Strategic Report 2017

Becoming simple, safe and customer focused

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

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

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Strategic Report

Supplementary information

Approval of Strategic Report

The Strategic Report for the year ended 31 December 2017 set out on pages 1 to 49 was approved by the Board of directors on 22 February 2018.

By order of the Board.

Aileen Taylor
Company Secretary
22 February 2018

Chairman
Howard Davies

Executive directors
Ross McEwan
Ewen Stevenson

Non-executive directors
Frank Dangeard
Alison Davis
Morten Friis
Robert Gillespie
Penny Hughes
Yasmin Jetha
Brendan Nelson
Baroness Noakes
Mike Rogers
Mark Seligman
Dr Lena Wilson

2017 performance highlights

RBS reported an operating profit before tax of £2,239 million for 2017 and an attributable profit of £752 million, its first 'bottom-line' profit in ten years.

RBS delivered against its targets to increase income, reduce costs and use less capital across its businesses. In addition, RBS made substantive progress on resolving its remaining legacy issues. Net loans and advances growth of 2.2% across PBB, CPB and RBSI was lower than target, however, the bank made greater progress than anticipated on RWA reductions.

Common Equity Tier 1 (CET1) ratio of 15.9% increased by 2.5 percentage points during 2017 and remains ahead of our 13% target.

We retain our target of achieving a sub 50% cost:income ratio and above 12% return on equity by 2020.

Strength and sustainability

£2,239 million
Operating profit before tax

£752 million
Profit attributable to ordinary shareholders

2.13%
Net interest margin

15.9%, up 2.5% points
Common Equity Tier 1 ratio (1)

2.2%
Return on tangible equity

94%
Reduction in Crit 1 IT incidents since 2014(2)

Simplifying the Bank

£810 million
Reduction in adjusted operating expenses (3)

58.2%, down from 66.0%
Cost:income ratio - adjusted (4)

£200.9 billion, down 12%
Risk-weighted assets

Supporting sustainable growth

2.2%
Net growth in PBB, CPB and RBSI customer loans

£33.9 billion
Gross new mortgage lending in UK PBB, Ulster Bank RoI, Private Banking and RBSI

3,830
People supported through our enterprise programmes (5)

Customer experience

5.5 million
Active mobile app users

No.1 Commercial Bank NPS
Our Commercial Bank ahead of its main competitors for customer advocacy

Employee engagement

83%, up 7 points
Employee engagement score

44%
Female representation in our top c.5000 roles

Notes:
(1) Based on end-point Capital Requirements Regulation (CRR) Tier 1 capital and leverage exposure under the CRR Delegated Act.
(2) Criticality 1 incidents are defined as having an adverse impact on segment's customers, employees or third parties.
(3) Operating expenses excluding litigation and conduct costs £1,285 million (2016 - £5,868 million), restructuring costs £1,565 million (2016 - £2,106 million), and VAT recoveries of £86 million (2016 - £227 million).
(4) Operating expenses excluding litigation and conduct costs £1,285 million (2016 - £5,868 million), restructuring costs £1,565 million (2016 - £2,106 million). Operating lease depreciation included in income of £142 million (December 2016 - £141 million). Income excluding own credit adjustments £69 million loss (2016 – £180 million gain), loss on redemption of own debt £7 million (2016 – £126 million), and strategic disposals £347 million (2016 - £164 million).
(5) Includes people supported through the following enterprise programmes during 2017: The Prince's Trust, Skills & Opportunities Fund and Entrepreneurial Spark.

Chairman's statement

Howard Davies
Chairman

2017 was another year in which we saw the bank move closer to achieving sustainable profitability.

Our share price increased 20% in the year, outperforming other main UK banks. We also welcomed the UK Treasury announcement in November 2017 to potentially restart the privatisation process by the end of March 2019. This announcement showed confidence in our strategic approach, the progress that we have made in making the bank safer and in a position to succeed as we approach a new era of disruption in banking.

The bank made an operating profit before tax of £2,239 million, and an attributable profit of £752 million, the first full year profit since 2007.

Progress in resolving legacy issues
We resolved a number of major legacy issues during the year. The Competition Directorate of the European Commission announced that it had agreed a revised scheme to satisfy the remaining State Aid obligations which were imposed on the bank in 2009. The new scheme replaces the need to divest the business formerly described as Williams & Glyn, and involves the creation of a capability fund to benefit challenger banks, alongside incentivised transfers of some of our small business customers. The scheme is not only practical, it will enhance competition.

Another potentially damaging reputational risk was the 2008 Rights Issue litigation. That has now been resolved. The settlement announced in June 2017 brought the proceedings to an end.

In 2017 we continued with the run down of our non-core bank, with legacy risk weighted assets, excluding Alawwal, reducing by £12.6 billion in the year. Given its reduced scale, in December we announced the wind-up of this division, with the remainder of the assets now folded back mainly into NatWest Markets.

We also settled an action with the Federal Housing Finance Agency related to this bank's participation in the US subprime mortgage market in the run up to the financial crisis.

There is, however, one major piece of litigation we need to resolve in relation to our past subprime mortgage activity, with the Department of Justice in the United States. At this point we cannot say when that issue will be closed, as the timing is not in our gift, but we continue to hope to resolve it in the coming months.

The treatment of some of our small business customers between 2008 and 2013 has been under scrutiny, and has received significant political and media attention. The Financial Conduct Authority (FCA) published a summary report into the historical operation of our former Global Restructuring Group (GRG) and the full report by Promontory was published by the Treasury Select Committee on 20 February 2017. The most serious allegations made against the bank in an earlier report by Dr. Lawrence Tomlinson were not upheld. Promontory stated that "they did not find that defaults were engineered to transfer business simply to generate revenue for RBS". However, the bank was strongly criticised in the report and we acknowledge that we could have done better for many small business customers in GRG. I again apologise for the mistakes that were made during that time. The attitudes to customers displayed by some staff were not acceptable, and communication with clients was often poor. We have, as a result, refunded complex fees to many customers and established a complaints scheme which is overseen by an independent third party - retired High Court judge Sir William Blackburne, who is working through our cases. The FCA have described this as an appropriate response to these findings. We have provided a sum of £400 million for these redress schemes.

Economy and Regulation

In 2017 the UK economy continued to grow, albeit below its long-term trend rate. Inflation is currently running at around 3%, above the Bank of England's 2% target. In its latest outlook the Bank of England has indicated that rates may have to rise somewhat sooner, and to a somewhat greater extent that they had previously anticipated. The Monetary Policy Committee believes that inflation will still be above target three years from now when they expect price pressures to be mounting, necessitating a monetary tightening.

Surveys of business confidence increasingly point to longer term uncertainty over how businesses will structure their operations, once the UK leaves the EU. The depreciation of sterling pushed up inflation but provided a boost to UK exporters, giving them the opportunity to reduce prices in overseas markets or to boost margins. With the International Monetary Fund (IMF) and Organisation for Economic Co-operation and Development (OECD) pointing to improving global growth prospects in 2018, the UK economy could gain from this favourable tailwind, albeit the scale of these gains is uncertain. In recent weeks, sterling has appreciated against the dollar, but remains weak against the euro.

In terms of regulation it was good to receive clarity on one of the most significant reforms following the financial crisis. The Basel Committee scrutinised the way in which banks assess risk on their balance sheet, with the aim of bringing more consistency and tighter controls. The impact on RBS of the package announced in December 2017 is likely to be small and we are well positioned for when the new rules come into force in 2022.

We are also on track to meet our ring-fencing obligations by 2019. The majority of the bank will be within the ring-fence, so I will chair the Boards of the Group and the ring-fenced bank. We are well advanced in the process of securing the legal permissions we need to transfer some of our customers to the most appropriate post ring-fenced legal entity. This will allow us to continue to serve them with little or no change to their day-to-day banking. The services they use (their local branch, sort code, account numbers and where relevant Relationship Manager) will not change as a result of the Ring-Fencing Transfer Scheme and they will not need to do anything differently.

Brexit

While there is some more clarity on the regulatory environment, the political context remains uncertain, especially in relation to Brexit. Since our business is largely UK-focused, the impact on RBS is not as significant as it is on many other banks. However, in common with them, we are preparing contingency plans to maintain our Western European business. One option is to use our existing banking licence in the Netherlands to provide continuity of service from NatWest Markets to our EU customers.

Changing customer behaviour and disruption

Our operating environment is also changing. The UK financial services sector is experiencing its most significant period of disruption for some time. More accessible data, cheaper technology, new competition regulation and shifting customer expectations are the key drivers of change and are creating new challenges and opportunities for incumbent banks. These drivers are enabling new challenger banks to compete more effectively, from a lower cost base, and we have to respond. There will be more external partnerships with others than we have seen before as we offer new products and services. In 2017 we created a Technology and Innovation Committee of the Board to oversee and monitor RBS's strategic direction in what has become one of the most important areas of focus for the bank. The Committee is chaired by Alison Davis. Frank Dangeard and a new Board member, Yasmin Jetha, have also been appointed as members.

We also announced a significant reduction in our branch network. The decision to close a branch is always a difficult one to make, and is never taken lightly. However, customer behaviour is changing, with more customers choosing mobile and online over traditional branch counters, and we must respond to these changes. This shift in behaviour, combined with our partnership with the Post Office, mobile branches and Community Bankers, means there are now more ways to bank than ever before.

Our branches will remain key outlets for customers and we are investing in those that remain, to reflect the way customers want to use them, typically for financial advice related to buying a home or starting a business rather than for routine transactional banking.

Colleague engagement, diversity and inclusion

We are making good progress in improving the culture of the organisation. Our annual colleague sentiment survey scores are the highest they have been in ten years and there is generally a more positive outlook from colleagues across the bank.

In 2017 we were recognised as the 'Diverse Company of the Year' at the National Diversity Awards; a Top 10 Employer for Working Families; a Times Top 50 Employer for Women and retained a gold rating for our work on Race in Business in the Community's Race for Opportunity benchmark. We also have a Black, Asian and Minority Ethnic (BAME) focus on recruitment, talent identification and promotion, and have introduced explicit targets for BAME representation at senior levels in 2018.

Today, for the first time, we have also published details of the average pay gap between male and female colleagues in the bank, which is 37.2%. Gender pay is markedly different to equal pay which looks at the difference in pay between men and women for similar roles. We are confident that we pay our employees fairly and keep our HR policies and processes under regular review to ensure we do so.

Our gender pay gap reflects an under representation of women at senior levels. That is not a satisfactory position and we know that we still have much to do to narrow the gap. We are therefore putting more impetus behind our work to achieve a better gender balance.

We are strongly committed to having more female colleagues in senior positions across the organisation. In 2015 we set ourselves a target to have at least 30% of roles in the three most senior levels of each of our businesses filled by women by 2020. Our latest figures show we are now at 37% on aggregate, and on track to achieve 40% by 2020. Furthermore, 44% of our top 5000 roles are occupied by women and we are aspiring to achieve full gender balance at all levels of our business by 2030.

Building a sustainable bank

We are committed to running the bank as a more sustainable business, serving today's customers in a way that also safeguards future generations.

In 2017, RBS publicly committed to support the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) – a voluntary set of guidelines encouraging consistent climate-related disclosures in annual reporting. We also improved our position in a number of rankings – for example achieving 13th in top 100 organisations in the Stonewall Workplace Equality Index and maintained inclusion in the FTSE4GOOD index and high scores in the CDP climate index.

Our volunteering and fundraising partnerships also continue to make a difference for the communities we serve. In 2017, our employees supported a wide variety of charities by raising £4.3m in giving through their giving and fundraising efforts. We also won the Platinum award for Payroll Giving and the Payroll Giving Award for the Most Successful Sustained Scheme; 3,454 charities received funding.

Shareholder engagement

This year, we have increased the overall level of our non-financial disclosures in our Strategic report by featuring our performance highlights against each of our key influences we have described. We have introduced a new section, entitled Our Stakeholders, which describes our stakeholder groups and our approach to managing key topics of interest such as climate change.

As well as encouraging a more open culture internally, the Board has also made a considered effort to listen to the views of all shareholders. In 2017 we hosted two retail shareholder events in London and Edinburgh. Those events provided shareholders with the opportunity to share their views on our progress and our future initiatives directly with members of the Board and executive committee. Individual shareholders' views on our plans to build a better bank are important to us.

The Board has, during 2017, as in previous years, run a series of stakeholder engagement sessions with representatives from a wide variety of different organisations to discuss key topics such as financial capability and technological disruption with members of our Board and senior executives. This is helping us to make better informed decisions and ensure our future strategy addresses emerging sustainability risks and opportunities. We will continue to run these events in future years. Board members have also visited business customers, and will undertake more such visits around the country this year.

Board Changes

In 2017 Mark Seligman and Yasmin Jetha joined the Board and have already brought a wealth of experience and fresh perspectives to our discussions. Mark became the Senior Independent Director at the end of the year. Sadly, John Hughes, who joined in June 2017, had to step down in September 2017 for health reasons. Dr Lena Wilson was appointed as a non-executive director on 1 January 2018. Lena brings strong commercial and public sector experience to the Board, having previously served as Chief Executive of Scottish Enterprise and Senior Investment Advisor to The World Bank. With effect from 1 January 2018, Sandy Crombie stepped down from the Board and Penny Hughes has told us that she does not plan to stand for re-election at the 2018 Annual General Meeting. I would like to thank both Sandy and Penny for their outstanding commitment and huge contributions to RBS over a number of years. Sandy was, as Senior Independent Director, a great support to my predecessor and to me. Penny has led the Remuneration and, later, the Sustainable Banking Committee with great enthusiasm. We wish them both well for the future.

Conclusion

Overall, the Board believes that in 2017 we have made further progress in resolving the legacy issues which have hung over the bank for too long. We still have important issues to resolve and tough decisions to make, particularly on cost control, but in 2017 we made several important steps in the right direction. Thank you for your patience as we continue the bank's turnaround.

Chief Executive's review

Ross McEwan
Chief Executive

Putting the past behind us. Investing for the future.

In 2017 we continued to make good progress in building a simpler, safer and more customer focused bank. I am pleased to report to shareholders that the bank made an operating profit before tax of £2,239 million in 2017, and for the first time in ten years we have delivered a bottom line profit of £752 million.

We have achieved profitability through delivering on the strategic plan that was set out in 2014. The first part of this plan was focused on building financial strength by reducing risk and building a more sustainable cost base. So far, we have reduced our risk-weighted assets by £228 billion and today can report a Common Equity Tier 1 ratio of 15.9% up from 8.6% in 2013. Our financial strength is now much clearer. Over the same period we have reduced operating costs by £3.9 billion. We still have more to do on cost reduction, however this reflects the progress we have made in making the bank more efficient.

A clear indication of the outstanding progress we have made is that from the first quarter of 2018, we will no longer report adjusted financials.

At the same time as building financial strength, we have also made progress with the legacy of our past and improving our core bank. We have delivered on this by resolving a number of our litigation and conduct issues. This includes reaching settlements last year with FHFA in respect of our historical Retail Mortgage Backed Securities (RMBS) activities and with claimants in relation to our 2008 Rights Issue. In 2017 we also continued to run down our legacy assets. The wind-up of our non-core division, Capital Resolution in 2017, was an important moment.

As part of the support we received in 2008 and 2009, the bank was mandated to meet certain requirements under a State Aid restructuring plan. In 2017, we received approval for an alternative remedies package, which replaced our original plan to divest of the business formally known as Williams & Glyn. This is a good solution, both for improving competition in the UK SME banking market, and for shareholders.

With this solution in place and currently being implemented, the number of legacy issues the bank faces has reduced. However, we have one major legacy issue that we have yet to resolve which is with the US Department of Justice. The timing of the resolution of this issue is not in our control.

The bank has received significant media attention for its treatment of some small business customers between 2008 and 2013. To those customers who did not receive the experience they should have done while in GRG we have apologised. We accept that we got a lot wrong in how we treated customers in GRG during the crisis. However, these were complex and subjective cases with each case having unique facts about what was the right thing to do. The bank welcomes the FCA's confirmation that the most serious allegations made against the bank have not been upheld and that the steps the bank announced in November 2016 to put things right for customers are appropriate.

We have made significant progress in improving our culture since then.

Today this bank is a simpler and safer organisation, with colleagues now fully focused on our customers.

I want to thank our colleagues for their commitment and resolve during what has been a difficult chapter in the bank's history. Our most recent colleague survey, Our View, reported the highest engagement levels in ten years. We also recently won the 'Employee Engagement Company of the Year' at the UK Employee Engagement Awards. This shows that our culture is improving. This bank is now more open, less hierarchical and more focused on our customers. Our colleagues serve and support millions of customers across the UK and Republic of Ireland every day, it is vital to our success that they feel engaged and motivated.

Investing to transform our business

When I started as CEO in 2014 the bank was far too complex. We operated in 38 countries, with over 5,000 systems supporting hundreds of different products. In our credit card business alone we offered 55 different card designs, as the organisation had grown we had added complexity which distracted us from our key stakeholder, the customer. Our customers want a bank which protects their safety and security, and is also responsive to their needs.

Today we have exited 26 countries and now have a more focused product set, underpinned by almost half the number of systems we previously had. Simplification will continue to be a key focus for the organisation in 2018.

We are going through all of our end-to-end customer processes to ensure they are fit for purpose.

Our mortgage application journey is experienced by thousands of customers every day. With one of our strategic aims being to grow in this market, the benefits of simplification and automation in this area are vast. Given this, in 2017 NatWest was the first UK bank to offer paperless mortgages. Customers can now apply for a completely digital mortgage which uses the latest technology to securely share and verify documents online. With this new proposition, mortgage offers can now be made within 11 days, down from 23 days before. The process also eliminates close to 4.3 million sheets of paper a year, reducing our impact on the environment.

The opportunities created by greater simplification and automation, in terms of improved controls, cost reduction and a better customer experience, are significant for this bank.

As well as transforming our processes and products, in 2017 we continued to reap the benefits of refocusing our main customer-facing brands. With each now speaking to a unique constituency of customers, we are better placed to differentiate ourselves from our competitors. With NatWest for England and Wales, Royal Bank of Scotland, for Scotland and Ulster Bank for the island of Ireland – we truly are a bank of brands in the UK and the Republic of Ireland.

Customer driven change

Listening and responding to our customers is helping us to get closer to meeting our goal to be No.1. In light of this we have continued with the roll out of Closed Loop Feedback in 2017. Today, within 24 hours of an interaction taking place, customers can provide specific, actionable feedback directly to the teams that serve them, empowering colleagues to listen, learn from and act on what our customers are telling us. With our complaints volumes down 9% on the previous year, and our Net Promoter scores improving in half of our chosen customer segments, we continue to see the benefits of customer driven change in this bank. We still have a lot of work to do to meet our 2020 ambition of being the number one bank for customer service, trust and advocacy.

Listening to our customers is not only reducing complaints, it's also driving product and service improvements. In our commercial bank for instance, in response to customers' demand for greater speed and efficiency, we have developed self service account opening. Through this channel more than 90% of our new to bank commercial customers are able to initiate account openings themselves and, crucially, are doing it 30 minutes faster than if they used telephony. Customers told us this was a pain point for them and we have responded.

Listening to our customers and investing to simplifying our processes is helping us build a bank which is lower cost, and competitive in our target markets – improving outcomes for both customers and shareholders.

We are committed to running the bank as a more sustainable business, serving today's customers in a way that also helps future generations. As technological, social and environmental changes shape the world, it's important to stay connected with evolving customer needs, our shareholders and the wider expectations of society. One of the ways in which we are doing this is through our Board-level stakeholder engagement programme where we proactively listen, learn and engage with our stakeholders to improve the way we do business.

Supporting the UK economy

While transforming the bank, we have continued to support the UK economy. In 2017 we extended £33.9 billion in new mortgage lending, helping grow our mortgage market share for the fifth consecutive year. We continue to target growth in our mortgage market share in 2018.

We are also the biggest supporter of UK business. Our commercial bank grew lending in our target markets, this commitment supported both recognised household names and fledgling start-ups. Our commitment to business goes beyond simple financing, our Entrepreneurial Spark programme continued to grow in 2017 and has supported over 3,800 new businesses since 2012 with award-winning facilities and an outstanding support network. Our work is also being recognised externally. In 2017 NatWest was awarded Best Business Bank in the UK by the National Association of Commercial and Finance Brokers.

Throughout 2017 NatWest Markets has continued to deepen its customer relationships by providing global market access and innovative and tailored solutions. As well as increasing employee engagement and improving the control environment, the business has made material progress to realise cost and operating efficiencies.

Responding to technological change

The financial services industry is going through one of the most significant periods of change we have seen in many years, and we are responding.

Like other industries, the digital revolution has naturally led to lower footfall in our branches. Branch transactions are down 40% on 2013, as increasingly our customers prefer the convenience and ease of digital banking. Given this we have made some difficult, but necessary, decisions around the scale of our branch network in 2017. This does not mean we are not supporting our customers. In fact we are providing customers more ways to bank than ever before, be that through a visit to their local Post Office, a visit from one of our 39 mobile branches, which visit over 600 towns and villages on a weekly basis, meeting one of our 100 community bankers, a digital appointment with one of our video bankers, logging on to internet banking platform, or banking on the go with our market leading mobile app. Our customers have never had as many channels through which to undertake their banking.

For the first time we now have more active mobile users than users online, a clear indication of the direction of travel of our customers' banking preferences.

Our ambition is for the standard of service we provide to always be outstanding, no matter how our customers choose to interact with us. In 2018 our branches will increasingly focus providing specialised expertise and advice as well as on helping customers tap into the wealth of ease and efficiency they can experience through using our digital channels.

In our commercial bank, we are supporting customers shift to mobile through building our online service Bankline service into an app. Currently, 90,000 commercial customers are active on Bankline. In the future we expect this to move increasingly to mobile. In 2018, we will also launch Bankline mobile for our larger commercial customers. This new service will act as a companion to our current Bankline on-line technology. Initially, customers will be able to view transactions and send payments with biometric approval. In the coming quarters we will further expand the scope of what Bankline Mobile offers.

Embracing the latest in digital innovation

We know that we cannot stand still on innovation as our competitors certainly are not. Over the last few years we have invested in building our partnerships and scouting networks across the globe to ensure we are at the cutting edge of technology. We have developed some excellent partnerships and one area we have advanced significantly in is Artificial Intelligence (AI).

By harnessing the latest in computer learning and speech recognition, in partnership with IBM, we have built an AI chatbot, called Cora. Cora is helping our customers with many of their most common queries. Crucially Cora is available 24/7, has no 'wait-time' to serve a customer and can handle an unlimited number of queries at the same time. Since Q1 2017 Cora has handled over four hundred thousand conversations responding to over two hundred different questions.

In partnership with Soul Machines, we are investing now to build an evolution of Cora for 2018, giving her a visual avatar acting as the interface with our customers. Initial trials are proving a success with customers telling us that using Cora made them less concerned about converting to our other digital channels. While many customers felt empowered to be more direct in their questioning of Cora, as they felt much safer and more secure with her.

Through digital innovation we will serve customers more efficiently, be more responsive to their needs and at the same reduce costs in the business and build a more solid control environment.

Looking forward

In the past our legacy has dominated our corporate story. In 2017 our financial strength improved and we continued to put the past behind us. We are entering a new phase of transforming the core bank through technology innovation and end-to-end process re-engineering. Our future will be high tech and high touch, which means lower cost, high quality digital services with human expertise available when required.

Conclusion

I would like to thank shareholders for their continued support. We welcome the indication in the Chancellor's budget statement about the potential to restart share sales during the fiscal year 2018/2019, again this is a further proof of the progress we have made.

We recognise our responsibility towards the society we serve and operate in. It is only by supporting our customers and communities to succeed that we will be become a more sustainable bank. I, together with my management team, view this as a core part of our ambition to be No.1 for customer service, trust and advocacy.

As the number of our legacy issues reduces, and our business performance improves, the investment case for this bank is clearer, and the prospect of us rewarding our shareholders is getting closer.

> "In 2017 we continued to make good progress in building a simpler, safer and more customer focused bank."

2017 performance summary

RBS reported its first 'bottom-line' profit in ten years

- 2017 operating profit of £2,239 million, an increase of £6,321 million compared with 2016.
- Adjusted operating profit[1,2] increased by 31.1% to £4,818 million.
- 2017 attributable profit of £752 million.
- 4.0% increase in adjusted income[1] and an 8.1% reduction in adjusted operating expenses[2] driving a 12.1% improvement in operating leverage.
- Net interest margin (NIM) reduced by 5 basis points to 2.13% compared with 2016.
- Supported the UK economy through a £6.0 billion, or 2.2%[3], increase in net lending across PBB, CPB and RBSI. Whilst behind our 3% target, this represents strong growth in a competitive environment.

Delivery against our 2017 targets

Strategy goal	2017 target	2017
Strength and sustainability	Maintain bank CET1 ratio of 13%	CET1 ratio of 15.9%; up 250 basis points from 2016
Customer experience	Significantly increase NPS or maintain No.1 in chosen customer segments	We have achieved target in half our key customer segments and Commercial Banking remains ahead of its main competitors. Trust has improved for both NatWest and Royal Bank of Scotland
Simplifying the bank	Reduce adjusted operating expenses by at least £750 million	Adjusted operating expenses down £810 million, or 9.6%, excluding VAT recoveries[2]
Supporting growth	Net 3% growth on total PBB, CPB and RBSI loans to customers	Net customer loans in PBB, CPB, and RBSI up 2.2%[3] for the year
Employee engagement	Improve employee engagement	Employee engagement improved by 7 points to 83, 1 point above the GFS norm

Notes:
(1) Income excluding own credit adjustments £69 million loss (2016 - £180 million gain), loss on redemption of own debt £7 million (2016 - £126 million) and strategic disposals £347 million (2016 - £164 million).
(2) Operating expenses excluding litigation and conduct costs £1,285 million (2016 - £5,868 million), restructuring costs £1,565 million (2016 - £2,106 million) and VAT recoveries of £86 million (2016 - £227 million).
(3) Excluding transfers. See notes on page 15 for further details.

Continued track record of delivery against our stated objectives

- **Grow income:** Adjusted income increased by £490 million, or 4.0%.
- **Cut costs:** Excluding VAT recoveries, adjusted operating expenses reduced by £810 million[2], or 9.6%.
- **Reduce capital usage:** Excluding volume growth, RWAs reduced by £20.8 billion across PBB (£0.6 billion), CPB (£12.9 billion), RBSI (£4.4 billion) and NatWest Markets core (£2.9 billion), already achieving our 2018 target.
- **Resolve legacy issues:** During 2017, RBS:
  - Wound up the former Capital Resolution business. Legacy RWAs now represent around 11% of total;
  - Received formal approval from the European Commission for its alternative remedies package in respect of the business previously described as Williams & Glyn; and
  - Reached settlement with the Federal Housing Finance Agency (FHFA) and the California State Attorney General in the US and resolved the 2008 rights issue shareholder litigation.

Significant capital build throughout 2017

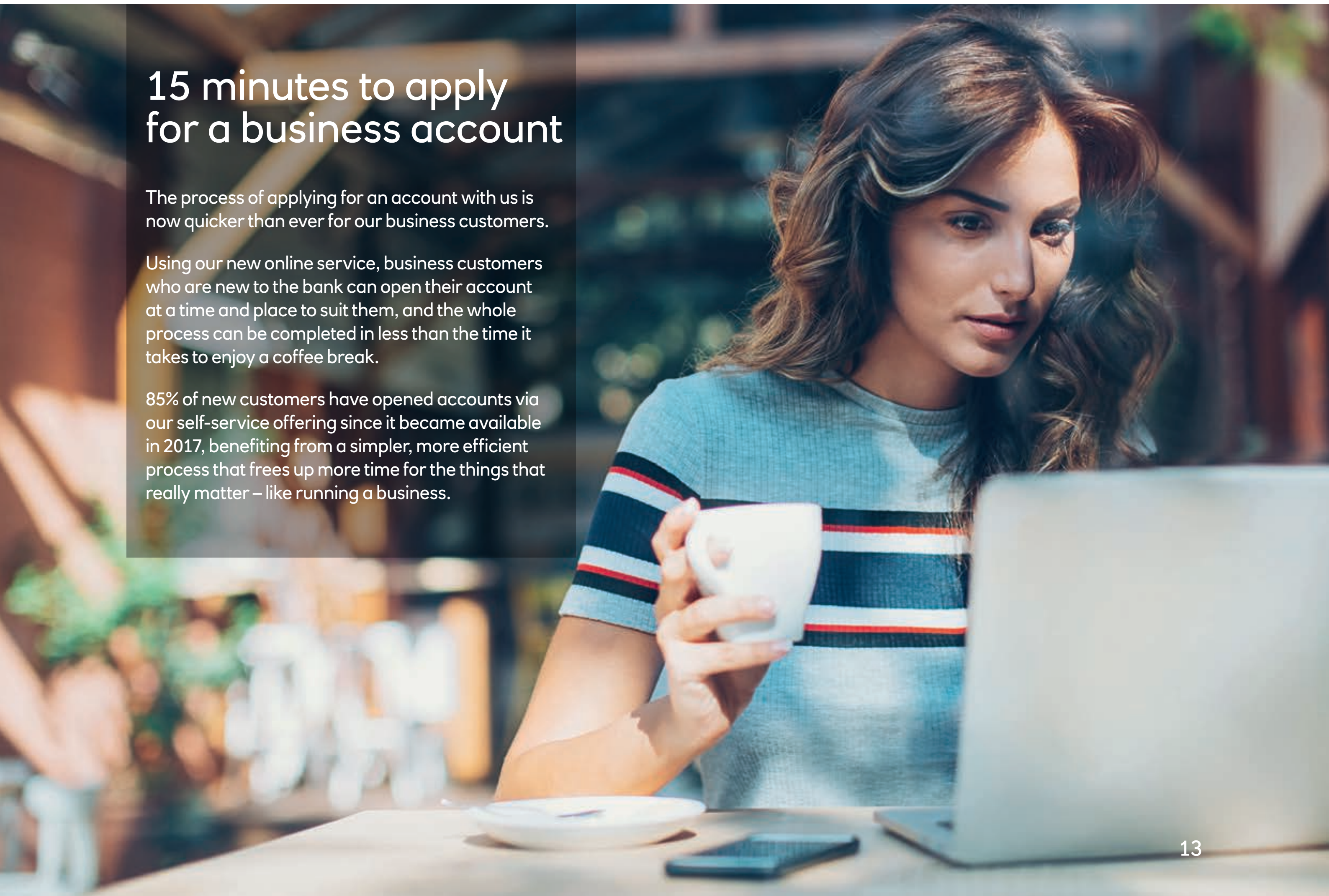
- CET1 ratio increased by 250 basis points to 15.9%, despite absorbing significant additional legacy costs.
- IFRS 9 adoption on 1 January 2018 increased CET1 by a further 30 basis points.

Prioritising transformation acceleration

- Increased investment and innovation spend focused on achieving higher levels of digitisation and automation.
- Faster repositioning of the bank's existing distribution network and technology platforms towards mobile, cloud based platforms and virtualisation.

Building a more sustainable bank

- Our Board Sustainable Banking Committee hosted four stakeholder engagement sessions, inviting a broad mix of stakeholders to share their perspective on key issues with us.
- RBS is a founding partner with the National Trading Standards Scam Team on their 'Friends Against Scams' initiative.
- RBS was recognised by InfraDeals as the leading lender to the UK renewables sector by number of transactions over the past six years (2012- 2017).
- We helped over one million customers with a free Financial Health Checks to help customers organise their finances and achieve their financial goals.
- We supported over 3,830 people through our enterprise programmes. This includes the following enterprise programmes: Entrepreneurial Spark, Prince's Trust and Skills & Opportunities Fund.

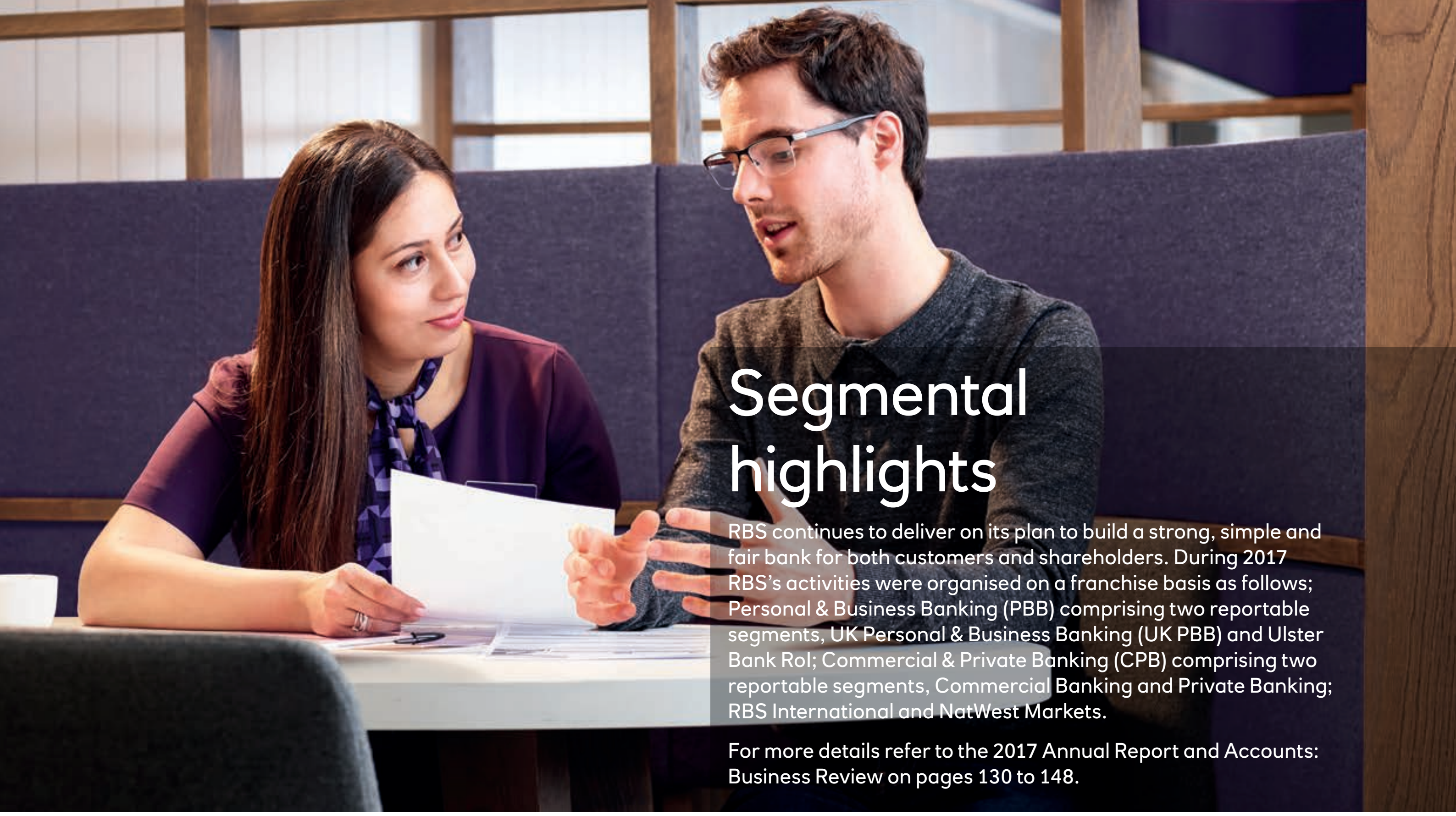


15 minutes to apply for a business account

The process of applying for an account with us is now quicker than ever for our business customers.

Using our new online service, business customers who are new to the bank can open their account at a time and place to suit them, and the whole process can be completed in less than the time it takes to enjoy a coffee break.

85% of new customers have opened accounts via our self-service offering since it became available in 2017, benefiting from a simpler, more efficient process that frees up more time for the things that really matter – like running a business.



Segmental highlights

RBS continues to deliver on its plan to build a strong, simple and fair bank for both customers and shareholders. During 2017 RBS's activities were organised on a franchise basis as follows; Personal & Business Banking (PBB) comprising two reportable segments, UK Personal & Business Banking (UK PBB) and Ulster Bank RoI; Commercial & Private Banking (CPB) comprising two reportable segments, Commercial Banking and Private Banking; RBS International and NatWest Markets.

For more details refer to the 2017 Annual Report and Accounts: Business Review on pages 130 to 148.

UK Personal & Business Banking

- UK PBB now includes the business previously described as Williams & Glyn. Adjusted operating profit of £3,084 million was 18.4% higher than in 2016, including a £185 million debt sale gain. Income increased by 5.7% to £6,477 million supported by a 5.9% increase in net loans and advances, which more than offset margin contraction. Adjusted operating expenses were 7.1% lower than 2016 reflecting reduced headcount and lower back-office operations costs. Adjusted return on equity increased to 30.7% in 2017 from 25.1% in 2016. There are a range of variables that could impact near to medium term returns, including RWA inflation as a result of a change in Bank of England mortgage risk weighting.
- Gross new mortgage lending was £31.0 billion, with market share of new mortgages at approximately 12%, supporting growth in stock share to approximately 10%. Mortgage approval share in Q4 2017 decreased to approximately 12%, from around 14% in Q3 2017, and mortgage new business margins were 14 basis points lower in the quarter, in part reflecting intense price competition in the market.
- UK PBB continues to invest in its digital offering and now has 5.5 million customers regularly using its mobile app, 20% higher than December 2016, and in 2017 was the first bank to launch a paperless mortgage journey.

Ulster Bank RoI

- Ulster Bank RoI reported an adjusted operating profit of €109 million and an adjusted return on equity of 3.6% in 2017. Adjusted income decreased by €8 million, or 1.1%, primarily reflecting a reduction in income on free funds, partially offset by one-off items, higher lending income and reduced funding costs.
- Gross new lending increased by 3.4% from €2.5 billion in 2016 to €2.6 billion. Further cost efficiencies have been achieved, with adjusted expenses reducing by €43 million in 2017.
- Ulster Bank RoI was amongst the first banks in Ireland to introduce Apple Pay and Android Pay, and now over 70% of our customers are actively using our digital proposition, increased from 58% of our active customer base in 2016. We continue to reposition capital, with REILs down by 9.8% to €3.7 billion, representing 15.9% of gross customer loans, compared with 17.5% in 2016.

Commercial Banking

- Commercial Banking includes selected assets from the former Capital Resolution business from 1 October 2017. Adjusted operating profit of £1,308 million was 2.7% higher than 2016 and adjusted return on equity remained broadly stable at 8.2%. Income increased by 2.0% due to increased volumes in targeted segments and deposit re-pricing benefits.
- Adjusted operating expenses reduced by 6.3% reflecting operating model simplification and productivity improvements, including a 16.4% reduction in front office headcount. Commercial Banking net impairment losses of £362 million increased by £156 million and reflecting a small number of single name impairments.
- Adjusting for transfers (1), net lending decreased by £4.9 billion in 2017, as growth in targeted segments has been more than offset by active management of the lending book, achieving gross RWA reductions of £12.5 billion.
- With the successful launch of our entrepreneur accelerator hub in London we now have 12 business accelerators throughout the UK. Across these hubs, over 3,800 start ups have benefitted from our support, which has helped them raise £255 million of investment while creating over 8,000 jobs.

Private Banking

- Private Banking now includes the Collective Investment Funds business transferred from UK PBB on 1 October 2017. Adjusted operating profit increased by £78 million, or 52.3%, to £227 million and adjusted return on equity increased to 11.3% from 7.8%. Adjusting for transfers, income increased by £12 million due to higher lending volumes and an £8 million gain on a property sale, partially offset by margin pressure. A 12.9% reduction in adjusted operating expenses was supported by an 11.8% reduction in front office headcount.
- Net loans and advances increased by 10.7% to £13.5 billion and assets under management increased by 14.4%, adjusting for transfers (2).
- We continue to focus on delivering the best customer experience, including investing in digital by launching Coutts Invest and an enhanced mobile experience, and we were awarded Best Private Bank in the UK at the Global Private Banking Awards 2017.

RBS International (RBSI)

- RBSI reported an adjusted operating profit of £184 million, 5.6% lower than 2016. Income increased by 4.0% driven by increased lending and deposit volumes and re-pricing actions on the deposit book. Adjusted operating expenses increased by 19.5% reflecting increased operational costs associated with becoming a non ring-fenced bank. Despite this, adjusted return on equity remained robust at 12.6%.
- RWAs of £5.1 billion reduced by £4.4 billion compared with 2016 reflecting the benefit of receiving regulatory approval for RBSI to adopt an advanced internal ratings based approach on the wholesale corporate book.

NatWest Markets

- Following the closure of the former Capital Resolution business in Q4 2017, NatWest Markets now includes legacy run-off assets alongside its core businesses. An operating loss of £977 million was reported in 2017, including a profit of £41 million in the core business. Adjusted operating loss of £264 million, compared with £1,231 million in 2016. Adjusted income in the core business increased by 9.5% to £1,665 million, largely driven by Rates as the business navigated markets well.
- Legacy disposal losses, other adjustments and impairments of £513 million were incurred in 2017, compared with £825 million in 2016. Adjusted operating expenses reduced by 26.7% reflecting a significant reduction in the legacy business, as it moved towards closure, and cost reductions in the core business.
- RWAs decreased by £15.3 billion, adjusting for transfers, to £52.9 billion primarily reflecting legacy business reductions. At the end of 2017 the legacy business within NatWest Markets had RWAs of £14.0 billion, excluding RBS's stake in Alawwal Bank, a reduction of £10.9 billion, adjusting for transfers (3), over the course of the year.

Notes:

(1) Shipping and other activities which were formerly in Capital Resolution were transferred from NatWest Markets on 1 October 2017, including net loans and advances to customers of £2.6 billion and RWAs of £2.1 billion. Commercial Banking transferred whole business securitisations and relevant financial institution's (RFI) to NatWest Markets during December 2017, including net loans and advances to customers of £0.8 billion and RWAs of £0.6 billion. Comparatives were not re-presented for these transfers.

(2) UK PBB Collective Investment Funds (CIFL) business was transferred from UK PBB on 1 October 2017, including total income in Q4 2017 of £11 million and assets under management of £3.3 billion. Private Banking transferred Coutts Crown Dependency (CCD) to NatWest Markets during Q4 2017, including total income of £2 million and assets under management of £1.3 billion. Comparatives were not re-presented for these transfers.

(3) Shipping and other activities which were formerly in Capital Resolution were transferred to Commercial Banking on 1 October 2017, including RWAs of £2.1 billion. Whole business securitisations and relevant financial institutions (RFI) were transferred from Commercial Banking during December 2017, including RWAs of £0.6 billion. Comparatives were not re-presented for these transfers.

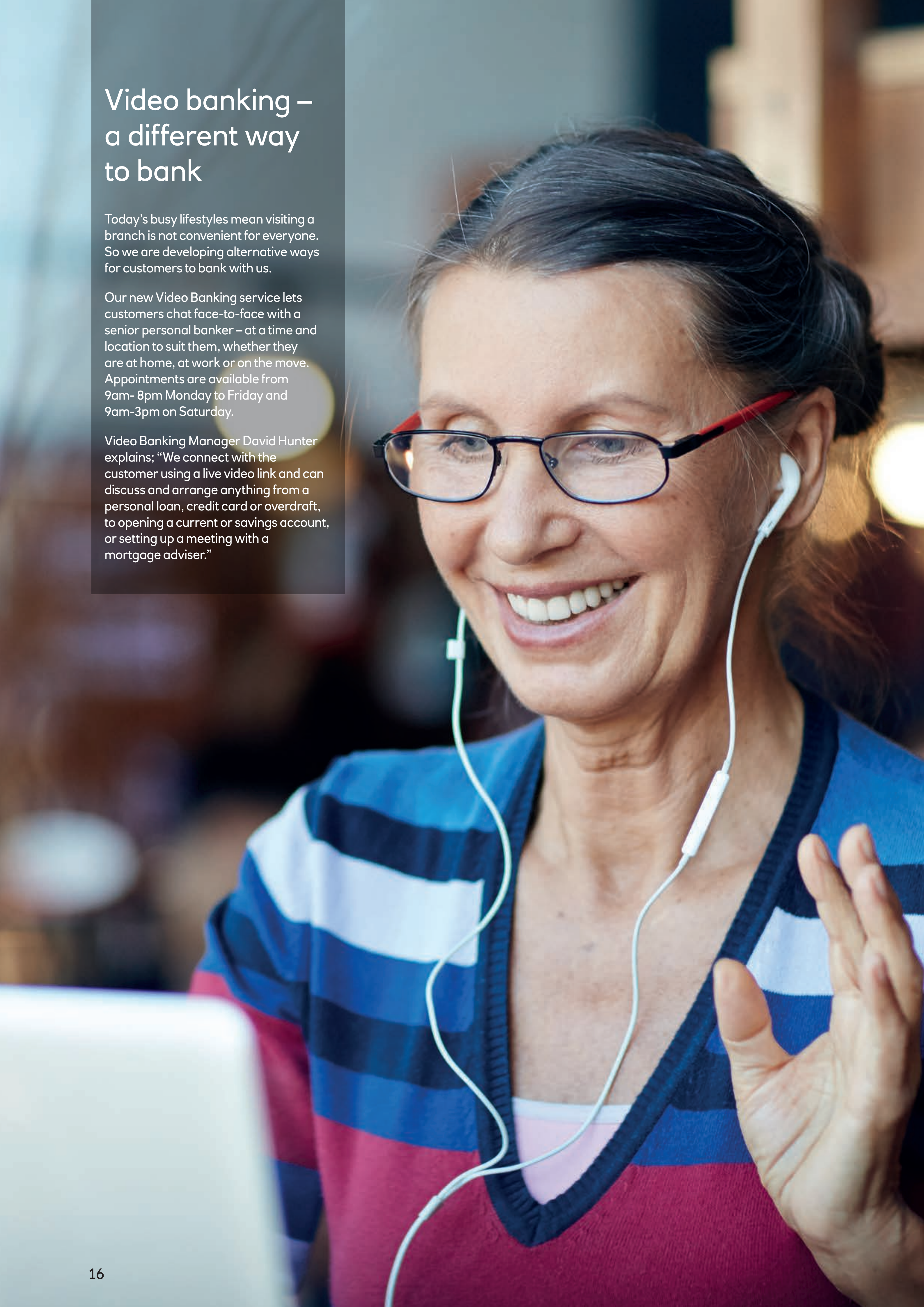
(4) Transfers include £0.4 billion loans and advances transferred from Commercial Banking to UK PBB during 2017 to better align Business banking customers. Comparatives were not re-presented for these transfers.

Video banking – a different way to bank

Today's busy lifestyles mean visiting a branch is not convenient for everyone. So we are developing alternative ways for customers to bank with us.

Our new Video Banking service lets customers chat face-to-face with a senior personal banker – at a time and location to suit them, whether they are at home, at work or on the move. Appointments are available from 9am- 8pm Monday to Friday and 9am-3pm on Saturday.

Video Banking Manager David Hunter explains; "We connect with the customer using a live video link and can discuss and arrange anything from a personal loan, credit card or overdraft, to opening a current or savings account, or setting up a meeting with a mortgage adviser."



Looking forward

2018 Outlook(1)

We reiterate our medium term outlook on both return on tangible equity and cost:income ratio. We also now intend to accelerate the transformation of the bank which necessitates increased investment and innovation spend together with additional restructuring costs. As a result operating costs, excluding restructuring and litigation and conduct costs, will reduce compared with 2017, but the rate of cost reduction will be materially lower than in 2017. We expect to incur restructuring charges of around £2.5 billion across 2018 to 2019 cumulatively, of which c.£0.3 billion relates to the completion of the State Aid remedy and reintegration of the former Williams & Glyn (W&G) business into UK PBB. This is compared to previous guidance of around £1 billion excluding the impact of W&G, with around two thirds of the remaining c.£1.2 billion increase being driven by costs associated with the accelerated transformation.

RBS continues to deal with a range of significant risks and uncertainties in the external economic, political and regulatory environment and manage both conduct-related investigations and litigation, including relating to RMBS. Substantial additional charges and costs may be recognised in the coming quarters.

With the introduction of IFRS 9, impairments are expected to be more volatile and we continue to remain mindful of potential downside risks, particularly from single name and sector driven events. The consensus view of Brexit suggests a weaker UK economy in the short to medium term. With the current high level of UK household debt and real wage compression, any increases in unemployment and interest rates present a threat to retail impairment rates. In wholesale portfolios further softening of GDP growth would be expected to impact credit losses negatively. We retain our guidance that through the cycle losses would be in the range of 30-40bps.

By the end of 2018, we expect Bank RWAs to be lower by £5-10 billion. This is despite model uplifts in Commercial Banking in 2018 which are expected to drive some RWA inflation. The majority of the gross RWA reductions will be within NatWest Markets legacy assets, including the benefit of the anticipated merger between Alawwal Bank and Saudi British Bank, and Commercial Banking.

RBS Group capital and funding issuance plans for 2018 focus on issuing £4-6 billion MREL-compliant securities. We do not currently anticipate the need for either AT1 or Tier 2 issuances. As in 2017, we will continue to target other funding markets to diversify our funding structure. In support of the ring-fencing requirements and to build up RBS Plc (to be renamed NatWest Markets Plc) as a standalone non ring-fenced bank, we anticipate issuing £2-4 billion of senior unsecured issuance from this entity in addition to continued reliance on short term funding.

In the near to medium term, we would expect the bank to maintain a CET1 ratio in excess of our 13% target given a range of variables that are likely to impact us over the coming years. These include:

- potential final costs of a resolution with the US Department of Justice;
- future potential pension contributions and the interplay with capital buffers for the bank for investment risk being run in the pension plan;
- RWA inflation as a result of IFRS 16, Bank of England mortgage floors and Basel 3 amendments;
- expected increased and pro-cyclical impairment volatility as a result of IFRS 9; and
- the collective impact of these items on our stress test results

We remain committed to restarting capital distributions when permitted, with resolution with the US Department of Justice being a key milestone to enable this.

Medium term outlook

We retain our target of achieving a sub 50% cost:income ratio and above 12% return on equity by 2020.

While we expect operating costs to reduce each year from 2018 to 2020, given the increased level of investment and innovation spend expected over the coming years we are no longer guiding to an absolute 2020 cost base.

The NatWest Markets segment balance sheet as at end 2017 is broadly similar to the expected target balance sheet of the NatWest Markets Plc after the ring-fence transfer schemes to be carried out during 2018. In preparation for the UK ring-fencing regime, the previously reported operating segments were realigned in Q4 2017 and a number of business transfers completed. These changes included the NatWest Markets segment absorbing the former Capital Resolution segment (other than for certain shipping and portfolio assets). Notwithstanding a planned capital reduction exercise in July 2018, by 2020 this entity is targeting a capital base with a consolidated end state CET1 of 14%, a leverage ratio greater than 4% and a total capital ratio of at least twice the CET1 ratio, including the benefit of downstreamed internal MREL.

By 2020, NatWest Markets targets a RWA position of c.£35 billion including legacy assets, with the legacy assets generating minimal associated income, and an overall cost base of around £1 billion.

Trading update

Overall, RBS has had a positive start to 2018.

Note:
(1) The targets, expectations and trends discussed in this section represent management's current expectations and are subject to change, including as a result of the factors described in this document and in the Risk Factors on pages 372 to 402 of the 2017 Annual Report and Accounts. These statements constitute forward looking statements, refer to Forward Looking Statements on page 69.

Cora

How bots are changing banking

Artificial Intelligence (AI) is fundamentally changing how customers interact with services across a number of industries from healthcare to journalism and even manufacturing.

Banking is no different, and that is why, in partnership with IBM, we have introduced Cora – our helpful, digital assistant – for Royal Bank of Scotland, NatWest and Ulster Bank customers. Cora answers questions from customers 24/7, freeing up colleagues' time, so they can help customers with more complex queries. Customers can find Cora across our digital channels whenever they need help. Whether that is when they are using online banking, or browsing our websites, she is there to solve the tricky questions.

Jane Howard, MD Personal Banking says: "The great thing about Artificial Intelligence is that it's a machine that learns the more you interact with it. This has the opportunity to be game-changer for banking as we strive to offer a better service for our customers."

Our business model and strategy

Our Strategy

Our ambition is to become number one for customer service, trust and advocacy as we meet the aspirations and needs of our retail, business, commercial, corporate and institutional customers. Our core businesses are centred around the UK and Republic of Ireland markets with a focused international capability.

We are building a better bank for our customers, and one that will deliver sustainable returns for shareholders. Our purpose is to serve customers well, and to do so, we are becoming a safe, simple, customer-focused UK and Ireland bank.

Our plan

Underpinning that ambition is our blueprint for success. This is our plan which drives our strategic decision making.

RBS is continuing to build a bank that is easy to do business with, and meets customers' continually evolving needs.

Our plan focuses on delivering excellent customer service through all of our brands.

Creating lasting relationships with our customers, who advocate for our bank, is the key to generating sustainable value.

Our blueprint for lasting success

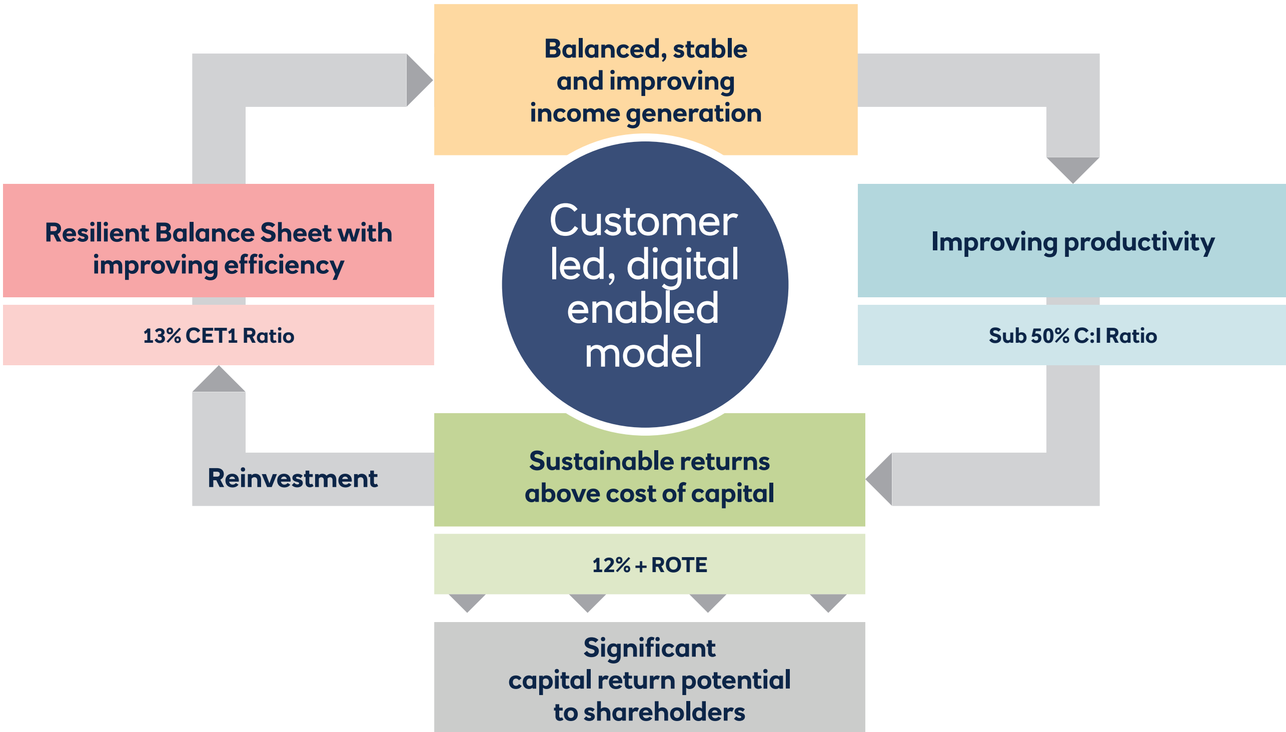
Our Ambition	**No.1** for customer service, trust and advocacy				
Our Purpose	Serve customers well				
Our Values	Serving customers	Working together	Doing the right thing	Thinking long term	
Our Brands	NatWest	Royal Bank of Scotland	NatWest Markets	RBS International	Coutts	Ulster Bank
Our Priorities	Strength and sustainability	Customer experience	Simplifying the bank	Supporting sustainable growth	Employee engagement
Our 2020 Goals	CET1 ratio 13% RoTE ≥12%	No.1 for service, trust and advocacy	Cost:income ratio <50%	Leading market positions in every franchise	Employee engagement in upper quartile of Global Financial Services (GFS) norm

Our 2020 vision

The bank of 2020 will be high tech and high touch, which means lower cost, high quality digital services with human expertise available when required. This will be underpinned by a clear commitment to our customers, shareholders and other stakeholders.

2020

- A leading UK retail and commercial bank with a focused financial markets division
- Strong brands and market positions
- Growing in attractive chosen markets
- Track record of cost and risk reduction
- Improving returns and capital generation
- Significant distribution potential



Our priorities

Strength and sustainability

We remain focused on building a strong and stable bank. We have continued to improve the fundamentals, by increasing our capital strength, building a robust liquidity position and balancing our loan to deposit ratio. As one of the UK's largest banks we understand the importance of supporting the UK's economic and social development. Through our balance sheet lending and range of sustainable banking initiatives, we are working to improve outcomes for all stakeholders.

Customer experience

We are investing in our people, service, and product proposition to ensure we provide market leading technology and signature customer experiences, through a wide variety of channels.

Simplifying the bank

Streamlining of processes and removing unnecessary complexity lowers our operating costs, and makes our customer interactions more straightforward.

Supporting sustainable growth

A strong sustainable business grows with its customers. We continue to support our customers through offering products and services which meet their needs.

Employee engagement

Engaged colleagues lead to engaged customers. At RBS we are committed to investing in our colleagues and creating leaders who inspire and empower their teams.

Our Structure

We have four customer franchises, and each is underpinned by a range of distinct brands, which are the route through which we engage with our customers.

Personal and Business Banking (PBB)

With a branch network and mobile, telephone and online banking propositions PBB provides services in the UK and the Republic of Ireland. Through a simple range of products PBB meets the needs of our retail banking, mass affluent and small business customers.

Commercial and Private Banking (CPB)

CPB serves our commercial and high net worth customers in the UK and Western Europe. Commercial Banking supports our corporate clients by providing comprehensive commercial banking and financing services with sector expertise. Our Private Banking business offers high net worth clients private banking, wealth planning and investment management services.

RBS International (RBSI)

RBSI supports personal, commercial, and financial institution customers through branches in Jersey, Guernsey, Isle of Man and Gibraltar. RBSI also supports financial institution customers through wholesale branches in Luxembourg and London, both opened in 2017.

NatWest Markets

NatWest Markets offers corporate and institutional customers global market access, providing them with financing and risk management solutions, built around rates, currencies and financing products.

Our Functions & Services

Finance	Human Resources	Risk	Communications & Marketing	Legal	Services

Corporate Governance & Regulatory Affairs	Internal Audit

Services provide business-aligned technology, operations and property services across the bank.

It is also accountable for technology risk, payments, data, change management and the bank's fraud and security functions.

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

Most functions are a mix of control, expertise and advisory. All common support activities across the organisation are included.

Pain-free small business accounting

Research in 2017 showed that only half of our one million small-business customers used accounting software, and that cash flow management was one of their biggest pain points.

We wanted to help make their lives easier, so we have partnered with FreeAgent, an Edinburgh-based Fintech that provides accounting software which lets small-business owners track their finances and report their taxes digitally.

Now all of our small-business customers can sign up to FreeAgent using their existing business banking login details. The process is safe, secure and completely paper-free, and the software helps to make financial reporting and cash flow management quick and easy.

Our Brands

Our brands are our main connection with customers. Each takes a clear and differentiated position that will help us strengthen our relationships with our customers, stand out in the market, and build the value of our brands.

NatWest

NatWest serves customers in England and Wales, supporting them with their banking needs, at all stages in their lives.

Royal Bank of Scotland

Royal Bank of Scotland is committed to serving Scottish communities and English commercial business.

Ulster Bank

Ulster Bank operates both in the Republic of Ireland and Northern Ireland.

Coutts

Exceptional service sits at the heart of Coutts, a business that has been built on understanding the needs of their private and commercial clients.

Lombard

Lombard is the UK's largest provider of asset finance, helping to take businesses to the next level with a forward-looking entrepreneurial approach.

Adam & Company

Adam & Company provides progressive private banking, tailoring its services and solutions to match each client and their unique needs.

Child & Co.

Child & Co is one of the oldest private banks in the UK, providing bespoke banking services from the legal heart of London.

Drummonds

Drummonds has served private banking customers for over 300 years, providing a discreet and professional service.

Holt's Military Banking

As the bank of the British Armed Forces, Holt's prides itself on understanding the complexities of serving in the military and providing a personalised service.

Isle of Man Bank

Isle of Man Bank is the 'community bank' and the island's oldest native bank, offering retail, private and business banking services to local customers.

RBS International

RBS International is one of the world's leading offshore banks, operating under three distinct brands – RBS International, NatWest and Isle of Man Bank.

NatWest Markets

NatWest Markets offers its customers global market access, providing them with trading, risk management and financing solutions through its trading and sales operations.

Building a more sustainable bank

Our long term success is dependent on our ability to generate value for society by providing products, services and facilities that are useful to people and the communities in which we operate. Our value creation model is a simplified way of showing how this works, including the way we use resources, skills and relationships to deliver value for all our stakeholders.

One of the ways by which we meet the expectations of our shareholders is by delivering the best possible service for customers to meet their needs. At the same time, we recognise our responsibility towards society as a whole. It is only by supporting our customers and communities to succeed that we will be become a more sustainable bank.

Our key resources and relationships

RBS provides financial services to individuals and businesses, primarily in the UK and Ireland. We rely on financial, human and intellectual, social and relationship, infrastructure and natural capital to do so. We leverage these forms of capital through our expertise, technology and customer focus across our different brands. This helps to improve the quality of customer service. We also seek to create sustainable value for our shareholders and other stakeholders, including customers, employees, and civil society.

Inputs

Financial

We make use of shareholder capital and other forms of financial capital, including £367.0 billion in customer deposits.

Social and Relationship

19 million customers in the UK and Republic of Ireland.

Infrastructure

We now have a trained TechXpert in every branch to help our customers get the most from our digital services. We also provide telephony and webchat and self service options like ATMs and Cash Deposit Machines. Our customers also have access to our fleet of mobile branches covering more than 600 communities every week, and 11,500 Post Office branches where they can carry out every day transactions face-to-face.

Natural

690 GWh of energy consumed and 8,700 tonnes of paper used in 2017. The bank has reduced total carbon emissions linked to energy and business travel by 39% since 2014. The electricity we buy in the UK is from renewable sources, further reducing our environmental impact.

Human and Intellectual

A capable, caring and motivated workforce of 71,924 (permanent headcount). We recruited 216 graduates and 255 apprentices.

Over 64,600 employees underwent training by the Chartered Banker Professional Standards Board (CB:PSB), with 94% of applicable employees achieving the CB:PSB Foundation Standard

Almost 3,000 leaders participated in ‘Determined to Lead’, our core management system for the bank to support our leaders putting our values into practice every day.

How we earn income

Our purpose is to serve our customers well

We earn income by providing lending and deposit services to our customers.

We incur operating expenses in providing these services, and accept risk; including credit risk, liquidity risk and currency risk.

The operating profit generated by the bank is either re-invested to improve products and services for our customers or returned to shareholders.

Building a safe and customer-focused bank is central to our ability to create value.

The main source of our income is the interest income earned from loans and advances to our personal, business and commercial customers. We also earn fees from transactions and other services provided to our customers.

We pay interest to customers and other investors who have placed deposits with us and bought our debt securities. The difference between these is our net interest income. We also pay benefits to our customers, through loyalty products such as our Reward Account.

How we create value for customers and society

Sustainable Energy

We have over twenty-five years experience in supporting the sector. We were recognised by InfraDeals as the leading lender to the UK renewables sector by number of transactions over the past six years (2012-2017).

Tax payments

Payment of £1.46 billion in tax to the UK Government, which supports central government and local authority spending.[1]

Empowering customers

Following a successful pilot we launched FreeAgent, free cloud-based accounting software which helps small and medium sized enterprises keep track of their finances and report taxes digitally.

We are making good progress in using artificial intelligence to help customers to get answers to simple questions without needing to go to a branch or use an automated telephone service.

We now have 5.5 million active users regularly enjoying the speed and convenience of our mobile banking app.

Customers can also now tell us about travel plans, make international payments, manage helpful alerts, message us at anytime and get personalised notifications through the app.

Protecting customers' money

Keeping money safe and accessible for our depositors, including preventing 485,000 cases of attempted fraud amounting to £244 million in the UK. There has been a sustained improvement in the number of customers impacted by fraud in 2017 with a 26% reduction from 2016.[2]
We completed over one million Financial Health Checks with our personal, private and business customers.

Helping customers

Offering lending advice and services to individuals. Supporting customers with financial life events, including £33.9 billion of gross new mortgage lending to help our customers buy homes.

Enterprise

We supported over 3,830 people through our enterprise programmes.[3]

We are determined to make the bank a great place to work

We launched 'Building a great place to work' to outline our commitment to giving our employees a fulfilling job, fair pay, excellent training and good leadership.

Supporting business

Providing working capital and lending to help businesses meet their goals, including £28.8 billion in lending to small and medium-sized enterprises across England, Scotland and Wales.[4]

Supporting local communities

Our Skills & Opportunities Fund distributed £2.5 million to 110 organisations that support people from disadvantaged communities to access the skills and opportunities they need to build their financial capability skills or to start or develop a new business in 2017.[5]

MoneySense

MoneySense is the longest running bank-led financial education programme in the UK, which has helped over five million young people learn about money for over 23 years.

Our programme is designed to help teachers and parents equip young people with the financial skills they need to manage their money now and in adulthood.

Life saving skills

Over 40,000 colleagues completed CPR training. Three colleagues have since had to apply their training, which helped save three lives.

Notes:
(1) Comprises £443 million corporate tax, £504 million irrecoverable VAT, £237 million bank levies and £273 million employer payroll taxes.
(2) Data relates to reported attempted fraud cases and prevented third party losses in the UK (not including policy declines for debit cards).
(3) Includes people supported through the following enterprise programmes during 2017: The Prince's Trust, Skills & Opportunities Fund and Entrepreneurial Spark.
(4) SME lending balances in over 9,854 postcode sectors across England, Scotland and Wales.
(5) Data is compiled by Project North East (PNE) and is based on the total spend allocated by each Regional Board.

Our approach

Our Values

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

Doing the right thing

We do the right thing.

We take risk seriously and manage it prudently.

We prize fairness and diversity and exercise judgment with thought and integrity.

Working together

We care for each other and work best as one team.

We bring the best of ourselves to work and support one another to realise our potential.

Serving customers

We exist to serve customers.

We earn their trust by focusing on their needs and delivering excellent service.

Thinking long term

We know we succeed only when our customers and communities succeed.

We do business in an open, direct and sustainable way.

TechXperts

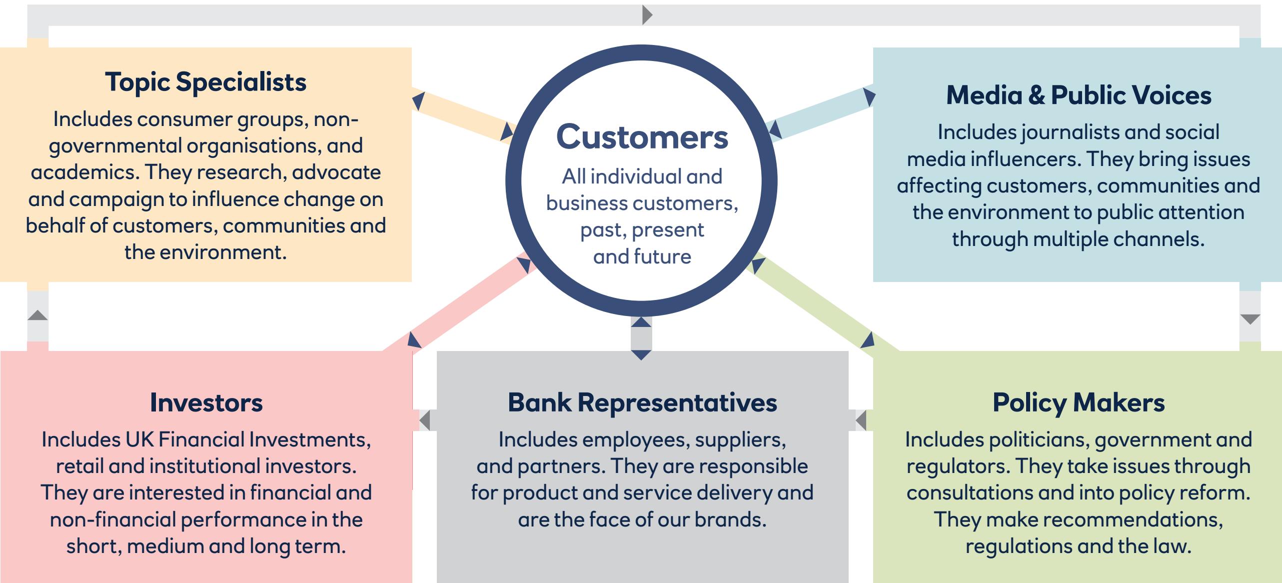
As our customers' lives change, so to does the way they choose to interact with us. One in five customers already exclusively uses digital channels for their everyday banking, and this number is only expected to rise.

Based in our UK branches, our TechXperts are helping more customers to understand how mobile and online banking can help them make the most of technology to do their banking in a way that is convenient for them.

Zac Hamoudi is one of the Bank's 1,200 TechXperts. "We see customers not fully confident with how to get the most out of their online banking," he explains. "It's about supporting them. We might have customers who are finding it difficult to visit a branch. It can make their lives so much easier to do their banking online. Just working with people for 30-minute online lessons can have a positive impact."

Our Stakeholders

RBS exists to serve customers well and we put our customers at the heart of everything we do. This means having an understanding of our impact across all stakeholders of the bank. Understanding who our stakeholders are and their views helps inform our overall strategy. Below is an overview of some of our stakeholder groups.



We have provided three examples below of how we work with different stakeholder groups:

Shareholder engagement sessions

Individual shareholder views on our plans to build a better bank are important to us.

In 2017 we hosted events in Edinburgh and London for our retail shareholders. A diverse group, selected by postcode, were invited to learn more about our business and participate in an interactive Q&A session with a panel of senior management and Board members.

These events gave those in attendance the opportunity to hear from different parts of RBS, ask questions about progress so far and learn more about our plans for the future. We set up market stalls on topics of interest including customer experience, innovation and security. They could talk with employees from different parts of the bank on progress and our plans for the future.

Additionally, we held four external stakeholder engagement sessions with our Sustainable Banking Committee on Financial Capability, UK Housing, Climate Risks and Technology Innovation for Social Good.

Working together to tackle fraud and scams

To help our customers protect themselves against fraud and scams we have been working with various partners across the industry.

NatWest sponsored the production of a Code of Practice on protecting customers from financial harm. The specification, launched in November 2017, included input from Financial Fraud Action UK, the National Trading Standards Scams Team, the Office of the Public Guardian, the Metropolitan Police, and two other major UK banks.

NatWest continue to support ‘Friends Against Scams’ run by National Trading Standards and in 2017 trained over 20,000 colleagues. In 2018 we will be the official bank partner of the One Million Friends Against Scams initiative.

Closed Loop feedback

We are listening, learning and acting on our customers’ feedback. We have taken customer feedback on board and acted on it. Closed loop feedback is about continuously seeking customer feedback and closing the loop on the issues that our customers raise with us.

Examples include:
“It would be good if you could diarise payments”. Customers can now make diarised payments via their mobile app.

“Customers living abroad are unable to use the mobile app with an international number”. Customers can now use our mobile app in various countries including Australia, Gibraltar, Hong Kong, New Zealand, Singapore and South Africa.

“I want all audio statements to have a braille section that allows the customer to know who and what the audio tape is for and what month this relates to”. All our audio statements now have a date so that customers can easily differentiate between them.

In addition, as part of our net promoter system in 2017 we sent out 11.5 million survey invites, with 875,500 responses.

Changing face of banking

Since 2014, customers are choosing to do their banking in different ways that suit them and reflect what they do in everyday life. The number of customers using our branches across the UK has fallen by 40% and during the same period mobile banking transactions increased by 73%; in the first half of 2017, there were 1.1 billion mobile and online transactions carried out by our customers.

We are committed to ensuring that our customers have a wide range of ways in which they can bank with us. Every customer is individual and that is why customers can choose from a combination of digital, telephone and face-to-face banking options, each designed to suit their preferences and needs. Customers might carry out simple everyday transactions using our mobile app but still preferring to speak to someone over the phone or via webchat for other banking queries. For more complex needs, such as a Financial Health Check or mortgage advice, customers value having the option to discuss the matter face-to-face or by video.

We are working hard to develop new services to respond to the changing needs and expectations of our customers. All our personal customers can bank with us using our mobile app and online banking services and we have Bankline for business and commercial customers. We also provide a 24/7 webchat service for personal customers, telephony and secure text messaging for when customers want to contact us quickly, digitally and securely.

Closing branches is always a difficult decision and one we do not take lightly. When these decisions are made, we look at each branch and take into account a range of factors including, how customers are choosing to bank with us; how often customers are using the branch; the impact on customers who currently use the branch; other options available to customers including online, mobile, telephony, webchat, cash machines, video banking and local Post Offices and, the proximity of our other branches, including our network of mobile branches and local transport routes and timetables.

We know that for some customers, in particular vulnerable customers, closing branches can be unsettling. We are committed to ensuring that we support all customers with these changes. We aim to provide six months notice before we close a branch (the industry norm is 12 weeks) and we proactively contact our regular branch users and vulnerable customers to talk to them about our decision and the options available to them.

Our national contract with the Post Office means that customers can undertake everyday banking in any of the 11,500 Post Offices throughout the UK. In many areas, we operate mobile branches, which bring our banking services direct to local communities, many of which have not had a branch before.

We acknowledge that some of our customers are not comfortable with using online or mobile banking, and for those customers who would value some support we have created a specialist taskforce of TechXperts who are dedicated to supporting our customers with training and support with digital skills. Our TechXperts support customers with the varied ways to bank and for example accompany customers to the local Post Office to show them how their banking can be done.

We have introduced a number of roles to provide personal, face-to-face banking services in communities, assisting customers with access to our non-cash services, offering support with financial planning and education. Our Community Bankers base themselves in places like libraries, local businesses and community centres so as to best serve local communities. Business Growth Enablers focus on our small business customers. They are specially trained to help source advice that will help local businesses with banking support, as well as harnessing their own network to support business needs. Business Growth Enablers work with industry partners to run free events for customers on issues such as fraud, scams and digital tax returns.

Community Bankers - taking the branch to our customers

As more and more customers choose to use mobile banking instead of traditional branch counters, our branch network needs to change. Our Community Bankers are ensuring that we can still play an active role in communities, even when we no longer have a dedicated building.

Our team of Community Bankers take the branch to the places where it is convenient for our customers, including libraries, rugby clubs and church halls. They also deliver community events on fraud, scams and online security, to help people keep their money safe.

Aby Evans is a Community Banker on the Kent coast. "I run regular drop in clinics in the local libraries," she explains. "Although I'm not in a bank building, customers know where and when they can find me each week.

"I wear a purple branded fleece and I get stopped in the street because people spot me and want to ask a quick question. It's really nice to feel part of the community."

Climate change

We recognise climate change is a significant global issue and we fully support the objectives of the Paris Climate Agreement and the emissions reductions strategies set by the UK and devolved governments. We have publicly pledged our support for the Financial Stability Board's (FSB) Taskforce on Climate-related Financial Disclosures (TCFD) and we have included more detail on our approach to the TCFD recommendations in the Additional Information section of the 2017 Annual Report and Accounts. We also plan to announce further details of our long term approach to climate change.

We believe there is a need to support our customers to reduce their emissions, save energy and manage their costs. Over the last decade, we have become one of the leading lenders to the UK Sustainable Energy market, with expertise and services designed for customers from small businesses up to large corporations. RBS was recognised by InfraDeals as the leading lender to the UK renewables sector by number of transactions over the past six years (2012- 2017).

As we have refocused our business on the UK, Ireland and Western Europe, we've also substantially reduced our lending to carbon intensive parts of the global economy such as coal mining and oil extraction. Our total exposure to the oil and gas industry, for example, now accounts for just 0.5% of our lending exposures. In 2017 we did not directly finance any new coal mining or coal power projects. More details of our lending to the energy sector will be published on our Sustainable Banking webpages on rbs.com in April 2018.

Relative to our size, our operational footprint from serving our customers is quite small, but still significant. Our primary emissions impact comes from the energy used to heat, cool and power our buildings and data centres. We have set targets using a science-based method in order to align our efforts to reduce emissions with the climate science that sits behind the Paris Climate Agreement. Our target for 2020 is to reduce our direct carbon emissions by 45% from a 2014 baseline and at the end of 2017 we had already recorded a 39% reduction. The table below provides more detail.

We have also set 2020 targets to reduce water use by 10% and paper use by 60%, whilst continuing to target zero waste to landfill. We engage colleagues, suppliers and customers in these efforts and in 2017, 3,200 colleagues logged over 24,000 activities to reduce our environmental impact via our green reward app. More information on our targets and initiatives can be found on the Sustainable Banking webpages at rbs.com.

GHG Emissions	2014 (Baseline)	2016	2017	Change 2014 to 2017 (%)
Location-based CO_2e emissions (Scope 1, 2 and Business Travel) (tonnes)	512,583	388,648	311,583	-39%
Scope 1* CO_2e emissions (tonnes)	36,857	29,131	27,172	-26%
Scope 2** Market-based*** CO_2e emissions (tonnes)	391,105	159,629	76,197	-81%
Scope 2 Location-based CO_2e emissions (tonnes)	370,374	270,481	215,959	-42%
Scope 1 and 2 Location-based CO_2e emissions per FTE (tonnes)	4.16	3.32	3.18	-24%
Scope 3**** CO_2e emissions from business travel (tonnes)	105,352	89,036	68,452	-35%

We have reported on all emission sources under the Companies Act 2006 (Strategic Report and Directors' Reports) Regulations 2013. To our knowledge there are no material omissions. Independent Limited assurance has been provided by Ernst & Young LLP over total reported CO_2e emissions (tonnes) (Scope 1*,2** and 3*** location based emissions). Our reporting year runs from October 2016 to September 2017.

These emissions have been calculated using the methodology advised in the Greenhouse Gas Protocol revised edition (2004). The boundary of reporting is set as all entities and facilities either owned or under operational control. Emissions factors used are from UK Government's GHG Conversion factors (DEFRA), IEA, or relevant local authorities.

*Scope 1: Emissions from fluorinated gas loss and fuel combustion in RBS premises/vehicles. **Scope 2: Emissions from electricity, district heating and district cooling used in RBS premises. *** market-based emissions have been calculated using the GHG Protocol guidelines. ****Scope 3: Emissions associated with business travel (air, rail and road) by RBS employees.

NatWest Markets energises the SSE Green bond deal

NatWest Markets continues to build its presence in the sustainable finance market with an active role on the issuance of a landmark Green bond by SSE.

SSE, one of the UK's leading energy suppliers, issued its first Green bond raising EUR600 million, the largest ever Green bond by a UK company. It will use the proceeds to re-finance existing environmentally-friendly projects, in particular onshore windfarms.

SSE has invested around GBP 3.2 billion in renewable energy since 2010 and has the largest renewable energy capacity in the UK and Ireland.

Human rights and Modern Slavery Act

RBS takes a proactive approach to upholding our commitment to respect human rights and our approach is centred on identifying and mitigating potential human rights risks across our business and our wider sphere of influence. The Modern Slavery Act 2015 (MSA) forms part of our approach to human rights as this regulation brings together the serious criminal offences of slavery, servitude, forced or compulsory labour and human trafficking together under one piece of legislation. In 2017 we published our first annual statement on the MSA on rbs.com. This built upon our interim statement which was published in December 2016 and our existing policy framework.

Our approach is underpinned by Our Values and Our Standards. For employees this is via the RBS Code of Conduct 'Our Code'. Our Code includes a clear commitment to respect human rights, supported by the Yes Check, a tool to guide good decision making. Employees are consulted on key aspects of their working environment, and they can utilise a confidential helpline to discuss any matters of concern.

Our commitment to the international progress of human rights includes upholding the principles of the United Nations Global Compact since 2003.

We are committed to the implementation of the United Nations Guiding Principles on Business and Human Rights and participate with our peers in groups such as the Thun Group and United Nations Environment Programme Finance Initiative. We have been adopters of the Equator Principles since their inception in 2003 to manage social and environmental risks, including human rights, in project-related transactions.

We have sector-specific Environmental, Social and Ethical (ESE) risk policies (available at rbs.com/sustainable) which include human rights considerations for high-risk sectors. For customers outside these sectors, our general ESE risk concerns policy ensures due diligence is carried out on clients when human rights risks are identified. We expect our customers to share our commitment to respecting human rights within their operations.

Our Customers

We are aware that as a High Street bank we come into contact with millions of customers, some of whom may be victims of modern slavery. Our relationship with our customers is governed by a wide range of risk considerations, including our Anti-Money Laundering (AML) and Environmental, Social, and Ethical (ESE) risk assessments on current or new customers, to consider whether any of their activities carry human rights infringements.

Our People

All of our people are recruited legally and must meet the 1998 Immigration Act requirements.

RBS is a fully accredited Living Wage Employer. We gained accreditation in 2014. RBS' commitment as a Living Wage accredited employer applies to everyone working for the bank in the UK and has been extended to staff who are employed via suppliers (e.g. cleaning, security and catering staff). Employees are regularly consulted on their working conditions and a confidential helpline is available at all times.

Our Suppliers

We expect our suppliers to uphold the same values and commitments that we have made in relation to social and environmental impacts. Adherence to these policies is required as part of our supply chain tendering process and within our supplier contracts.

Our Sustainable Procurement Code sets out the international human rights commitments we expect of the companies that we work with, including labour standards and non-discrimination.

Our Colleagues

Engaging our colleagues is critical to delivering on our strategy and ambition as a bank. Being better for our colleagues means we are better for our customers, and this makes us a better bank.

Top 10 Employer for Working Families

'Diverse Company of the Year' – National Diversity Awards

'Employer of the Year' – Scottish Icon Awards

Platinum Ranking – Opportunity Now

Times Top 50 Employer for Women

Bloomberg Global Gender Equality Index

Rated a Top Global Stonewall Employer

Gold Rating – Race for Opportunity

Silver Rating – Business Disability Forum Standard

13 in Stonewall Workplace Equality Index

Creating a Healthy Culture

Building a healthy culture that embodies Our Values is one of our core priorities. Our Values guide the way we identify the right people to serve our customers well, and how we manage, engage and reward our colleagues. Our Values are at the heart of both Our Standards, the bank-wide behavioural framework and Our Code, the bank-wide Code of Conduct.

Our values are integral to the way we behave and do business and we continue to reinforce them in our systems, policies and processes, communications training and leadership role modelling.

We set ourselves clear cultural priorities each year and manage these through our Executive Committee.

We monitor our progress against our goals. We gather feedback from our colleagues through our listening strategy, and through metrics and key performance indicators to assess our progress and respond accordingly. We do this along with feedback from regulators and industry bodies.

Almost 60,000 colleagues completed our most recent colleague opinion survey. The results were the most positive we've seen in recent times and showed we're changing the culture of the bank for the better. Key measures of engagement, leadership and our culture have improved significantly, and we're now above the global financial services norm in the majority of our survey categories. The results are encouraging, and show that our hard work is paying off. However, we recognise that we have more to do to make this a stronger bank and a great place to work.

We encourage colleagues to tell us what they think via the annual colleague survey and our regular comments boards. When colleagues wish to report concerns relating to wrong doing or misconduct they can raise concerns via Speak Up, the bank's whistleblowing service. In 2017 289 cases were raised compared to 213 in 2016.

Performance and Reward

Our approach to performance management provides clarity for our colleagues about how their contribution links to our ambition and all our colleagues have goals set across a balanced scorecard of measures.

Further progress has been made in making sure employees are paid fairly for the work they do and are supported by simple and transparent pay structures. More employees have moved to a purely fixed pay construct during the year, allowing them to concentrate on providing excellent customer service. We will continue to make further changes in 2018 which will result in over half of our employees being on a purely fixed pay construct making their pay fairer and easier to understand.

We are confident that we pay our employees fairly. We keep our HR policies and processes under review to ensure we do so.

Our rates of pay continue to exceed the Living Wage and changes have been introduced to ensure people performing the same roles are paid more consistently.

More information on our remuneration policies can be found in the 2017 Annual Report and Accounts.

Learning

'Determined to lead' (Dtl), our core leadership programme is now embedded as business as usual. Dtl provides consistent tools to lead and engage our colleagues and is transforming the way we operate. In 2017 a further 3,000 leaders participated in the programme.

2017 saw over 16,000 colleagues undertake stage one of Service Excellence training, our customer service programme. This first module introduces our Core Service Behaviours and provides an awareness of the tools and techniques that will help us to deliver the best possible service, every time.

We continue to work closely with the Chartered Banker Institute and Chartered Banker Professional Standards Board (CB:PSB) to professionalise our colleagues. In 2017 we again achieved an Excel rating in the CB:PSB Foundation Standard review , and remain one of only two CB:PSB member firms to have secured 'Earned Autonomy'.

We also offer a wide range of additional learning opportunities.

Health and Wellbeing
Wellbeing is a strong pillar in making the bank a great place to work. In 2017 our wellbeing programme successfully delivered against three wellbeing pillars; Physical, Mental, Social and we have started to put in place support against our fourth area of Financial Wellbeing. For the third year running we participated in the Global Challenge (formerly GCC) and with 34,000 colleagues taking part we won the Global Challenge 1st Most Active Organisation Financial Industry. Building on this success, we embraced the rapid acceleration of digital wellbeing and are one of the few large organisations to pilot a digital wellbeing platform.

During 2017 we have continued to support Time to Change (removing the stigma of mental health) and actively encouraged open dialogue across the bank to support Mental Health in the Workplace. We were successful in running bankwide major online campaigns to support Mental Health Awareness Week and World Mental Health Day.

As we continue to support our colleagues through change we have fully utilised the services of our Employee Assistance Programme.

Inclusion
Building a more inclusive RBS is essential for our customers and colleagues.

Our inclusion policy applies to all our colleagues globally to make sure everyone feels included and valued, regardless of their background.

- As at 31 December 2017, our permanent headcount was 71,924. 49% were male and 51% female.
- We continue to work towards our target of having at least 30% senior women in our top three leadership layers across each Function and Franchise by 2020. As at the 31 December 2017 we have, on aggregate, 37% women in our top three leadership layers, and our pipeline (around 5000 of our most senior roles) has 44% women. We are on track to have a fully balanced workforce at all levels of the organisation by 2030.
- RBS plc's gender pay gap in Great Britain is 37.2% (median 36.5%). The figures also show a gender bonus gap of 64.4% (median 36.6%).
- A key driver behind the gap is the fact that we have more men in senior roles (which attract higher pay) than women. In order to close the gender pay gap, we must continue to improve our gender balance in our most senior roles, and here we are making good progress. We have a positive action approach in place, tailored by business, according to the specific challenges they face. As we continue to increase the proportion of women working in senior roles, we expect our gender pay gap will lessen.
- During 2017, we continued to roll out unconscious bias learning to all our colleagues to create a solid platform for the wider inclusion agenda. 70% of colleagues have now participated in unconscious bias training since it was introduced in 2015.
- We have plans in place for all segments of our pan-bank disability plan. It addresses areas for improvement including branch access, accessible services, improving colleague adjustment processes and inserting disability checkpoints into our key processes and practices.
- We continue to focus on building an ethnically diverse RBS. Our plan focuses on positive action and includes reciprocal mentoring, targeted development workshops and leadership programmes and ensuring we have a Black, Asian and Minority Ethnic (BAME) focus on recruitment, talent identification and promotion. We will introduce explicit targets for BAME representation at senior levels in 2018.
- Our LGBT agenda continues to deliver a better experience for our LGBT colleagues and customers. We have processes in place to support updating gender and title on customers' banking records and to support colleagues undergoing gender transition. And, we continue to support our c.20,000-strong colleague networks.

Grade	#Women	#Men	%Women
CEO – 1	5	9	36
CEO – 2	35	66	35
CEO – 3	232	397	37
CEO – 4	1,309	1,681	44
Target population (CEO – 3 and above)	272	472	37

	Male	Female
Executive Employees	90 (76%)	28 (24%)
Directors of Subsidiaries	184 (80%)	45 (20%)

There were 347 senior managers (in accordance with the definition contained within the relevant Companies Act legislation), which comprises our executive population and individuals who are directors of our subsidiaries. The RBS Board of directors has fourteen members, consisting of nine male and five female directors.

Helping young people keep their money safe

Were you thinking about identity theft, fraud or insurance as a youngster? Probably not, but thanks to MoneySense – our flagship financial education programme for 5 to 18 year olds – today's young people are becoming a lot more financially aware.

MoneySense has been helping young people towards a better financial future for more than 23 years and the varied content aims to help them to understand the changing nature of fraud and how they can protect themselves. A range of resources for each age group are available including quizzes, videos and worksheets.

These resources help teach pupils about money safety in the real world and how to avoid the dangers of fraud in a fun and interactive way.

MoneySense content also looks at a wide range of financial dilemmas including budgeting for a party, choosing a mobile phone contract and understanding when it is important to have insurance.

MoneySense has now reached more than five million young people and over 5,000 colleagues from across the bank have signed up as MoneySense volunteers to help deliver workshops in schools.

MoneySense resources are used in 66% of secondary schools across the UK and Ireland.

Our Customers

RBS remains committed to achieving its target of being the number one bank for customer service, trust and advocacy by 2020.

Customer
In 2017 we made it our goal to significantly increase NPS or maintain number one in our chosen customer segments. This strategy was implemented to support the overall aim of being the number one bank for customer service, trust and advocacy by 2020.

We use independent surveys to track the progress we are making to achieve our goals in each of our markets and to also measure our customers' experience.

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

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

Our Commercial Banking NPS has remained stable during 2017 and remains ahead of its main competitors. In England & Wales, NPS for NatWest Personal Banking has also remained stable and we have met our target for customer trust. In Scotland, while we have not met our target for customer trust for Royal Bank of Scotland, it has increased strongly year on year. We do recognise that significant work is required to improve our customer experience and we continue our work to resolve the ongoing reputational and legacy issues.

		Q4 2016	Q3 2017	Q4 2017
NPS: Personal Banking	NatWest (England & Wales) (1)	13	12	12
	Royal Bank of Scotland (Scotland) (1)	(4)	(13)	(6)
	Ulster Bank (Northern Ireland) (2)	(16)	(4)	(5)
	Ulster Bank (Republic of Ireland) (2)	(7)	(6)	(7)
NPS: Business Banking	NatWest (England & Wales) (3)	(2)	(10)	(7)
	Royal Bank of Scotland (Scotland) (3)	(5)	(14)	(15)
NPS: Commercial Banking (4)		20	21	21
Trust(5)	NatWest (England & Wales)	55%	59%	57%
	Royal Bank of Scotland (Scotland)	13%	22%	27%

Notes:

(1) Source: GfK FRS 6 month rolling data. Latest base sizes: NatWest (England & Wales) (3361) Royal Bank of Scotland (Scotland) (440). Based on the question: "How likely is it that you would recommend (brand) to a relative, friend or colleague in the next 12 months for current account banking?" Base: Claimed main banked current account customers.

(2) Source: Coyne Research 12 month rolling data. Latest base sizes: Ulster Bank NI (294) Ulster Bank RoI (275) Question: "Please indicate to what extent you would be likely to recommend (brand) to your friends or family using a scale of 0 to 10 where 0 is not at all likely and 10 is extremely likely".

(3) Source: Charterhouse Research Business Banking Survey, YE Q4 2017. Based on interviews with businesses with an annual turnover up to £2 million. Latest base sizes: NatWest England & Wales (1245), RBS Scotland (437). Question: "How likely would you be to recommend (bank)". Base: Claimed main bank. Data weighted by region and turnover to be representative of businesses in Great Britain.

(4) Source: Charterhouse Research Business Banking Survey, YE Q4 2017. Commercial £2m+ in GB (RBSG sample size, excluding don't knows: (904). Question: "How likely would you be to recommend (bank)". Base: Claimed main bank. Data weighted by region and turnover to be representative of businesses in Great Britain.

(5) Source: Populus. Latest quarter's data. Measured as a net of those that trust RBS/NatWest to do the right thing, less those that do not. Latest base sizes: NatWest, England & Wales (948), RBS Scotland (203).

Taking paper out of the mortgage process

Our new paperless mortgage process is saving our customers time and money. Documents which were previously received by post can now be uploaded in seconds via a safe, temporary portal. Signatures can also be provided digitally, so customers no longer have to sign paper documents and post them back to us.

As well as being much more convenient for customers, the new process is also more environmentally friendly (saving around 4.3 million sheets of paper a year) and much more efficient. By removing the need for paper documents, which need to be sent through the postal system, we are now able to complete the appointment to offer in less than half the time than before, from 23 working days to 11 on average.

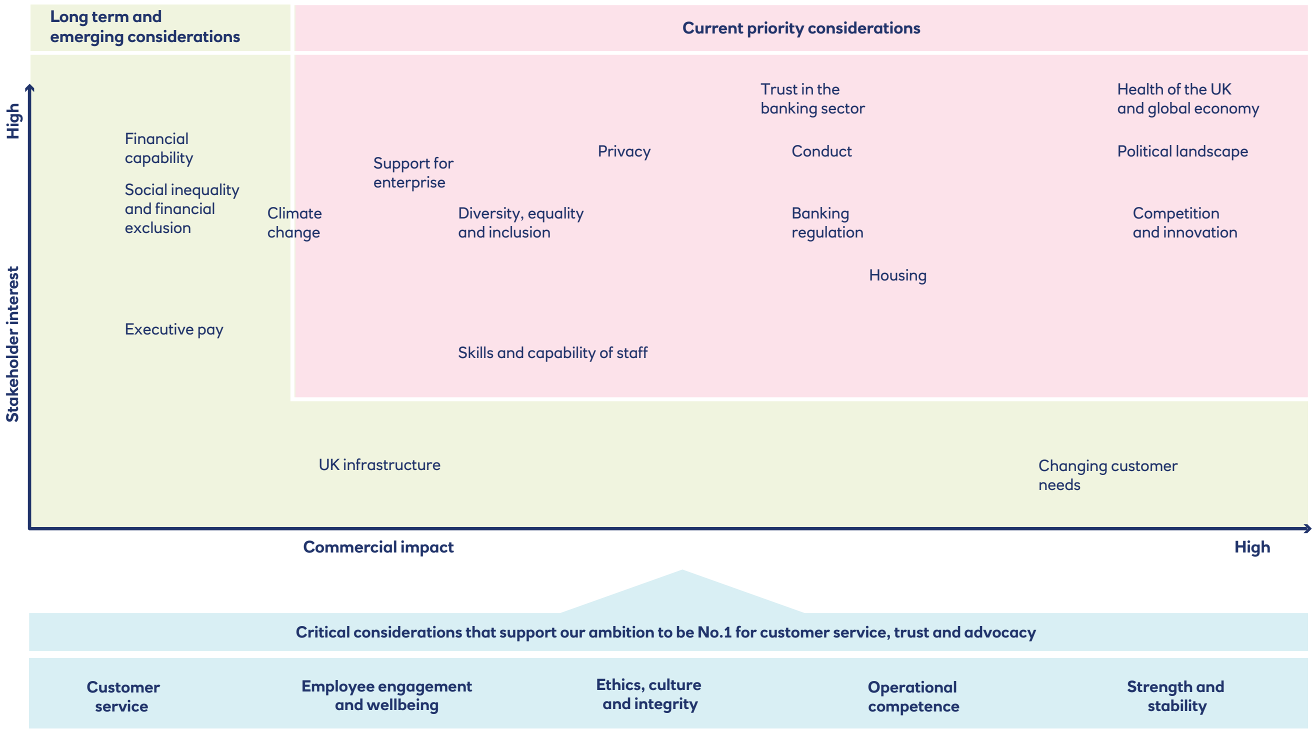
Our operating environment

Key influences in our operating environment

Our ability to serve customers and create value for the long term is heavily influenced by the environment in which we operate. Every year we assess the importance of these influences both in terms of their relevance to our stakeholders (including customers, investors, UK government, employees and civil society) and their potential commercial impact on us.

An assessment of the most important influences in our operating environment are detailed below. The influences have been identified through various means, including, internal and external stakeholder engagement and review of internal and external sources. These considerations have the potential to influence our ability to serve customers and create value for the long term. They carry both risks and opportunities, driven by a mixture of direct commercial impact and stakeholder interest as a result of wider societal trends.

In the following pages, each influence is briefly described together with selected highlights in 2017 and with guidance on where you can find more information on that key influence.



Influences explained and where to find out more.

Where to find out more

Chairman and CEO review | 2017 Performance Summary | Business model and strategy | Our Stakeholders | Our Colleagues | Our Customers | Key economic indicators | Risk overview | Sustainable Banking pages on rbs.com

Key Influences	Definition	Selected highlights in 2017	Where to find out more
Critical considerations that support our ambition to be No.1 for customer service, trust and advocacy			
Customer service	Delivering excellent customer service is essential for the banking sector to build trust. Maintaining and growing a loyal and satisfied customer base requires an appropriate digital and physical presence and clear distribution strategy.	• Approximately 5.5 million active users regularly benefit from the speed and convenience of our mobile banking app with +51 net promoter score. • Closed Loop Feedback provides us real-time feedback from our customers which we are listening to, learning from and acting on every day. • Rolled out a Service Excellence programme, to further improve our customer service.	
Employee wellbeing & engagement	Employee engagement and satisfaction is highly correlated with overall performance. A key determinant of the bank's success will be ensuring all of its employees are clear on their roles and responsibilities, capable and feel motivated to do the best job possible.	• Our View, the bank's annual employee feedback survey showed that engagement is up by seven percentage points to 83% compared with 2016, the highest level since 2002. • Launched 'Building a great place to work' to support our commitment to giving our employees a fulfilling career, fair pay, relevant training and good leadership. • Actively supported Mental Health Awareness Week, enabling employees to speak more openly about mental health and support each other.	
Ethics, culture and integrity	Professional integrity is a key governance consideration in the banking sector. Services provided must satisfy the highest professional standards, avoid conflicts of interest, bias, or negligence, and ensure that all stakeholders, including employees, contractors and business partners, are treated fairly and equally.	• Improved our position in the latest Banking Standards Board (BSB) survey, which seeks to promote high standards of behaviour and competence across the UK banking industry. RBS improved in all nine BSB survey categories compared with 2016 results and in quartile performance against its peer group. • Employed the greatest number of UK employees with professional banking qualifications. RBS employs more bankers with a professional banking qualification from the Chartered Banker Institute than any other UK financial institution. Members are required to comply with the annual CPD requirements of the professional body. The Chartered Banker Institute is the UK's only and world's oldest professional body for banking. • 'Speak Up', our whistleblowing service, received 289 reports compared to 213 reports in 2016. The service allows employees to raise concerns in a safe and supportive environment so that potential issues can be addressed quickly and effectively.	
Operational competence	Delivering appropriate digital infrastructure is important to ensure a 'technically-able' bank that supports its long-term future. Cyber security is also a vital part of providing a safe and secure banking service. Banks need to proactively identify and manage risks and efficiencies in their operations and facilities.	• RBS is a founding partner of 'Friends Against Scams', the National Trading Standards Scams Team's fraud and scams awareness initiative. More than 20,000 colleagues have completed the relevant training. • Improved the in-branch digital experience with TechXperts in every branch to advise and support customers on how to have a secure online banking experience. The in-branch wi-fi capability has also been improved. • There has been a sustained improvement in the number of customers impacted by fraud with a 26% reduction compared with 2016. • Resilient, simple and efficient systems are critical to building the number one bank for customer service, trust and advocacy. Our systems are available 99.9% of the time.	
Strength and stability	Banks need to demonstrate their ability to survive financial stress arising from economic turmoil, and potential large scale fines and legal cases resulting from historic events. They must also demonstrate they have sufficient capital, liquidity and resilience as well as the ability to generate sufficient returns.	• The CET1 ratio increased by 250 basis points to 15.9% in 2017 despite absorbing significant additional legacy costs. • RWAs reduced by £27 billion (12%), ending the year at £201 billion (from £228 billion in 2016). This reduction was driven by NatWest Markets, where RWAs fell by £16.8 billion due to the continued run-off of the legacy business and mitigation activities in the core business, together with active management of the lending book in Commercial Banking. • A key milestone in our ring-fencing journey was achieved through the application to the Court of Session in Edinburgh to initiate a 'Ring-Fencing Transfer Scheme' so as to carry out a legal transfer of some of our business.	

Key Influences	Definition	Selected highlights in 2017	Where to find out more
Current Priority Considerations			
Banking regulation	Banks continue to operate in an environment where regulatory change is frequent and increasingly complex requiring significant time and resources.	• RBS continues to deliver on its plan to build a strong, simple and fair bank for both customers and shareholders. To support this, and in preparation for the UK ring-fencing regime, the previously reported operating segments were realigned in Q4 2017 and a number of business transfers completed. For further details refer to the 2017 Annual Report and Accounts: Report of the directors. • NatWest Markets aligned the majority of Functions and Services employees in 2017 in preparation for operating as a non-ring-fenced bank. • RBS Group published a Tax Strategy. • Regulatory changes that RBS worked on in 2017 included MiFID II / MiFIR, Open Banking and reform of capital and liquidity regulations.	
Conduct	Banks remain focused on putting in place measures to prevent issues related to conduct. At the same time, legacy conduct issues, such as RMBS, continue to have major financial and reputational impacts.	• A settlement with the Federal Housing Finance Agency (FHFA) and the California State Attorney General in the US was reached. • The 2008 rights issue shareholder litigation was resolved.	
Competition and Innovation	The banking sector is going through a period of rapid change with regulatory and technological trends converging to increase competition. Together with accelerating innovation, the UK implementation of the Open Banking Standards raises the potential for significant disruption of the traditional banking business model.	• Partnered with FreeAgent, an Edinburgh-based Fintech that provides online accounting software, to help our small business customers track their finances and report their taxes digitally. • Introduced a chat bot called 'Cora' that answers questions from customers 24/7, freeing up colleagues time so that they can help customers with more complex queries. Cora currently handles over 100,000 customer conversations per month across our web and online channels. • Plans are in place for Open Banking, including customer education around security awareness.	
Diversity, equality & inclusion	The inclusion agenda is quickly moving up the corporate agenda and driving the need to foster corporate cultures that value diversity, teamwork, quality leadership and training.	• Made progress against our 2020 targets on our four priorities: Lesbian, Gay, Bisexual, Transgender (LGBT), Gender Balanced, Disability Smart, Ethnically Diverse. • Supported the International Day of Persons with Disability sharing stories across the bank and with customers. • Recorded an increase in the total number of female leaders within our top three senior layers, including the appointment of two new female non-executive board directors. • RBS was named a Times Top 50 employer for Women and rated as a Stonewall Top Global Employer.	
Health of the UK and global economy	The outlook for the UK and global economy remains uncertain due to a number of factors including: the UK's vote to leave in the EU referendum, wider political instability, an extended period of low interest rates, high debt levels and delays in normalising monetary policy.	• The UK economy grew by 1.8% in 2017, down slightly from 1.9% in 2016, below the long-run average of more than 2%. • The main development in 2017 was higher inflation. Along with weak wage growth it meant that households' incomes were squeezed. • The eurozone economy was 2.7% larger in the final quarter of 2017 than in the same period of 2016, up from 1.8% in 2016. Unemployment fell but remained high at 8.7%. • US growth accelerated to 2.3%. The job market remained buoyant with 1.8 million jobs added during the year and the unemployment rate falling to 4.1%.	
Political landscape	Political risks continue to evolve with the UK's vote to leave in the EU referendum creating significant economic, political and regulatory uncertainty. Heightened geopolitical tensions and rising populism in advanced economies have also contributed towards a rise in uncertainty.	• In 2017 NatWest Markets announced its plan to repurpose the existing licence in the Netherlands in the event of loss of EU passporting as a result of the UK's departure from the EU. • We engage the UK Government and opposition political parties to understand their priorities for the sector.	

Key Influences	Definition	Selected highlights in 2017	Where to find out more
Privacy	As a bank our customers not only trust us with their finances but also with their information. It is therefore important that we deal with their information the right way. By doing the right thing in meeting the privacy expectations of our employees, customers and shareholders we build confidence, which in turn builds trust and therefore has a tangible influence on delivering the bank's ambition to be No.1 for customer service, trust and advocacy.	• The bank takes privacy and the protection of customers and employee data very seriously, and has worked with other banks to make sure it is factored into the Open Baking architecture. • The new General Data Protection Regulation (GDPR) comes into effect on 25 May 2018 and brings a new era in safeguarding personal data by businesses. • The bank has been preparing for GDPR since April 2016. • The GDPR grants new and enhanced rights for individuals in relation to their personal information and, as 25 May approaches, the bank will communicate more fully with customers and clients about these changes and how they can exercise their rights.	
Skills and capability of staff	Financial services companies face competition for skilled employees, in particular with specific skillsets (e.g. IT). As the industry transforms to more digital banking, the need for such skills may become more acute.	• Delivered the Entrepreneurial Development Academy, a programme designed in partnership with E-Spark, specifically for RBS employees to develop an entrepreneurial mindset. Over 5,900 employees participated in the programme. • Over 64,600 employees underwent training by the Chartered Banker Professional Standards Board (CB:PSB) with 94% of applicable staff achieving the CB:PSB Foundation Standard. • Introduced a new tool to help our people learn and develop for example career development days and mobile learning. • RBS was recognised as a Top 5 Apprentice UK Employer.	
Support for enterprise	A healthy economy needs a pipeline of new and growing businesses to spur innovation and growth. Entrepreneurs, start-ups and small businesses require particular support in terms of financing and building market share.	• Rolled out ESME, a digital platform which offers SMEs the ability to digitally obtain loans quickly, potentially within an hour, on a 24/7 basis. • Launched Pitch App to help entrepreneurs communicate with impact. • Entrepreneurial Spark opened an accelerator hub in London, our 12 accelerators are now in every region of the UK.	
Trust in the banking sector	Trust in traditional large UK banks often lags behind smaller competitors and new market entrants. Rebuilding trust remains a key challenge.	• Customer trust in NatWest in England & Wales has met its 2017 target of 57%, improving from 55% at Q4 2016 to 57% at Q4 2017. • Trust in RBS in Scotland has increased strongly year on year (from 13% in Q4 2016 to 27% in Q4 2017) but remains behind its target of 38% for 2017. • Our Board Sustainable Banking Committee hosted stakeholder engagement sessions and two retail shareholder events.	
Housing	Demand for housing in some parts of the UK and Republic of Ireland outstrips supply, reducing affordability and harming family disposable incomes.	• Board Sustainable Banking Committee held a stakeholder engagement session on housing, inviting a variety of external stakeholder groups to share their perspectives with us. • Your Mortgage Awards 2016 - 2017: Best First-Time Buyer Mortgage Lender, Best Bank. • What Mortgage Awards 2017: Best National Bank, Best Lender Customer Service. • Gross new mortgage lending of £33.9 billion in UK PBB, Ulster Bank RoI, Private Banking and RBSI.	
Long term and emerging considerations			
Changing customer needs	Customer needs are changing and different types of customer often have significantly different banking needs. In order to be attractive and useful, financial products and services need to fit in with customers' lives and be flexible to differing levels of digital and financial understanding.	• 68% of our personal customers are active across our mobile and online banking platforms. • Launched Strategic Account Opening meaning our personal customers can open an account in five minutes. • Launched the UK's first ever paperless mortgage - customers can now apply for a completely digital mortgage which uses the latest technology to securely share and verify documents online. • Our Home Insurance Quote and Buy system gives customers cover in less than fifteen minutes. • One of the first large UK banks to launch robo-investment advice service through NatWest Invest.	

Key Influences	Definition	Selected highlights in 2017	Where to find out more
Climate change	The Paris Agreement provides a framework by which the world will seek to prevent dangerous climate change but further challenges remain. Climate change presents both physical and transition risks. The transition to a low carbon economy is also presenting opportunities for low carbon sectors of the economy. There are also increasing regulatory and stakeholder expectations of banks to address climate change.	• RBS has pledged its support to the Task Force on Climate-related Financial Disclosures (TCFD). • Board Sustainable Banking Committee held a stakeholder engagement session on Climate risk, inviting a variety of external stakeholders groups to share their perspectives with us. • We have been recognised by InfraDeals as the leading lender to the UK renewables sector by number of transactions over the past six years (2012- 2017). • Set a new carbon reduction target using a 'science-based' method, aligning our ambition with the Paris Climate Agreement.	
Executive pay	Shareholders, employees and the general public have shown increasing concerns about the inequality in pay in large companies between senior executives and the general workforce.	• Bonus pools have fallen by around 75% since 2010, aligned with the restructuring that has taken place and the actions taken by Group Performance and Remuneration Committee. Remuneration is allocated over a multi year basis, with the ability to apply malus and clawback to encourage good behaviours and a long-term focus. • Introduction of a new policy for Executive Directors in 2017, with significantly lower maximum award levels and with increased shareholding requirements.	
Financial capability	A customer's ability to manage money well, both day to day and through significant life events, and their ability to handle periods of financial difficulty. It focuses on developing financial skills and knowledge, attitudes, and motivation, which can help customers avoid falling into financial difficulty and can improve their financial health and well being.	• MoneySense, our financial education programme for 5 to 18 year olds, won Digital Information Product of the Year (PPA Digital Awards) in recognition of how it has adapted to the digital age with engaging and interactive content to support teachers and parents. • Completed over one million Financial Health Checks in 2017.	
Social inequality & financial exclusion	The increasing gap between rich and poor and the rising cost of living means many UK consumers find themselves in precarious financial situations and are struggling to manage their money day to day. This, with future economic uncertainty, may well lead to increased bad debt and over indebtedness. In addition millions do not have access to mainstream financial services such as free ATMs, credit, and banking products together with lack of digital footprint and skills and are forced to rely on high-cost products.	• Helped over 680,000 customers in financial hardship find a solution to their debt problem. • Provided over 27,500 customers with 'breathing space' and extra time for them to find support and to put in place a repayment arrangement. • Innovative Citizens Advice partnership, where Citizens Advice colleagues are located within one of our Specialist Support teams providing independent advice to over 900 of our most vulnerable customers. • In partnership with the Money Advice Trust, we developed industry leading Addictions Training for our colleagues and use across the sector.	
UK infrastructure	The UK has a significant need for new infrastructure, such as energy, transport and project finance. Banks have an important role in supporting infrastructure investment across the UK.	• Banks like RBS have a key role supporting this investment, through lending and sourcing global capital markets financing.	

Independent assurance

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

These procedures were designed to conclude on:

- The consistency of selected narrative claims on sustainability with underlying performance information, and;
- The accuracy and completeness of the sustainability performance indicators listed below:
  - Value (£) of attempted fraud prevented in the UK
  - Total gender balance in top 3 senior layers
  - Total number of people supported through our enterprise programmes
  - % personal customers who are digitally active
  - Total number of Financial Health Checks
  - Banking Standards Board survey results
  - % of staff who received CB:PSB standards certification
  - Total scope 1 and 2 location based CO_2e emissions and Scope 3 emissions from business travel.

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

Keeping the UK economy moving

Whether it's supporting tourism or business, and creating local jobs, airports provide an essential service and play a vital role in the UK economy.

We're helping to support infrastructure projects right across the UK, including airports. By giving them access to the funding they need to invest in their future and enhance the passenger experience, we're playing our part keeping people, goods – and the economy – moving.

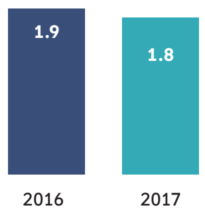
We've helped Gatwick with seven bond issuances – including its September issue of £350 million 22-year bonds; prepared Manchester Airports Group for its first bond issuance since 2014, and provided long-term debt financing for Leeds Bradford and London Luton airports.

Reflecting on the support he received in 2017, Neil Thompson, Chief Financial Officer for Manchester Airport Group says: "We were delighted to work with NatWest for the launch of this important bond transaction. The bond will form a key part of the company's capital structure to fund future growth of Manchester Airport Group's airports."

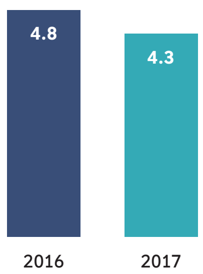
Key economic indicators

The UK economy grew by 1.8% in 2017, down slightly from 1.9% in 2016. That was below the long-run average of more than 2%.

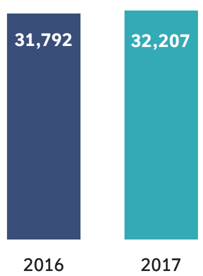
UK gross domestic product growth (%)



Unemployment rate, UK (%)



Number of people in employment, UK (thousands)



In a healthy job market, the number of people in work increased by around 400,000 and unemployment fell to 4.3%, the lowest rate since 1975. As a result of the 17% fall in the value of sterling that began in 2015, inflation accelerated, peaking at 3.1%. Higher inflation was one reason the Monetary Policy Committee (MPC) voted to increase Bank Rate to 0.5% in November. With wage growth of around 2.5%, households' spending power was squeezed. Business profitability remained strong and business investment grew by 1.7% in the year to the third quarter. House price inflation remained around 5%.

Summary

The main development in 2017 was higher inflation. Along with weak wage growth it meant that households' incomes were squeezed. As a result, household spending grew by 1.0% in the year to the third quarter and retail sales volumes increased by 1.4% in the year to December. While some households curbed their spending others ran down their savings – the saving ratio reached a record low of 4.0% in the first quarter – and consumer credit grew by 9.5% in the twelve months to December. Employment continued to rise strongly but wage growth remained modest for most of the year, meaning domestically-generated inflationary pressures were muted. However, the MPC judged that the pace of growth – including the still-improving labour market – combined with what it judges to be a slower rate of potential expansion would have resulted in higher than acceptable inflation had it not raised Bank Rate. In indicating that Bank Rate would rise further, the Committee emphasised that subsequent increases would be gradual and limited. At the year's end, markets believed that Bank Rate would be at or close to 0.75% in December 2018.

The Republic of Ireland appears to have grown strongly. Unemployment continued to fall, ending the year at 6.2%, its lowest rate since 2008. Consumer price inflation remained subdued at 0.4%. House price inflation accelerated to around 12% from 9.0% in 2016. This returned prices to their 2009 level and still almost one-quarter below the peak in nominal terms.

The eurozone economy was 2.7% larger in the final quarter of 2017 than in the same period of 2016, up from 1.8% in 2016. Unemployment fell but remained high at 8.7%. While inflation increased to 1.4% it remained short of the European Central Bank's target of "at or below" 2%. The ECB continued to provide stimulus through low interest rates and quantitative easing. It announced in October that it would reduce the amount of its monthly asset purchases while extending the period during which it will make purchases until at least September 2018.

US growth accelerated to 2.3%. The job market remained buoyant with 1.8 million jobs added during the year and the unemployment rate falling to 4.1%. However, wage growth remained modest and consumer price inflation was well below the Fed's 2% target. However, the central bank continued to tighten policy with three rate rises during the year, taking the Fed Funds Target Rate to 1.25% - 1.50%.

In China, growth was broadly stable at 6.9%. This was in part a consequence of continued stimulus, which resulted in a further rise in indebtedness. Recognising this, the authorities took steps to limit the growth of credit.

Risk overview

Effective risk management is at the heart of the successful development and execution of the RBS strategy

An emphasis on strong risk management has a key role in positioning RBS to prepare for, and respond to, developments in the wider competitive, economic and regulatory environment. Risk appetite is set in line with overall strategy and approved by the Board. Current and emerging risks, that could materially affect the delivery of the strategy, are identified and managed through the risk management framework.

Progress in 2017

RBS continued to make progress against its strategic objectives by reducing risk and strengthening both the balance sheet and the capital position.

There was a strong focus during 2017 on developing an enhanced operating model for the risk management function. This work aims to ensure the function continues to meet the needs of our evolving business as well as the structural requirements of the UK's ring-fencing legislation.

The merger of parts of the former Conduct & Regulatory Affairs function with RBS's Risk function took effect on 1 January 2017. This integration was designed to take advantage of synergies between the two functions. Work continued through the year to optimise these. In addition, there continued to be an emphasis on refining the risk appetite framework throughout 2017. As well as consolidating the progress made in previous years, further advances were made to enhance the framework in line with RBS's structural reform. Significant emphasis was placed on reviewing the current measures, along with associated limits and triggers, for each of our material risks and further embedding the reporting of risk profile compared to risk appetite across RBS.

Risk culture continued to be at the forefront of our activity as RBS moves towards its aim of making risk simply part of the way colleagues work and think. In support of this, during 2017 the RBS-wide action plan focused on building clarity, and developing capability. Work to standardise risk culture assessment and reporting has enabled progress to be measured across RBS as well as at an individual franchise and function level. In turn, this informed the risk culture element of performance reviews for RBS's Executive Committee.

Throughout 2017, work continued to consolidate enhancements to the operational risk management framework. The framework plays a key role in helping RBS maintain a safe and secure environment for its customers and is central to the overall risk management strategy. There was an ongoing focus on risk and control assessment, particularly relating to the most material products, processes and services. Significant progress was made in strengthening the fraud defence framework and reducing fraud losses as a result of the successful implementation of various tactical and strategic solutions. The emphasis on understanding and managing the risks relating to RBS's transformation agenda remained a key theme during the year.

Cyber Security

In an increasingly digital landscape across the industry, cyber security continued to be a priority issue in 2017. RBS has a multi-layered defence approach and continues to invest in its defences as the external threat evolves. As part of this ongoing focus, a number of enhancements were made during the year ranging from improved protection of IT systems to mandatory awareness training for all employees. RBS has continued to participate in industry-wide initiatives to monitor and anticipate developments, identify vulnerabilities and share best practice. However, ongoing vigilance will be essential as the threat continues to evolve.

Open Banking

RBS welcomes the Competition & Markets Authority initiative to provide consumers with more choice and more control over their money and financial information by making it easier to compare the details of current accounts and other banking services. During 2017, oversight of the implementation programme was executed in parallel with a strategic assessment of the threats and opportunities in the mid- to long-term. Robust analysis and oversight will continue as the landscape evolves.

Innovation

RBS continues to embrace innovation in the field of financial technology. From the roll-out of the award-winning NatWest and Royal Bank of Scotland mobile app in 2011 to the launch, in 2017, of the NatWest Invest online investment advice service, developments with the potential to improve the banking experience are an integral element of the customer service proposition. Strong risk oversight has kept the security agenda at the forefront of these developments. Throughout the year RBS continued to focus on innovation while emphasising the importance of safety and protection for customers.

Financial Crime

Financial Crime was a key area of focus during 2017. The function continues to monitor the external environment and developments that could affect or change RBS's exposure to financial crime risk. In particular there was a focus on the anti-money-laundering control environment, with additional enhancements to policies and procedures to address the new regulatory requirements of the Fourth Money Laundering Directive. There was also a strong emphasis on the implementation of proportionate and risk-focused customer due diligence standards – with an increased focus on the management of higher-risk customer segments. While progress was made during the year, more work is required and RBS continues on its journey of improvement in respect of these controls. Enhancements to sanctions screening were also introduced.

Anti-Bribery & Corruption (ABC)

RBS is committed to ensuring it acts responsibly and ethically, both when pursuing its own business opportunities and when awarding business. Consequently it has embedded appropriate policies, mandatory procedures and controls to ensure its employees, and any other party it does business with, understand these obligations and abide by them, whenever they act for, or on behalf of, RBS. The requirements of RBS's ABC Policy apply to all RBS employees and non-employees, in every part of the business. All employees are required to complete ABC training on an annual basis, with targeted training appropriate for certain roles.

RBS considers ABC risk in its business processes where there could be a risk of offering an improper advantage or being perceived to do so. This includes, but is not limited to, corporate donations, charitable sponsorships, political activities and commercial sponsorships.

To mitigate against bribery and corruption risks, RBS's ABC policy and supporting mandatory procedures require employees to assess bribery and corruption risk, and conduct the appropriate level of ABC due diligence on business activities. Where appropriate, there is a requirement for ABC contract clauses in written agreements. In adopting this approach, RBS aims to protect the interests of its customers, shareholders and employees.

Reputational Risk

Reputational risk issues can develop from either strategic choices or conduct issues and may even arise from customer activity. RBS continues to remain alert to the reputational risk it is exposed to – both in its day-to-day business and as a result of legacy issues. During 2017, further work was done to enhance the reputational risk framework and embed it across all business lines. This work will continue in 2018 as RBS continues to evolve its risk management practice to meet the challenges of the changing external environment.

Key Metrics

Risk-weighted assets (RWAs)

RWAs reduced by £27 billion (12%), ending the year at £201 billion (from £228 billion in 2016). This reduction was driven by NatWest Markets, where RWAs fell by £16.8 billion due to the continued run-off of the legacy business and mitigation activities in the core business, together with active management of the lending book in Commercial Banking.

Common Equity Tier 1 ratio

The CET1 ratio increased by 250 basis points to 15.9% in 2017. This was well above the 13% target and reflected the profit in the year and the RWA reductions in NatWest Markets and Commercial Banking.

Leverage ratios

The leverage ratio increased by 20 basis points to 5.3% during 2017 reflecting the increase in the CET1 position. The Bank of England leverage ratio increased by 50 basis points as a result of increased central bank reserves which are excluded from the leverage exposure measure.

Stress testing

Under the hypothetical adverse scenario in the Bank of England 2017 stress test, RBS's low-point CET1 ratio was below the CET1 ratio hurdle rate and the systemic reference point. Calculated after the impact of management actions, RBS's CET1 ratio was above the minimum requirement. The Tier 1 leverage ratio remained above the minimum requirement throughout the test.

As a result of the steps RBS had already taken to strengthen its capital position, a revised capital plan was not required by the PRA.

Liquidity and funding

RBS maintained a robust liquidity and funding risk profile in 2017. Its loan-to-deposit ratio was 88% at 31 December 2017, compared with 91% in 2016. The latest Internal Liquidity Adequacy Assessment Process (ILAAP) showed that RBS is in a strong position to withstand liquidity stress scenarios. It suggested that RBS's liquidity portfolio was large enough to cover more than 168% of the expected outflows in the worst of three severe scenarios.

Litigation and conduct

Litigation and conduct costs of £1,285 million included a £664 million provision in relation to various investigations and litigation matters relating to RBS's issuance and underwriting of residential mortgage-backed securities (RMBS) and additional PPI provision of £175 million. In July 2017 RBS reached a settlement with the Federal Housing Finance Agency (FHFA), as a result of which the FHFA's outstanding litigation against RBS relating to those securities was withdrawn. Further details on these issues can be found in the Litigation, Investigations & Reviews section.

Climate risk

While no climate-related risks have been identified that would have a major impact on RBS's strategy over a five-year horizon, RBS manages and monitors a number of associated threats. These include physical impacts, such as flooding, as well as the impact of climate-related regulation, though exposure to the sectors most vulnerable to climate risks, or climate-related regulation, has significantly reduced (for example RBS exposure to the power and oil & gas sectors has fallen to 1.2% of total lending exposures in 2017). RBS supports the work of the Financial Stability Board's Task Force on Climate-Related Financial Disclosures (TCFD). Adoption of the TCFD recommendations is an important step forward in pricing climate-related risks and opportunities as the transition to a low-carbon economy – under the terms of the Paris Climate Agreement – progresses.

Top and emerging risks

RBS employs a continuous process for identifying and managing its top and emerging risks. These are defined as scenarios that could have a significant negative impact on RBS's ability to operate. A number of scenarios attracted particular attention in 2017. The factors discussed below and elsewhere in this report should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties facing RBS.

Refer to the Risk Factors section on pages 372 to 402 in the 2017 Annual Report and Accounts.

Macro-economic and political risks

RBS remains vulnerable to changes and uncertainty in the external economic and political environment, which have intensified in the past year. Stress testing and scenario planning is used extensively to inform strategic planning and risk mitigation relating to a range of macroeconomic and political risks. Scenarios identified as having a potentially material negative impact on RBS include: the impact of the UK's exit from the EU; a second Scottish independence referendum;

a UK recession including significant falls in house prices; global financial market volatility linked to advanced economy interest rate increases or decreases; a protracted period of low interest rates in the UK; vulnerabilities in emerging market economies resulting in contagion in RBS's core markets; a eurozone crisis; and major geopolitical instability.

Risks related to the competitive environment
RBS's target markets are highly competitive, which poses challenges in terms of achieving some strategic objectives. Moreover, changes in technology, customer behaviour and business models in these markets have accelerated. RBS monitors the competitive environment and associated regulatory technological strategy development and makes adjustments as appropriate.

Impact of cyber attacks
Cyber attacks are increasing in frequency and severity across the industry. RBS has participated in industry-wide cyber attack simulations in order to help test and develop defence planning. To mitigate the risks, a number of control enhancements have been delivered as part of a bank-wide security programme. This has improved the protection of IT systems and data for both employees and customers. Further enhancements are underway and planned to ensure RBS continues to maintain an effective control environment as the cyber threats evolve.

Regulatory and legal risks
Future litigation and conduct charges could be substantial. RBS is involved in a number of litigation and investigations matters, including: ongoing class action litigation, securitisation and mortgage-backed securities related litigation, investigations into foreign exchange trading and rate-setting activities, continuing LIBOR-related litigation and investigations, and investigations into the treatment of small and medium-sized business customers in financial difficulty, anti-money laundering, sanctions, mis-selling (including mis-selling of payment protection insurance products). Settlements may result in additional financial penalties, non-monetary penalties or other consequences, which may be material.

More detail on these issues can be found in the Litigation, Investigations and Reviews and Risk Factors sections of the 2017 Annual Report and Accounts. To prevent future conduct from resulting in similar impacts, RBS continues to embed a strong and comprehensive risk and compliance culture.

Failure of information technology systems
RBS's information technology systems are complex. As such, recovering from failure is challenging. To mitigate these risks, a major investment programme has significantly improved the resilience of the systems and further progress is expected. System sustainability has improved as we continue to simplify and modernise our infrastructure and applications.

An increase in obligations to support pension schemes
The value of pension scheme assets may not be adequate to fund pension scheme liabilities. The actuarial deficit in the RBS pension schemes may therefore increase, requiring RBS to increase its current and future cash contributions. An acceleration of certain previously-committed pension contributions was made in Q1 2016 to reduce this risk. Depending on the economic and monetary conditions and longevity of scheme members prevailing at that time, the actuarial deficit may increase at subsequent valuations and is also expected to be affected by ring-fencing.

Operational and execution risks
Increased losses may arise from a failure to execute major projects successfully. These currently include the transformation plan, the restructuring of NatWest Markets, compliance with structural reform requirements including the statutory ring-fencing requirements implemented as a result of the Independent Commission on Banking and the implementation of obligations under the policy framework for resolution (including Operational Continuity in Resolution). These support the delivery of a robust control environment and the embedding of a strong and pervasive customer-centred organisational and risk culture, which are essential to meet RBS's strategic objectives. These projects cover organisation structure, business strategy, information technology systems, operational processes and product offerings. RBS continues to work to implement change in line with its project plans while assessing the risks to implementation and is taking steps to mitigate those risks where possible.

Risks to income, costs and business models arising from regulatory requirements
RBS is exposed to the risk of further increases in regulatory capital requirements as well as risks related to new regulations that could affect its business models.

RBS considers and incorporates the implications of proposed or potential regulatory activities in its strategic and financial plans.

Inability to recruit or retain suitable staff
There is a risk that RBS lacks sufficient capability or capacity at a senior level to deliver – or to adapt to – change. RBS monitors people risk closely and has plans in place to support retention of key roles, with wider programmes supporting engagement and training for all employees.

Governance at a glance

Board of directors

Chairman	Executive directors
Howard Davies	Ross McEwan
	Ewen Stevenson

Non-executive directors

Frank Dangeard
Alison Davis
Morten Friis
Robert Gillespie
Penny Hughes
Yasmin Jetha
Brendan Nelson
Baroness Noakes
Mike Rogers
Mark Seligman
(Senior Independent Director)
Dr Lena Wilson

Company Secretary

Aileen Taylor

Our Board

The Board has fourteen directors comprising the Chairman, two executive directors and eleven independent non-executive directors, one of whom is the Senior Independent Director. Biographies for each director can be found on pages 51 to 55.

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

In 2017, the Board and committee evaluation process was conducted internally by the Deputy Secretary and Director, Corporate Governance, and overseen by the Company Secretary.

Our Board committees

In order to provide effective oversight and leadership, the Board has established a number of Board committees with particular responsibilities. The work of the Board committees is discussed in their individual reports. The terms of reference for each of these committees is available on rbs.com.

The full Governance report is on pages 50 to 105 of the 2017 Annual Report and Accounts.

Group Audit Committee

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

Board Risk Committee

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

Sustainable Banking Committee

Provides support to the Board in overseeing actions being taken by management to run a sustainable long term business, with specific focus on culture, people, customer, brand and environmental social and ethical issues.

Group Performance and Remuneration Committee

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

Group Nominations and Governance Committee

Assists the Board in the selection and appointment of directors. It reviews the structure, size and composition of the Board, and the membership and chairmanship of Board committees. It considers succession planning taking into account the skills and expertise which will be needed on the Board in future. Its remit also includes governance oversight.

Technology and Innovation Committee

The Technology and Innovation Committee was established in August 2017 and is responsible for assisting the Board in overseeing and monitoring execution of the Group's strategic direction in relation to technology and innovation.

Executive Committee

The Board is supported by the Executive Committee comprising the executive directors and other senior executives. It supports the Chief Executive in managing RBS's businesses. It reviews and debates relevant items before consideration by the Board. It is responsible for developing and delivering RBS's strategy and it monitors and manages financial performance, capital allocation, risk strategy and policy, risk management, operational issues and customer issues.

UK Corporate Governance Code

Throughout the year ended 31 December 2017, RBS has complied with all of the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council dated April 2016 except in relation to provision (D.2.2) that the Group Performance and Remuneration Committee should have delegated responsibility for setting remuneration for the Chairman and executive directors. RBS considers that this is a matter which should rightly be reserved for the Board.

Viability statement

In accordance with provision C.2.2 of the UK Corporate Governance Code, the Board of Directors (the "Board" of RBSG (the "bank")) have assessed the viability of the bank taking into account the current position of the bank, the Board's assessment of the bank's prospects, and the bank's principal risks, as detailed in the strategic report on pages 46 and 47. The Board's assessment is further informed by the application of regulatory standards of capital and liquidity adequacy and stress test thresholds under extreme conditions.

The Board consider a period of three years to be an appropriate period for the assessment to be made. This period is within the bank's strategic plan and regulatory and internal stress testing periods.

The bank's business and strategic plans provide long term direction and are reviewed on, at least, an annual basis, including multi-year forecasts showing the expected financial position throughout the planning horizon. The base case plan indicates that the bank will have sufficient capital and liquidity resources over the three year assessment period.

The bank's base case plan is also tested in a series of extreme stress scenarios as part of internal and external stress testing. Results from the stress scenarios, including management's response, are used as part of the Internal Capital Adequacy Assessment Process (ICAAP) and the Internal Liquidity Adequacy Assessment Process (ILAAP). These processes are summarised in the Capital and Risk Management section of the Annual Report and Accounts on pages 157 to 165.

Assessments of the risks of the greatest concern are captured through the bank's processes for continuously identifying and effectively managing the principal top and emerging risks, as detailed on page 46 and 47 of the strategic report. These assessments provide a view on the impact of the top risks crystallising, both individually and in combination. These risks are outlined in the Risk Overview and further discussed in the Risk Factors, both contained in the Annual Report and Accounts on pages 150 and 156 and 372 to 402, respectively, and include political, legal, macroeconomic, regulatory, operational and execution risks.

On the basis of this robust assessment of the principal risks facing the bank, the Board's review of the business and strategic plans and other matters considered and reviewed during the year, and the results of the stress tests undertaken, the Board has a reasonable expectation that the bank will be able to continue in operation and meet its liabilities as they fall due over the period of the assessment.

Supplementary information

Our Board

Chairman

Howard Davies
Nationality: British
Date of appointment: 14 July 2015 (Board), 1 September 2015 (Chairman)

Experience: Howard was Deputy Governor of the Bank of England from 1995 to 1997 and Chairman of the UK Financial Services Authority from 1997 to 2003. Howard was Director of the London School of Economics and Political Science from 2003 until May 2011. He is also Professor of Practice at the Paris Institute of Political Science (Sciences Po).

Howard was chair of the UK Airports Commission between 2012 and 2015 and is also the author of several books on financial subjects.

External appointment(s):
Independent director of Prudential plc and chair of the Risk Committee
Member of the Regulatory and Compliance Advisory Board of Millennium Management LLC
Chair of the International Advisory Council of the China Securities Regulatory Commission
Member of the International Advisory Council of the China Banking Regulatory Commission

Committee membership(s):
Group Nominations and Governance Committee (Chairman)
UBI DAC Board Oversight Committee (Chairman)

Executive directors

Chief Executive

Ross McEwan
Nationality: New Zealand
Date of appointment: 1 October 2013

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

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

External appointment(s):
None

Committee membership(s):
Executive Committee (Chairman)

Chief Financial Officer

Ewen Stevenson
Nationality: British/New Zealand
Date of appointment: 19 May 2014

Experience: Prior to his current role, Ewen was at Credit Suisse for 25 years where he was latterly co-Head of the EMEA Investment Banking Division and co-Head of the Global Financial Institutions Group. He has over 20 years of experience advising the banking sector while at Credit Suisse.

Ewen has a Bachelor of Commerce and Administration majoring in Accountancy and a Bachelor of Law from Victoria University of Wellington, New Zealand.

External appointment(s):
None

Committee membership(s):
Executive Committee

Our Board

Independent non-executive directors

Frank Dangeard
Nationality: French
Date of appointment: 16 May 2016

Experience: Previously, Frank served as a non-executive director of Crédit Agricole CIB, EDF, Home Credit, Orange, Sonaecom SGPS, and as Deputy Chairman and acting Chairman of Telenor ASA. During his executive career he held various roles at Thomson S.A., including Chairman and Chief Executive Officer, and was Deputy Chief Executive Officer of France Telecom. Prior to that he was Chairman of SG Warburg France and a Managing Director of SG Warburg.

Frank is a graduate of HEC and IEP in Paris and of the Harvard Law School in the US.

External appointment(s):
Non-executive director of the RPX Corporation
Non-executive director of Symantec Corporation

Committee membership(s):
Board Risk Committee
Technology and Innovation Committee

Alison Davis
Nationality: British/USA
Date of appointment: 1 August 2011

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

Alison is a graduate of Cambridge University and Stanford Business School.

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

Committee membership(s):
Technology and Innovation Committee (Chairman)
Group Performance and Remuneration Committee
Sustainable Banking Committee

Morten Friis
Nationality: Norwegian
Date of appointment: 10 April 2014

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

External appointment(s):
Member of the Board of Directors of The Canadian Institute for Advanced Research
Member of the Board of Directors of the Harvard Business School Club of Toronto
Non-executive director of Jackson National Life Insurance Company

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

Our Board

Independent non-executive directors

Robert Gillespie
Nationality: British
Date of appointment: 2 December 2013

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

External appointment(s):
Independent board director at Ashurst LLP
Chairman of Council at the University of Durham
Chairman of the Boat Race Company Limited
Director of Social Finance Limited

Committee membership(s):
Group Nominations and Governance Committee
Group Performance and Remuneration Committee (Chairman)
Sustainable Banking Committee
GRG Board Oversight Committee

Penny Hughes, CBE
Nationality: British
Date of appointment: 1 January 2010

Experience: Previously a non-executive director and chairman of the corporate compliance and responsibility committee of Wm Morrison Supermarkets plc. Other former non-executive directorships include Skandinaviska Enskilda Banken AB, Home Retail Group plc, Vodafone Group plc, Reuters Group PLC, Cable & Wireless Worldwide plc and The Gap Inc. Penny spent the majority of her executive career at Coca-Cola where she held a number of leadership positions, latterly as President, Coca-Cola Great Britain and Ireland.

External appointment(s):
Non-executive Chairman of The Gym Group plc. Also chair of the nominations and member of the audit, risk and remuneration committees
Non-executive director, chairman of the remuneration committee and member of the audit and nomination committees of Superdry plc
Non-executive Chairman of IQSA Group Limited

Committee membership(s):
Sustainable Banking Committee (Chairman)
Board Risk Committee
GRG Board Oversight Committee
Group Nominations and Governance Committee

Our Board

Independent non-executive directors

Yasmin Jetha
Nationality: British
Date of appointment: 21 June 2017

Experience: Previously a non-executive director designate of Williams & Glyn. During her executive career, Yasmin held Chief Information Officer roles at Bupa and the Financial Times, where she became the Chief Operating Officer. She previously had a career spanning nearly 20 years at Abbey National PLC, latterly serving as an Executive Director on the board.

External appointment(s):
Non-executive director of Guardian Media Group plc

Non-executive director of Nation Media Group (East Africa)

Independent panel member of the Cabinet Office Major Projects Review Group

Committee membership(s):
Sustainable Banking Committee
Technology and Innovation Committee

Brendan Nelson
Nationality: British
Date of appointment: 1 April 2010

Experience: Brendan was global Chairman, financial services for KPMG. He previously held senior leadership roles within KPMG including as a member of the KPMG UK board from 1999 to 2006 and as vice-Chairman from 2006 until his retirement in 2010. He was Chairman of the Audit Committee of the Institute of Chartered Accountants of Scotland from 2005 to 2008. President of the Institute of Chartered Accountants of Scotland 2013/14.

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

Committee membership(s):
Group Audit Committee (Chairman)
Group Nominations and Governance Committee
Board Risk Committee
GRG Board Oversight Committee (Chairman)
UBI DAC Board Oversight Committee

Baroness Noakes, DBE
Nationality: British
Date of appointment: 1 August 2011

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

External appointment(s):
Deputy Chairman, Ofcom

Committee membership(s):
Board Risk Committee (Chairman)
Group Audit Committee
GRG Board Oversight Committee
Group Nominations and Governance Committee
UBI DAC Board Oversight Committee

Our Board

Independent non-executive directors

Mike Rogers
Nationality: British
Date of appointment: 26 January 2016

Experience: Mike has extensive experience in retail banking and financial services. Mike joined Barclays in 1986 where he undertook a variety of roles in the UK and overseas across business banking, wealth management and retail banking. Mike was Managing Director of Small Business, Premier Banking and UK Retail Banking and was latterly Chief Executive of Liverpool Victoria Group for 10 years.

External appointment(s):
Non-executive Chairman of Aegon UK
Director of Experian plc and Chairman-designate of its Remuneration Committee

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

Mark Seligman
Nationality: British
Date of appointment: 1 April 2017
(Senior Independent Director since 1 January 2018)

Experience: Mark, is a former senior investment banker with broad financial services knowledge, has substantial FTSE 100 Board experience gained in various industry sectors, including as a Committee Chair and Senior Independent Director.

During his executive career, he held various senior roles at Credit Suisse/BZW (including Deputy Chairman, CSFB Europe and Chairman, UK Investment Banking, CSFB); and previously SG Warburg (ultimately as Managing Director, Head of Advisory).

He has also previously served as a non-executive Director of BG Group plc and as Deputy Chairman of G4S plc.

External appointment(s):
Senior Independent Director of Kingfisher plc

Non-Executive Director and chairman of the audit committee of Smiths Group plc

Committee membership(s):
Group Nominations and Governance Committee
Group Performance and Remuneration Committee
UBI DAC Board Oversight Committee

Dr Lena Wilson, CBE
Nationality: British
Date of appointment: 1 January 2018

Experience: Experience: Lena is an experienced CEO with an international career, who spent a significant proportion of her executive career with Scottish Enterprise, latterly as Chief Executive from 2009 until 2017. Prior to that, Lena held the role of Senior Investment Advisor to The World Bank in Washington DC. Dr Wilson is a visiting Professor at the University of Strathclyde and has previously served as a member of Scotland's Financial Services Advisory Board and as Chair of Scotland's Energy Jobs Taskforce. In June 2015 she received a CBE for services to economic development in Scotland.

External appointment(s):
Non-Executive Director of Intertek Group plc, and member of its audit and nomination committees.
Non-Executive Director of Scottish Power Renewables Limited

Committee membership(s):
Sustainable Banking Committee

Our Board

Chief Governance & Regulatory Officer and Board Counsel

Aileen Taylor
Nationality: British
Date of appointment: 1 May 2010 (Company Secretary)

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

Aileen is a fellow of the Chartered Institute of Bankers in Scotland and a member of the European Corporate Governance Council. She is also a member of the FCA's Listing Authority Advisory Panel.

Executive Committee

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

Directors' Remuneration Report

Annual statement from Robert Gillespie
Chairman of the Group Performance and Remuneration Committee

"the new policy creates a simpler way of aligning the interests of executives with shareholders"

Dear Shareholder,

This is my first report as Chairman of the Committee and I would like to start by thanking my predecessor, Sandy Crombie, for all his hard work. Sandy joined the Committee in 2009 and served as Chairman from 2014 until the end of 2017, helping to oversee a great number of positive changes in remuneration practices at RBS. He was also instrumental in introducing a new directors' remuneration policy at the 2017 AGM.

I would also like to thank shareholders for their feedback during the development of the policy and for the high level of support received at the AGM. It is right that RBS should continue to be at the forefront of pay reforms and I believe the new policy creates a simpler way of aligning the interests of executives with shareholders. It continues our restrained approach to executive pay and is in line with the growing consensus for companies to develop more tailored remuneration arrangements.

We have moved to a long-term incentive structure with much lower maximum potential awards and where the performance of our executives is assessed on what they reasonably should be expected to achieve, while operating within our risk appetite. This helps to create more predictable outcomes and encourages safe and secure growth.

The policy also supports our cultural aim of making sure that remuneration encourages the right behaviours. Executives are required to build up larger shareholdings and retain them for longer. This creates stronger alignment with the experience of shareholders both during and after employment.

Implementation of policy for executive directors in 2018

No changes are being made at this time to the fixed pay arrangements for executive directors. Variable pay continues to be delivered entirely in shares as long-term incentive (LTI) awards with no annual bonus. Members of the Executive Committee are on a similar remuneration construct.

The first LTI awards under the new policy will be granted in early 2018, following an assessment of performance over 2017. The assessment determined that overall performance had been strong, particularly in relation to financial and people & culture measures, but a modest downwards adjustment was considered appropriate as the desired risk and customer performance had not been achieved in full. Further details can be found in the 2017 Annual Report and Accounts available on rbs.com.

A further assessment will be undertaken after three years to ensure that sustainable performance has been delivered prior to vesting. Subject to this assessment, the shares will vest in equal amounts over years three to seven from the date of grant, followed by an additional 12 month retention period post vesting.

Financial performance and pay decisions for 2017

It is clear we have a strong underlying business capable of generating profits and sustainable returns for shareholders. Income has risen, costs have fallen and our capital strength has improved further during the year. A number of legacy issues were settled in 2017 including the rights issue litigation and the Federal Housing Finance Agency settlement relating to RMBS. In addition, approval was obtained for the alternative remedies package for the business previously described as Williams & Glyn. Efforts continue to be made to resolve the outstanding RMBS litigation though the timetable for resolution is outside of the control of management.

For executive directors, performance has been assessed for the long-term incentive plan granted in 2015 following the end of the performance period. The vesting reflects improvements in the Economic Profit, CET1 ratio and people measures, with adjustments in areas where performance did not meet targets over the three year period, such as total shareholder return.

In terms of other pay decisions, the bonus pool for 2017 is £342m, which is £1m lower than 2016, reflecting our transition to simpler and more stable pay structures. The average bonus amounts remain relatively modest with 68% of all bonuses awarded amounting to £5,000 or less. Immediate cash bonuses continue to be limited to £2,000. Since 2010, the bonus pool has reduced by around 75% as a result of decisions taken by the Committee and the move towards a smaller bank with a culture focused on service excellence rather than sales.

Broader pay policy

The Committee also oversees the broader employee pay policy. We continue to make good progress in ensuring that employees are paid fairly and are supported by simple and transparent pay structures. Over the last two years we have removed variable pay for frontline and clerical employees with increases to their fixed pay instead, which provides greater certainty. As a result, 26,500 employees are compensated solely by fixed pay and benefits. Our rates of pay exceed the Living Wage and changes have been introduced so that people performing similar roles are paid more consistently.

We believe that having an engaged and inclusive workforce is a key part of a successful business. I am greatly encouraged by the latest employee engagement score which has risen significantly during 2017 and is now above the Global Financial Services norm. We are confident that we pay our employees fairly. We keep our HR policies and processes under review to ensure we do so. Gender Pay Gap information is also being included for the first time as part of the Strategic Report section, along with the steps we are taking to address the position.

Looking ahead

Arrangements will be put in place in 2018 to provide additional oversight of remuneration across key RBS entities post ring-fencing. In addition, the government's proposed governance and executive pay reforms are due to be finalised in the coming months. We welcome the proposals and are currently considering the most effective mechanisms to supplement our existing channels for the employee voice to be heard at Board level.

We remain strong supporters of reforms aimed at improving the effectiveness and transparency of pay structures. I look forward to working with the Committee in considering how we can continue to develop remuneration practices at RBS.

Robert Gillespie
Chairman of the Group Performance and Remuneration Committee
22 February 2018

Annual report on remuneration

The sections audited by the company's auditors, Ernst and Young LLP, are as indicated.

Total remuneration paid to executive directors for 2017 (audited)

	Ross McEwan		Ewen Stevenson	
	2017 £000	2016 £000	2017 £000	2016 £000
Salary	1,000	1,000	800	800
Fixed share allowance (1)	1,000	1,000	800	800
Benefits (2)	113	127	26	26
Pension (3)	350	350	280	280
Total fixed remuneration	2,463	2,477	1,906	1,906
Annual bonus	n/a	n/a	n/a	n/a
Long-term incentive award (4)	1,024	1,225	1,418	—
Total remuneration	3,487	3,702	3,324	1,906

Notes:
(1) The value of the fixed share allowance is based on 100% of salary and, as part of fixed remuneration, it is not subject to any performance conditions.
(2) Includes standard benefit funding of £26,250 per annum with the remainder for Ross McEwan in 2017 being travel assistance in connection with company business (£67,006), relocation expenses (£17,065) consisting of a flight allowance and assistance with tax return preparation, and home security arrangements. The 2016 benefits figure for Ross McEwan has been amended to include a value for tax return preparation and home security arrangements during that year.
(3) The executive directors receive a monthly cash allowance to help fund pension arrangements but do not participate in the company's defined benefit pension schemes. The executive directors can choose to participate in the company's defined contribution pension arrangements.
(4) The 2017 value relates to an LTI award granted in 2015. Performance has been assessed over the three year period to 31 December 2017 as set out below together with an estimate of the vesting value. The award will vest in two equal tranches in March 2019 and March 2020. The value for 2016 has been amended from the estimated value of £1,030,000 provided in the 2016 report to reflect the actual value on the vesting date in March 2017.

2015 LTI – final assessment of performance measures (audited)

An assessment of performance of each relevant element was provided by internal control functions and PwC assessed relative Total Shareholder Return (TSR) performance against a peer group of comparator banks.

<table>
<tr><th>Performance Measures (and weightings)</th><th>Performance for minimum vesting</th><th>Vesting at minimum</th><th>Performance for maximum (100%) vesting</th><th>Actual Performance</th><th colspan="2">Vesting outcome</th><th>Weighted Vesting %</th></tr>
<tr><td>Economic Profit
(25%)</td><td>(£500 million)</td><td>25%</td><td>£500 million</td><td>£613 million</td><td colspan="2">100%</td><td>25%</td></tr>
<tr><td>Relative TSR
(25%)</td><td>TSR at median</td><td>20%</td><td>TSR at upper quartile</td><td>Below median</td><td colspan="2">0%</td><td>0%</td></tr>
<tr><td>Safe & Secure Bank
(25%)
CET1 ratio - 12.5%
Cost:income ratio – 12.5%</td><td colspan="3">Vesting between 0% - 100%
can be qualified by Committee discretion
CET1 ratio target: 13% (or above)
Cost:income ratio target (go-forward bank basis): 56% (or below)</td><td>CET1 ratio: 15.9%
Cost:income ratio: 55%</td><td colspan="2">100%</td><td>25%</td></tr>
<tr><td rowspan="3">Customers & People
(25%)
Split across advocacy, trust and employee engagement
Net Promoter Score (NPS) – 6.25%
Net Trust Score (NTS) – 6.25%
Engagement Index (EI) – 12.5%</td><td colspan="3" rowspan="3">Vesting between 0% - 100%
can be qualified by Committee discretion
NPS target: Gap to number 1 of 6.0
NTS target: NatWest 55, RBS 42
EI target: within 2 points of Global Financial Services (GFS) norm</td><td>NPS Gap to number 1 of 15.5</td><td>0%</td><td rowspan="3">68%</td><td rowspan="3">17%</td></tr>
<tr><td>NTS: NatWest 59
RBS 22</td><td>70%</td></tr>
<tr><td>EI: 1 point above GFS norm</td><td>100%</td></tr>
<tr><td colspan="7">Initial vesting outcome</td><td>67%</td></tr>
<tr><td colspan="7">Final vesting outcome post application of underpin</td><td>60%</td></tr>
</table>

Economic Profit was based on the go-forward basis and defined as operating profit after tax and preference share charges less tangible net asset value multiplied by the cost of equity. The companies in the relative TSR group for this award were: Barclays, Lloyds Banking Group, HSBC, Standard Chartered, BBVA, BNP Paribas, Crédit Agricole, Credit Suisse Group, Deutsche Bank, Santander, Société Générale, UBS, Unicredito. For the Trust metric of the Customers & People section, the NatWest target was met while the RBS target had been missed. The 70% vesting for this element was calculated in line with the weightings of the brands, split 70%/30% for NatWest/RBS, based on the relative revenues of the respective brands.

In making its final judgement, the Committee considered the overall context of performance, noting positive progress on Economic Profit which had exceeded the stretch target and the strong CET1 ratio and took into account input received from the Board Risk Committee. Significant improvement had also been achieved in employee engagement scores which again had exceeded target. However, the Committee also noted that the NPS, Trust for the RBS brand and relative TSR targets had been missed. Taking all circumstances into account, the Committee determined it would be appropriate to apply the underpin and reduce the final vesting outcome from 67% to 60%.

2015 LTI vesting amounts included in the total remuneration table (audited)

The executive directors were granted an LTI award in March 2015. The performance conditions ended on 31 December 2017 and have been assessed as set out on the previous page. The average share price over the last three months of the financial year has been used to estimate the value. While the performance conditions have been assessed, the shares will not vest until March 2019 and March 2020.

		Ross McEwan			Ewen Stevenson		
Performance category	% vesting	Maximum shares (1)	Shares due to vest	Estimated value (2)	Maximum shares (1)	Shares due to vest	Estimated value (2)
Economic Profit	100%	154,624	154,624		214,121	214,121	
Relative TSR	0%	154,624	—		214,121	—	
Safe & Secure Bank	100%	154,624	154,624		214,121	214,121	
Customers & People	68%	154,624	105,145		214,121	145,602	
Maximum shares for performance assessment		618,496			856,484		
Initial outcome following assessment (67% vesting)			414,393			573,844	
Final outcome post application of underpin (60% vesting)			371,098	£1,024,230		513,890	£1,418,336

Notes:
(1) The maximum number of shares is calculated in line with the underlying award structure. Each performance category could vest up to 100% of the maximum number of shares subject to the approved policy and the regulatory cap. For the 2015 award, the number of shares capped at grant was 417,486 for Ross McEwan and 578,128 shares for Ewen Stevenson. In both cases the vesting outcomes fall within the respective cap.
(2) Based on a RBS share price of £2.76, the average over the three month period from October to December 2017.

Total remuneration paid to the Chairman and non-executive directors for 2017 (audited)

The US Risk Committee was stood down in May 2017. The Board established a Technology and Innovation Committee with effect from 1 September 2017. This demonstrates the importance the Board places on overseeing and monitoring RBS's strategic direction in relation to technology and innovation. Fees for non-executive directors sitting on the NatWest Markets Working Group, which considers transitional arrangements in preparation for the establishment of the NatWest Markets Board, were brought into line with the other main Board Committees. A Board Oversight Committee was established in September 2017 in order to provide oversight of required enhancements to the governance and risk management practices within Ulster Bank Ireland DAC reporting to the Board, as appropriate. Fees were payable for this Committee with effect from 1 October 2017.

The total fees paid during 2017 are set out below.

Chairman (composite fee)	Fees 2017 £000	Fees 2016 £000	Benefits 2017 £000	Benefits 2016 £000	Total 2017 £000	Total 2016 £000
Howard Davies (1)	750	750	11	8	761	758

Non-executive directors (2)	Board £000	Noms & Gov £000	GAC £000	RemCo £000	BRC £000	SBC £000	TIC £000	NWM £000	GRG BOC £000	UBI DAC BOC £000	Other £000	Fees 2017 £000	Fees 2016 £000	Benefits 2017 £000	Benefits 2016 £000	Total 2017 £000	Total 2016 £000
Sandy Crombie (3)	77	15	30	60					15	4	30	231	223	30	38	261	261
Frank Dangeard	77				30		10	18				135	58	3	4	138	62
Alison Davis (4)	77	10		30		30	20					167	147	30	21	197	168
Morten Friis (3)	77		30		30						11	148	159	42	39	190	198
Robert Gillespie	77	15		30		30		30	15			197	210	11	10	208	220
John Hughes (5)												—	—	—	—	—	—
Penny Hughes (4)	77	5			30	60			15			187	178	11	8	198	186
Yasmin Jetha (5)	42					13	10					65	—	2	—	67	—
Brendan Nelson	77	15	60		30				30	4		216	211	23	31	239	242
Baroness Noakes (3)(4)	77	5	30		60				15	4	5	196	192	16	8	212	200
Mike Rogers	77			30		30						137	88	16	11	153	99
Mark Seligman (4)(5)	59	5								4		68	—	4	—	72	—

Notes:
(1) The benefits column for Howard Davies includes private medical cover.
(2) In line with market practice, non-executive directors are reimbursed expenses incurred in connection with travel and attendance at Board meetings. HMRC has confirmed that it deems these expenses as taxable where the Board meetings take place at the company's main offices in London and Edinburgh. The value in the benefits column above, including restated amounts for 2016, is the value of the assistance provided together with the associated tax liability which RBS settles on behalf of the non-executive directors.
(3) Under the 'Other' column, Sandy Crombie received fees as the Senior Independent Director. Morten Friis and Baroness Noakes received fees in respect of the US Risk Committee until it was stood down on 11 May 2017.
(4) Alison Davis stepped down from the Nominations and Governance Committee and Penny Hughes, Baroness Noakes and Mark Seligman were appointed to the Nominations and Governance Committee during the year.
(5) Mark Seligman joined the Board on 1 April 2017 and Yasmin Jetha joined the Board on 21 June 2017. John Hughes joined the Board on 21 June 2017 but stepped down with effect from 1 September 2017 due to health reasons. Mr Hughes made a voluntary decision to repay the fees that he received for this period.

Key to table:

Noms & Gov	Group Nominations and Governance Committee
GAC	Group Audit Committee
RemCo	Group Performance and Remuneration Committee
BRC	Board Risk Committee
SBC	Sustainable Banking Committee
TIC	Technology and Innovation Committee
NWM	NatWest Markets Working Group
GRG BOC	Board Oversight Committee for the GRG business areas
UBI DAC BOC	Board Oversight Committee for the Ulster Bank Ireland business

Financial results

Strategic report

Important note

The Strategic report forms part of the 2017 Annual Report and Accounts (Report and Accounts). It does not contain sufficient information to allow for a full understanding of the results of the Group or of the state of affairs of the company. The Group's results and financial condition could be adversely affected by certain risks and uncertainties, including the outcome of litigation and investigations. For further information, the 2017 Report and Accounts, the auditor's report on those accounts and the Report of the directors should be consulted.

Shareholders can obtain a copy of the Report and Accounts and may also elect to receive all future Report and Accounts, free of charge, by contacting our Registrar, details of which can be found on page 66. A copy can be viewed on the Group's website rbs.com/annualreport.

Report of the auditor

The auditor's report on the full accounts and the auditable part of the Directors' remuneration report for the year ended 31 December 2017 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.

RBS Group ring-fencing

The UK ring-fencing legislation requiring the separation of essential banking services from investment banking services will take effect from 1 January 2019.

To comply with these requirements it is RBS's intention to place the majority of the UK and Western European banking business in ring-fenced banking entities under an intermediate holding company. NatWest Markets Plc (NatWest Markets) will be a separate non ring-fenced bank and The Royal Bank of Scotland International (Holdings) Limited (RBSI Holdings) will also be placed outside the ring-fence, both as direct subsidiaries of RBSG.

The final ring-fenced legal structure and the actions to be taken to achieve it, remain subject to, amongst other factors, additional regulatory, Board and other approvals as well as employee information and consultation procedures. All such actions and their respective timings may be subject to change, or additional actions may be required, including as a result of external and internal factors including further regulatory, corporate or other developments.

On 1 January 2017, RBS made a number of key changes to the legal hierarchy of its subsidiaries to support the move towards a ring-fenced structure. As part of continuing preparation to deliver a fully compliant ring-fencing structure by 1 January 2019, it plans to undertake a further series of actions as follows:

November 2017

On 21 November 2017, The Royal Bank of Scotland plc (RBS plc) applied to the Court of Session in Edinburgh (the Court) to initiate a "Ring-Fencing Transfer Scheme" (RFTS) under the Financial Services and Markets Act 2000, including:

- Transfer its UK retail & commercial banking business to Adam & Company PLC (Adam);
- Transfer its covered bonds in issue and Mentor business to National Westminster Bank Plc (NatWest); and
- Transfer branches and other properties to either NatWest or Adam.

The RFTS is expected to take effect over the weekend of 28-30 April 2018. At the same time, RBS plc will be renamed "NatWest Markets Plc", Adam will be renamed "The Royal Bank of Scotland plc" and assume banknote-issuing responsibility.

May 2018

In May 2018, RBS intends to commence, in the Court, a second RFTS to transfer certain derivatives from NatWest to NatWest Markets Plc (former RBS plc). If approved by the Court, the transfers are expected to be implemented in August 2018.

July 2018

In July 2018, RBS plans to restructure the NatWest Markets Plc (former RBS plc) capital structure via a Court approved capital reduction. As part of this restructure, the shares in NatWest Holdings Limited, which owns the ring-fenced sub-group, will be distributed to RBSG. This will separate the ring-fenced sub-group from the non-ring-fenced entities, as required by the ring-fencing legislation.

January 2019

Once the RFTS, other restructuring and the ring-fencing legislation is in force:

Ring-fenced activities

- RBS plc (former Adam) will manage the RBS branded banking business in its UK branch network;
- NatWest will continue to manage NatWest branded banking business and its branch network in the UK and Western Europe;
- NatWest will operate as the shared service provider to the rest of the Group and will act as the market-facing arm for the ring-fenced banking group's payments and hedging activities;
- Adam will continue to be a trading name of RBS plc (former Adam) and will continue to operate its private banking and wealth management activities;
- Coutts & Company will continue its private banking and wealth management activities; and
- Ulster Bank Limited and Ulster Bank Ireland DAC will continue to operate in Northern Ireland and the Republic of Ireland respectively.

Financial results

Non-ring-fenced activities

- NatWest Markets Plc (former RBS plc) will continue to undertake RBS's trading and investment banking activities; and
- RBS International Limited (RBSI), along with Isle of Man Bank, will continue to serve the markets and customers it serves today. In addition, RBSI becomes the focal point for funds banking activity through its recently opened London branch.

Segmental reporting

Segmental reorganisation and business transfers

RBS continues to deliver on its plan to build a strong, simple and fair bank for both customers and shareholders. To support this, and in preparation for the UK ring-fencing regime, the previously reported operating segments were realigned in Q4 2017 and a number of business transfers completed.

Segmental reorganisation

The previously reported operating segments are now realigned and comparatives have been re-presented as follows:

- The former Williams & Glyn reportable operating segment has been integrated into the UK PBB reportable segment;
- The former Capital Resolution reportable operating segment has been integrated into the NatWest Markets reportable segment, with the exception of the costs in relation to the RMBS claims, which have been transferred to the Central & Other items reportable segment; and
- The RBSI reportable operating segment is no longer presented within the CPB franchise.

Business transfers

On 1 October 2017 the following changes were made to RBS's businesses, which impacts its financial reporting but where comparatives have not been re-presented:

- Shipping and other activities, which were formerly in Capital Resolution, were transferred from the NatWest Markets reportable segment to the Commercial Banking reportable segment.
- UK PBB Collective Investment Funds (CIFL) business was transferred to the Private Banking reportable segment in order to better serve customers.
- The RBS International (RBSI) reportable operating segment was aligned to the legal entity The Royal Bank of Scotland International (Holdings) Limited. This predominantly involved transfers from Private Banking, and Services and Functions within Central items & other in preparation for the implementation of the UK ring-fencing regime.
- Commercial Banking whole business securitisations and relevant financial institutions (RFI) were transferred to NatWest Markets during December 2017. RFIs are prohibited from being within the ring-fence due to their nature and exposure to global financial markets. The move is in preparation for the implementation of the UK ring-fencing regime.

Reportable operating segments

Following the changes detailed, the reportable operating segments are as follows:

Personal & Business Banking (PBB) comprises two reportable segments: UK Personal & Business Banking (UK PBB) and Ulster Bank RoI. UK PBB serves individuals and mass affluent customers in the UK together with small businesses (generally up to £2 million turnover). UK PBB includes Ulster Bank customers in Northern Ireland. Ulster Bank RoI serves individuals and businesses in the Republic of Ireland (RoI).

Commercial & Private Banking (CPB) comprises two reportable segments: Commercial Banking and Private Banking. Commercial Banking serves commercial and corporate customers in the UK and Western Europe. Private Banking serves UK connected high net worth individuals.

RBS International (RBSI) serves retail, commercial, corporate and financial institution customers in Jersey, Guernsey, Isle of Man and Gibraltar and financial institution customers in Luxembourg and London.

NatWest Markets offers corporate and institutional customers global market access, providing them with trading, risk management and financing solutions through its trading and sales operations in London, Singapore and Stamford and sales offices in Dublin, Hong Kong and Tokyo.

Central items & other includes corporate functions, such as RBS treasury, finance, risk management, compliance, legal, communications and human resources. Central functions manages RBS capital resources and RBS-wide regulatory projects and provides services to the reportable segments. Balances in relation to legacy litigation issues and the international private banking business are included in the relevant periods.

Allocation of central balance sheet items

RBS allocates all central costs relating to Services and Functions to the business using appropriate drivers, these are reported as indirect costs in the segmental income statements. Assets (and risk-weighted assets) held centrally, mainly relating to RBS Treasury, are allocated to the business using appropriate drivers.

Business divestments

Citizens

RBS sold the final tranche of its interest in Citizens Financial Group, Inc. during the second half of 2015. Consequently, Citizens was classified as a disposal group at 31 December 2014 and presented as a discontinued operation until October 2015. From 3 August 2015 until the final tranche was sold in October 2015, Citizens was an associated undertaking.

Financial results

Summary consolidated income statement for the year ended 31 December 2017

	2017 £m	2016 £m
Net interest income	8,987	8,708
Non-interest income	4,146	3,882
Total income	13,133	12,590
Litigation and conduct costs	(1,285)	(5,868)
Restructuring costs	(1,565)	(2,106)
Other expenses	(7,551)	(8,220)
Operating expenses	(10,401)	(16,194)
Profit/(loss) before impairment losses	2,732	(3,604)
Impairment losses	(493)	(478)
Operating profit/(loss) before tax	2,239	(4,082)
Tax charge	(824)	(1,166)
Profit/(loss) for the year	1,415	(5,248)
Attributable to:		
Non-controlling interests	35	10
Preference shareholders	234	260
Paid-in equity holders	394	244
Dividend access share	—	1,193
Ordinary shareholders	752	(6,955)
	1,415	(5,248)
Per ordinary share		
Basic and diluted earnings/(loss) from continuing operations	6.3p	(59.5p)
Basic and diluted earnings/(loss) from continuing and discontinued operations	6.3p	(59.5p)

Summary consolidated statement of comprehensive income for the year ended 31 December 2017

	2017 £m	2016 £m
Profit/(loss) for the year	1,415	(5,248)
Items that do not qualify for reclassification		
Profit/(loss) on remeasurement of retirement benefit schemes	90	(1,049)
Loss on fair value of credit in financial liabilities designated at fair value through profit or loss due to own credit risk	(126)	—
Tax	(10)	288
	(46)	(761)
Items that do qualify for reclassification		
Available-for-sale financial assets	26	(94)
Cash flow hedges	(1,069)	765
Currency translation	100	1,263
Tax	256	(106)
	(687)	1,828
Other comprehensive (loss)/income after tax	(733)	1,067
Total comprehensive profit/(loss) for the year	682	(4,181)
Attributable to:		
Non-controlling interests	52	121
Preference shareholders	234	260
Paid-in equity holders	394	244
Dividend access share	—	1,193
Ordinary shareholders	2	(5,999)
	682	(4,181)

Financial results

Summary consolidated balance sheet as at 31 December 2017

	2017 £m	2016 £m
Assets		
Cash and balances at central banks	98,337	74,250
Loans and advances to banks	30,251	30,138
Loans and advances to customers	349,919	351,950
Debt securities	78,933	72,522
Equity shares	450	703
Settlement balances	2,517	5,526
Derivatives	160,843	246,981
Intangible assets	6,543	6,480
Property, plant and equipment	4,602	4,590
Deferred tax	1,740	1,803
Prepayments, accrued income and other assets	3,726	3,700
Assets of disposal groups	195	13
Total assets	738,056	798,656
Liabilities		
Deposits by banks	46,898	38,556
Customer accounts	398,036	380,968
Debt securities in issue	30,559	27,245
Settlement balances	2,844	3,645
Short positions	28,527	22,077
Derivatives	154,506	236,475
Provisions for liabilities and charges	7,757	12,836
Accruals and other liabilities	6,392	6,991
Retirement benefit liabilities	129	363
Deferred tax	583	662
Subordinated liabilities	12,722	19,419
Liabilities of disposal groups	10	15
Total liabilities	688,963	749,252
Non-controlling interests	763	795
Owners' equity	48,330	48,609
Total equity	49,093	49,404
Total liabilities and equity	738,056	798,656
Memorandum items		
Contingent liabilities and commitments	136,050	150,691

Analysis of results
Segmental summary income statements

2017	PBB UK PBB £m	PBB Ulster Bank RoI £m	CPB Commercial Banking £m	CPB Private Banking £m	RBS International £m	NatWest Markets £m	Central items & other £m	Total RBS £m
Total income - adjusted	6,477	607	3,484	678	389	1,090	137	12,862
Own credit adjustments	—	(3)	—	—	—	(66)	—	(69)
Loss on redemption of own debt	—	—	—	—	—	—	(7)	(7)
Strategic disposals	—	—	—	—	—	26	321	347
Total income	6,477	604	3,484	678	389	1,050	451	13,133
Operating expenses - adjusted	(3,158)	(451)	(1,814)	(445)	(202)	(1,528)	47	(7,551)
Restructuring costs	(461)	(56)	(167)	(45)	(9)	(436)	(391)	(1,565)
Litigation and conduct costs	(210)	(169)	(33)	(39)	(8)	(237)	(589)	(1,285)
Operating expenses	(3,829)	(676)	(2,014)	(529)	(219)	(2,201)	(933)	(10,401)
Impairment (losses)/releases	(235)	(60)	(362)	(6)	(3)	174	(1)	(493)
Operating profit/(loss) - adjusted	3,084	96	1,308	227	184	(264)	183	4,818
Operating profit/(loss)	2,413	(132)	1,108	143	167	(977)	(483)	2,239
Return on equity (1)	23.7%	(5.0%)	6.6%	6.4%	11.2%	(9.0%)	nm	2.2%
Return on equity - adjusted (1,2)	30.7%	3.6%	8.2%	11.3%	12.6%	(3.7%)	nm	8.8%
Cost income ratio (3)	59.1%	111.9%	56.0%	78.0%	56.3%	nm	nm	79.0%
Cost income ratio - adjusted (2,3)	48.8%	74.3%	50.0%	65.6%	51.9%	140.2%	nm	58.2%
2016								
Total income - adjusted	6,127	573	3,415	657	374	1,106	120	12,372
Own credit adjustments	—	3	—	—	—	187	(10)	180
Loss on redemption of own debt	—	—	—	—	—	—	(126)	(126)
Strategic disposals	—	—	—	—	—	(81)	245	164
Total income	6,127	576	3,415	657	374	1,212	229	12,590
Operating expenses - adjusted	(3,398)	(457)	(1,936)	(511)	(169)	(2,084)	335	(8,220)
Restructuring costs	(244)	(40)	(108)	(37)	(5)	(190)	(1,482)	(2,106)
Litigation and conduct costs	(634)	(172)	(423)	(1)	—	(550)	(4,088)	(5,868)
Operating expenses	(4,276)	(669)	(2,467)	(549)	(174)	(2,824)	(5,235)	(16,194)
Impairment (losses)/releases	(125)	113	(206)	3	(10)	(253)	—	(478)
Operating profit/(loss) - adjusted	2,604	229	1,273	149	195	(1,231)	455	3,674
Operating profit/(loss)	1,726	20	742	111	190	(1,865)	(5,006)	(4,082)
Return on equity (1)	16.2%	0.7%	4.1%	5.6%	13.8%	(12.5%)	nm	(17.9%)
Return on equity - adjusted (1,2)	25.1%	8.4%	8.4%	7.8%	14.2%	(8.7%)	nm	1.6%
Cost income ratio (3)	69.8%	116.1%	71.0%	83.6%	46.5%	nm	nm	129.0%
Cost income ratio - adjusted (2,3)	55.5%	79.8%	54.8%	77.8%	45.2%	188.4%	nm	66.0%
2015								
Total income - adjusted	6,033	550	3,254	644	367	1,809	377	13,034
Own credit adjustments	—	—	—	—	—	295	14	309
Loss on redemption of own debt	—	—	—	—	—	—	(263)	(263)
Strategic disposals	—	—	—	—	—	(38)	(119)	(157)
Total income	6,033	550	3,254	644	367	2,066	9	12,923
Operating expenses - adjusted	(3,397)	(427)	(1,801)	(518)	(156)	(3,006)	(51)	(9,356)
Restructuring costs	(195)	(15)	(69)	(73)	(4)	(1,831)	(744)	(2,931)
Litigation and conduct costs	(972)	13	(51)	(12)	—	(404)	(2,142)	(3,568)
Write down of goodwill	—	—	—	(498)	—	—	—	(498)
Operating expenses	(4,564)	(429)	(1,921)	(1,101)	(160)	(5,241)	(2,937)	(16,353)
Impairment (losses)/releases	(8)	141	(69)	(13)	—	730	(54)	727
Operating profit/(loss) - adjusted	2,628	264	1,384	113	211	(467)	272	4,405
Operating profit/(loss)	1,461	262	1,264	(470)	207	(2,445)	(2,982)	(2,703)
Return on equity (1)	13.5%	10.6%	9.8%	(27.7%)	18.5%	(11.2%)	nm	(4.7%)
Return on equity - adjusted (1,2)	25.3%	10.6%	10.9%	4.9%	18.9%	(3.0%)	nm	11.0%
Cost income ratio (3)	75.7%	78.0%	57.2%	171.0%	43.6%	nm	nm	126.9%
Cost income ratio - adjusted (2,3)	56.3%	77.6%	53.3%	80.4%	42.5%	166.2%	nm	71.4%

Notes:
(1) RBS's CET 1 target is 13% but for the purposes of computing segmental return on equity (ROE), to better reflect the differential drivers of capital usage, segmental operating profit after tax and adjusted for preference dividends is divided by average notional equity allocated at different rates of 14% (Ulster Bank RoI - 11% prior to 2017), 11% (Commercial Banking), 14% (Private Banking - 15% prior to 2017), 16% (RBS International - 12% prior to November 2017) and 15% for all other segments, of the monthly average of segmental risk-weighted assets incorporating the effect of capital deductions (RWAes). Return on equity is calculated using profit for the period attributable to ordinary shareholders.
(2) Excluding own credit adjustments, (loss)/gain on redemption of own debt, strategic disposals, restructuring costs, litigation and conduct costs and write down of goodwill.
(3) Operating lease depreciation included in income (year ended December 2017 - £142 million; Q4 2017 - £35 million; year ended 31 December 2016 - £152 million, Q3 2017 - £35 million and Q4 2016 - £37 million).

Climate-related Financial Disclosure

Approach to the Financial Stability Board's Task Force on Climate-related Financial Disclosure (TCFD) recommendations

In 2016, the Financial Stability Board (FSB) launched an industry-led initiative, the Task Force on Climate-related Financial Disclosure, to review how to best manage the threat climate change presents to the stability of the global financial system. The mandate was to develop recommendations for voluntary, consistent climate-related risk to provide information to stakeholders. The Task Force considered the physical, liability and transition risks associated with climate change.

The Task Force published its final recommendations in June 2017. RBS welcomed the release of these recommendations and is committed to implementing them. RBS has reported on carbon emissions and climate-related matters, and submitted information to the CDP sustainability index, since 2003.

Governance

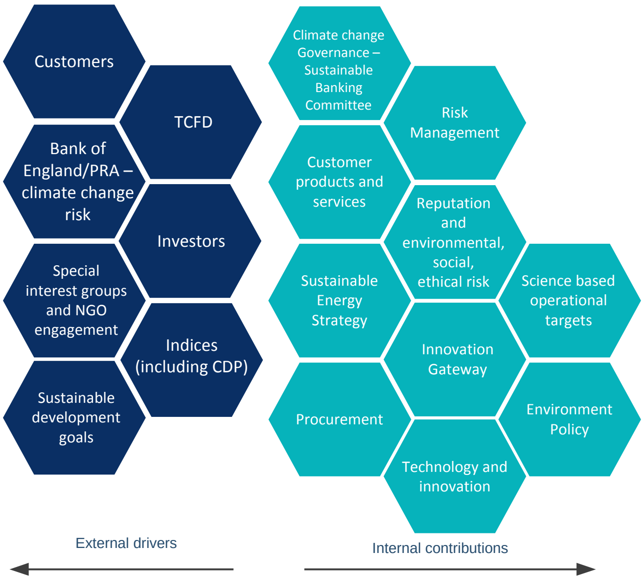
The Board has oversight of climate related risks and opportunities through the Sustainable Banking Committee (SBC). SBC's remit includes considering relevant environmental, social and ethical issues and during 2017 was engaged on environmental targets, the sustainable energy strategy and reputational risk appetite. In addition, in August 2017 SBC invited a group of external experts to attend a stakeholder engagement session on climate change risk. For further details on risk governance, refer to the 2017 Annual Report and Accounts: Capital and risk management section.

At a franchise level, climate-related opportunities in relation to supporting customers through the low carbon transition are managed and assessed through the business and products approvals processes, with strategy and co-ordination undertaken by the cross-bank Sustainable Energy Forum (SEF). This forum brings together senior leaders from across RBS who support customers from SMEs to multinationals to achieve their sustainable energy ambitions.

Strategy

The RBS climate change strategy is driven by a range of external and internal drivers and encompasses all activities covering both direct and indirect impacts.

Climate Change Strategy Drivers



Direct impacts

The strategy for managing direct climate change impacts is focused on continued efficiency of buildings, processes and associated activities such as business travel. In 2017 90% of UK and Republic of Ireland electricity usage was from renewable sources (66% globally). RBS is also investing in its property estate to reduce energy usage and waste. This is further supported by the Innovation Gateway initiative for green entrepreneurs. The property strategy has and will aim to continue to result in a material reduction in footprint which in aggregate will reduce the exposure to direct physical impacts for climate-related risks.

RBS also continues to refine its business continuity plans to deal with the impact of severe weather to operations and sees the shift to digital and mobile banking as helping to improve the resilience of the business and customers' activities during severe weather.

Indirect impacts

The strategy for managing indirect climate change impacts is focused on supporting customers with the transition to a low carbon economy through the provision of financial products and services. RBS is committed to ensuring it does not miss the substantial opportunities available to finance low carbon technologies and has been recognised externally as a leader in supporting renewable energy finance. RBS expects these, and wider opportunities to continue to grow in the future.

Risk Management

RBS employs a continuous process for identifying and managing emerging risks, including climate-related risks. While no climate-related risks have been identified that would have a major impact on RBS's strategy over a five-year horizon, the ability to manage new, emerging and unforeseen threats is a key element of the risk management framework.

The impact of climate-related issues on the risk profile of RBS's customers may also be considered as part of the periodic sector reviews and deep dives carried out to monitor and assess different types of risk across the portfolios. Further climate scenario analysis will be undertaken in 2018.

RBS has significantly reduced its credit exposure to the sectors most vulnerable to climate-related regulation and market changes. At 31 December 2017, total exposure to the Power and Oil & Gas sectors had reduced to 1.2% of total lending exposures.

RBS has had a policy in place for ESE risks since 2011. The policy includes sectors sensitive to climate-related risk, such as Forestry, Fisheries and Agriculture, and prohibits lending activity to some industry types proven to have a material adverse environmental impact.

Metrics and Targets

RBS uses a range of metrics and targets to assess our climate related risks and opportunities. These include: climate impacts from our operations (refer to page 30); exposure to high carbon sectors and lending to support sustainable energy sectors. For further information refer to the Sustainable Banking pages on rbs.com.

Shareholder information

Financial calendar

Dividends

Payment dates

Cumulative preference shares	31 May and 31 December 2018
Non-cumulative preference shares	29 March, 29 June, 28 September and 31 December 2018

Ex-dividend date

Cumulative preference shares	3 May 2018

Record date

Cumulative preference shares	4 May 2018

Interim results	3 August 2018

Shareholder enquiries

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

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

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

You may also check your shareholding by contacting our Registrar:

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: +44 (0)370 702 0135
Fax: +44 (0)370 703 6009
Website: www-uk.computershare.com/investor/contactus

Braille and audio Strategic report with additional information

Shareholders requiring a Braille or audio version of the Strategic report with additional information should contact the Registrar on +44 (0)370 702 0135.

ShareGift

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

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

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

ShareGift, The Orr Mackintosh Foundation
4th Floor Rear, 67/68 Jermyn Street, London SW1Y 6NY
Telephone: +44 (0)20 7930 3737
Website: www.sharegift.org

Shareholder information

Share and bond scams

Share and bond scams are often run from 'boiler rooms' where fraudsters cold-call investors, after obtaining their phone number from publicly available shareholder lists, offering them worthless, overpriced or even non-existent shares or bonds.

They use increasingly sophisticated tactics to approach investors, offering to buy or sell shares, often pressuring investors to make a quick decision or miss out on the deal. Contact can also be in the form of email, post or word of mouth. Scams are sometimes advertised in newspapers, magazines or online as genuine investment opportunities and may offer free gifts or discounts on dealing charges.

Scammers will request money upfront, as a bond or other form of security, but victims are often left out of pocket, sometimes losing their savings or even their family home. Even seasoned investors have been caught out by scams.

Clone firms

A 'clone firm' uses the name, firm registration number (FRN) and address of a firm which is FCA authorised. The scammer may claim that the genuine firm's contact details on the FCA Register (Register) are out of date and then use their own details, or copy the website of an authorised firm, making subtle changes such as the phone number. They may claim to be an overseas firm, which won't always have full contact and website details listed on the Register.

How to protect yourself

Always be wary if you're contacted out of the blue, pressured to invest quickly, or promised returns that sound too good to be true. FCA authorised firms are unlikely to contact you unexpectedly with an offer to buy or sell shares or bonds.

Check the Register to ensure the firm contacting you is authorised and also check the FCA's Warning List of firms to avoid.

Ask for their (FRN) and contact details and then contact them using the telephone number on the Register. Never use a link in an email or website from the firm offering you an investment.

It is strongly advised that you seek independent professional advice before making any investment.

Report a scam

If you suspect that you have been approached by fraudsters, or have any concerns about a potential scam, report this to the FCA by contacting their Consumer Helpline on 0800 111 6768 or by using their reporting form which can be found at www.fca.org.uk/consumers/report-scam-unauthorised-firm

If you have already invested in a scam, fraudsters are likely to target you again or sell your details to other criminals. The follow-up scam may be completely separate, or may be related to the previous scam in the form of an offer to get your money back or buy back the investment on payment of a fee.

Find out more at www.fca.org.uk/consumers

Analyses of ordinary shareholders

At 31 December 2017	Shareholdings	Number of shares - millions	%
Individuals	183,630	102.1	0.8
Banks and nominee companies	5,491	11,833.8	98.9
Investment trusts	61	0.7	—
Insurance companies	64	0.5	—
Other companies	515	6.7	0.1
Pension trusts	22	0.1	—
Other corporate bodies	75	20.7	0.2
	189,858	11,964.6	100.0
Range of shareholdings:			
1 - 1,000	164,339	40.2	0.3
1,001 - 10,000	23,843	54.0	0.4
10,001 - 100,000	1,004	30.0	0.3
100,001 - 1,000,000	446	152.2	1.3
1,000,001 - 10,000,000	176	598.1	5.0
10,000,001 and over	50	11,090.1	92.7
	189,858	11,964.6	100.0

Forward-looking statements

Cautionary statement regarding forward-looking statements

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'commit', 'believe', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'may', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on these expressions.

In particular, this document includes forward-looking statements relating, but not limited to: future profitability and performance, including financial performance targets such as return on tangible equity; cost savings and targets, including cost:income ratios; litigation and government and regulatory investigations, including the timing and financial and other impacts thereof; structural reform and the implementation of the UK ring-fencing regime; the implementation of RBS's transformation programme, including the further restructuring of the NatWest Markets franchise; the satisfaction of the Group's residual EU State Aid obligations; the continuation of RBS's balance sheet reduction programme, including the reduction of risk-weighted assets (RWAs) and the timing thereof; capital and strategic plans and targets; capital, liquidity and leverage ratios and requirements, including CET1 Ratio, RWA equivalents (RWAe), Pillar 2 and other regulatory buffer requirements, minimum requirement for own funds and eligible liabilities, and other funding plans; funding and credit risk profile; capitalisation; portfolios; net interest margin; customer loan and income growth; the level and extent of future impairments and write-downs, including with respect to goodwill; restructuring and remediation costs and charges; future pension contributions; RBS's exposure to political risks, operational risk, conduct risk, cyber and IT risk and credit rating risk and to various types of market risks, including as interest rate risk, foreign exchange rate risk and commodity and equity price risk; customer experience including our Net Promoter Score (NPS); employee engagement and gender balance in leadership positions.

Limitations inherent to forward-looking statements

These statements are based on current plans, estimates, targets and projections, and are subject to significant inherent risks, uncertainties and other factors, both external and relating to the Group's strategy or operations, which may result in the Group being unable to achieve the current targets, predictions, expectations and other anticipated outcomes expressed or implied by such forward-looking statements. In addition certain of these disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations, including assumptions and estimates made by management. By their nature, certain of these disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated. Accordingly, undue reliance should not be placed on these statements. Forward-looking statements speak only as of the date we make them and we expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.

Important factors that could affect the actual outcome of the forward-looking statements

We caution you that a large number of important factors could adversely affect our results or our ability to implement our strategy, cause us to fail to meet our targets, predictions, expectations and other anticipated outcomes or affect the accuracy of forward-looking statements we describe in this document, including in the risk factors and other uncertainties set out in the Group's 2017 Annual Report and other risk factors and uncertainties discussed in this document. These include the significant risks for RBS presented by the outcomes of the legal, regulatory and governmental actions and investigations that RBS is or may be subject to and any resulting material adverse effect on RBS of unfavourable outcomes and the timing thereof (including where resolved by settlement); economic, regulatory and political risks, including as may result from the uncertainty arising from Brexit and from the outcome of general elections in the UK and changes in government policies; RBS's ability to satisfy its residual EU State Aid obligations and the timing thereof; RBS's ability to successfully implement the significant and complex restructuring required to be undertaken in order to implement the UK ring-fencing regime and related costs; RBS's ability to successfully implement the various initiatives that are comprised in its restructuring and transformation programme, particularly the proposed further restructuring of the NatWest Markets franchise, the balance sheet reduction programme and its significant cost-saving initiatives and whether RBS will be a viable, competitive, customer focused and profitable bank especially after its restructuring and the implementation of the UK ring-fencing regime; the dependence of the Group's operations on its IT systems; the exposure of RBS to cyber-attacks and its ability to defend against such attacks; RBS's ability to achieve its capital, funding, liquidity and leverage requirements or targets which will depend in part on RBS's success in reducing the size of its business and future profitability as well as developments which may impact its CET1 capital including additional litigation or conduct costs, additional pension contributions, further impairments or accounting changes; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity or failure to pass mandatory stress tests; RBS's ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBS, RBS entities or the UK government; declining revenues resulting from lower customer retention and revenue generation in light of RBS's strategic refocus on the UK; as well as increasing competition from new incumbents and disruptive technologies.

In addition, there are other risks and uncertainties that could adversely affect our results, ability to implement our strategy, cause us to fail to meet our targets or the accuracy of forward-looking statements in this document.

These include operational risks that are inherent to RBS's business and will increase as a result of RBS's significant restructuring and transformation initiatives being concurrently implemented; the potential negative impact on RBS's business of global economic and financial market conditions and other global risks, including risks arising out of geopolitical events and political developments; the impact of a prolonged period of low interest rates or unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; heightened regulatory and governmental scrutiny (including by competition authorities) and the increasingly regulated environment in which RBS operates as well as divergences in regulatory requirements in the jurisdictions in which RBS operates; the risks relating to RBS's IT systems or a failure to protect itself and its customers against cyber threats, reputational risks; risks relating to increased pension liabilities and the impact of pension risk on RBS's capital position, including on any requisite management buffer; risks relating to the failure to embed and maintain a robust conduct and risk culture across the organisation or if its risk management framework is ineffective; RBS's ability to attract and retain qualified personnel; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; the value and effectiveness of any credit protection purchased by RBS; risks relating to the reliance on valuation, capital and stress test models and any inaccuracies resulting therefrom or failure to accurately reflect changes in the micro and macroeconomic environment in which RBS operates, risks relating to changes in applicable accounting policies or rules which may impact the preparation of RBS's financial statements or adversely impact its capital position; the impact of the recovery and resolution framework and other prudential rules to which RBS is subject; the application of stabilisation or resolution powers in significant stress situations; contribution to relevant compensation schemes; the execution of the run-down and/or sale of certain portfolios and assets; the recoverability of deferred tax assets by the Group; and the success of RBS in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as at the date hereof, and RBS does not assume or undertake any obligation or responsibility to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicit of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

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