,014	52,261
Loans and advances to banks	100,518	91,753
Loans and advances to customers	555,260	728,393
Debt securities	217,480	267,254
Equity shares	22,198	19,528
Settlement balances	11,605	12,033
Derivatives	427,077	441,454
Intangible assets	14,448	17,847
Property, plant and equipment	16,543	19,397
Deferred tax	6,373	7,039
Prepayments, accrued income and other assets	12,576	20,985
Assets of disposal groups	12,484	18,542
Total assets	1,453,576	1,696,486
Liabilities		
Deposits by banks	98,790	142,144
Customer accounts	510,693	614,202
Debt securities in issue	218,372	267,568
Settlement balances	10,991	10,413
Short positions	43,118	40,463
Derivatives	423,967	424,141
Accruals, deferred income and other liabilities	23,089	30,327
Retirement benefit liabilities	2,288	2,963
Deferred tax	2,142	2,811
Insurance liabilities	6,794	10,281
Subordinated liabilities	27,053	37,652
Liabilities of disposal groups	9,428	18,890
Total liabilities	1,376,725	1,601,855
Non-controlling interests	1,719	16,895
Owners' equity	75,132	77,736
Total equity	76,851	94,631
Total liabilities and equity	1,453,576	1,696,486
Memorandum items		
Contingent liabilities and commitments	314,331	351,661

At 31 December 2010, provisions for loan impairment amounted to £18,182 million (2009 - £17,283 million).

The summary financial statement on pages 62 to 68 was approved by the Board of directors on 23 February 2011.

Philip Hampton
Chairman

Stephen Hester
Group Chief Executive

Bruce Van Saun
Group Finance Director

Analyses of ordinary shareholders

at 31 December 2010

	Shareholdings	Number of shares – millions	%
Individuals	214,556	1,232.5	2.1
Banks and nominee companies	17,045	56,131.1	96.0
Investment trusts	163	20.4	0.1
Insurance companies	187	3.9	—
Other companies	1,442	631.5	1.1
Pension trusts	40	9.0	—
Other corporate bodies	103	429.7	0.7
	233,536	58,458.1	100.0

Range of shareholdings:

1-1,000	75,288	32.5	0.1
1,001-10,000	127,607	472.5	0.8
10,001 - 100,000	28,847	655.8	1.1
100,001 - 1,000,000	1,113	309.7	0.5
1,000,001 - 10,000,000	466	1,568.2	2.7
10,000,001 and over	215	55,419.4	94.8
	233,536	58,458.1	100.0

Financial calendar

Annual General Meeting

19 April 2011 at 2pm
RBS Gogarburn
Conference Centre
Edinburgh, EH12 1HQ

Interim results

5 August 2011

Dividends

Payment dates

Cumulative preference shares 31 May and 30 December 2011

Non-cumulative preference shares 31 March, 30 June,
30 September and
30 December 2011

Ex-dividend date

Cumulative preference shares 4 May 2011

Record date

Cumulative preference shares 6 May 2011

For further information on the payment of dividends, see page 64.

Shareholder information **continued**

Shareholder enquiries

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

Investor Relations

Shareholders can access updated information on RBS via our website www.rbs.com/ir

Annual Sustainability Report

If you wish to obtain a copy please contact:

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

It is also available on our website at www.rbs.com/sustainability

Braille and audio Annual Review and Summary Financial Statement

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

ShareGift

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

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

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

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.

Warning to shareholders - boiler room scams

In recent years, many companies have become aware that their shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive, and a 2006 survey by the Financial Services Authority (FSA) has reported that the average amount lost by investors is around £20,000.

It is not just the novice investor that has been duped in this way; many of the victims had been successfully investing for several years. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. If you receive any unsolicited investment advice:

- make sure you get the correct name of the person and organisation;
- check that they are properly authorised by the FSA before getting involved by visiting www.fsa.gov.uk/pages/register;
- report the matter to the FSA either by calling +44 (0)845 606 1234 or visiting www.fsa.gov.uk/pages/consumerinformation; and
- if the calls persist, hang up.

If you deal with an unauthorised firm, you will not be eligible to receive payment under the Financial Services Compensation Scheme. The FSA can be contacted by completing an online form at www.fsa.gov.uk/pages/doing/regulated/law/alerts/form.shtml

Details of any share dealing facilities that the company endorses will be included in company mailings.

More detailed information on this or similar activity can be found on the FSA website www.fsa.gov.uk/pages/consumerinformation

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 358516
Pittsburgh, PA 15252-8516
Telephone: +1 888 269 2377 (US callers)
Telephone: +1 201 680 6825 (International)
Email: shrrelations@bnymellon.com
Website: www.bnymellon.com/shareowner

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