Making additional pension contributions (APeCs) - a tax efficient way to save for your retirement.

The RBS Group Pension Fund has recently made a number of changes to the investment choices available to members, including several changes to the Growth Fund. As a result members the current investment choices are summarised below.

Changes during the year

The Trustee Board met five times during the period. In addition the Trustee Board met on a number of occasions to discuss the funding strategy of the Fund.

• The Administration and Benefits Committee met five times.

• The Investment Committee met five times.

• The Pensioners' Committee met five times.

Details of the main changes are summarised below.

- Increase in normal pension age for future retirees

- Increase in retirement benefit for any existing RBS employees.

- Change in the indexation of RBS employees' pension benefit.

- Increase in the index to which pension benefits are linked.

Welcome to the 2012 newsletter for members of the RBS Group Fund.

Details of the main changes are summarised below.

- Increase in normal pension age for future retirees.

- Increase in retirement benefit for any existing RBS employees.

- Change in the indexation of RBS employees’ pension benefit.

- Increase in the index to which pension benefits are linked.

This newsletter is produced by the Trustee Board for you, our members. Please email Group Pension Services if you want a copy of the information we hold about you, or if you have any questions or comments about your retirement savings. With this in mind, if you have your permission to do so; and

- The Administration and Benefits Committee meet seven times.

- The Investment Committee meet five times.

- The Trustees meet during the year.

- The Trustee Board sub committees meet as follows during the period:

- The Administration and Benefits Committee met seven times.

- The Investment Committee met five times.

- The Pensioners' Committee met five times.

We hold information about you in order to provide your pension benefits (such as pensions, lump sums, death benefits) which may include information obtained from third parties. This information may be obtained from:

- Companies within the Royal Bank of Scotland Group (please contact us if you do not wish to share your information with these companies).

- Other third parties who assist us in administering your benefits (e.g. updating personal data, calculating and paying benefits).

- Those where we have your permission to do so; and

- Information may be shared with:

- The Board welcomed new Trustees, David Jenkinson and Louise Smith, on 21 September 2010 and 21 March 2011 respectively.

We hold information about you in order to provide your pension benefits (such as pensions, lump sums, death benefits), which may include information obtained from third parties. This information may be obtained from:

- Companies within the Royal Bank of Scotland Group (please contact us if you do not wish to share your information with these companies).

- Other third parties who assist us in administering your benefits (e.g. updating personal data, calculating and paying benefits).

- Those where we have your permission to do so; and

- The Administration and Benefits Committee met seven times.

- The Investment Committee met five times.

- The Pensioners’ Committee met five times.

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- The Investment Committee met five times.

- The Pensioners’ Committee met five times.

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- Other third parties who assist us in administering your benefits (e.g. updating personal data, calculating and paying benefits).

- Those where we have your permission to do so; and

- Information may be shared with:

- The Administration and Benefits Committee met seven times.

- The Investment Committee met five times.

- The Pensioners’ Committee met five times.
In the UK, the pension industry has set out a strategy for the future that aims to reduce investment risk while also maintaining a strategic benchmark return. The RBS Group Pension Fund (the Group Fund) is designed to reduce investment risk while also allowing the Fund to close the deficit over time.

**Growth assets**

Growth assets are investments such as equities, credit, property, hedge funds, and alternative investments, basically assets whose purpose is to provide growth rather than match the liabilities. The new strategic benchmark has been designed to allocate absolute amounts in (setting terms) to growth assets as opposed to maintaining percentage weights; this allows the Fund to continue spending and maintaining asset levels to support growth.

**Liability hedging**

The Fund uses UK gilt bonds and derivative contracts such as interest rate and inflation swaps to help offset movements in the liabilities. Over the 12 months to March 2012, hedging levels have increased, further reducing investment risk against the liabilities.

**Implementation**

The new strategic benchmark is being phased in through 2011 and 2012. So far, the Fund has reduced its equity exposure by £2 billion to reduce investment risk and introduced new asset classes such as commodities and infrastructure.

**Market Commentary**

The key issues affecting markets in the last year have been the US economy’s recovery from the debt crisis in Europe. In the UK, the pension industry has set out a strategy for the future that aims to reduce investment risk while also maintaining a strategic benchmark return. The RBS Group Pension Fund (the Group Fund) is designed to reduce investment risk while also allowing the Fund to close the deficit over time.

**Key issues for the year ahead**

- **US and Europe**
  - The US economy is recovering, but the rate of growth appears to be moderating. A key issue is whether the US government will continue spending and maintain tax breaks to support growth.
  - In the UK, the pension industry has set out a strategy for the future that aims to reduce investment risk while also maintaining a strategic benchmark return. The RBS Group Pension Fund (the Group Fund) is designed to reduce investment risk while also allowing the Fund to close the deficit over time.

**Asset allocation**

The allocation to growth assets is designed to produce an excess return over the liabilities, which along with the deficit contributions being paid by the Group, will help close the deficit from the 2010 Actuarial Valuation. Liability hedging involves holding investments which offset the impact of changes in interest rates and inflation on the value of liabilities. The new strategic benchmark is designed to reduce investment risk while also allowing the Fund to close the deficit over time.

**Fund performance**

Assets returned 11.4% for the year to March 2012.

**Fund finances**

The table below is a summary of the financial statements contained in the Trustee Annual Report & Accounts for the year ended 31 March 2012 which has been independently audited by Deloitte LLP.

**Fund membership**

<table>
<thead>
<tr>
<th>RBS Group section</th>
<th>At 31 March 2011</th>
<th>At 31 March 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active members</td>
<td>48,019</td>
<td>49,567</td>
</tr>
<tr>
<td>Deferred members</td>
<td>196,451</td>
<td>194,832</td>
</tr>
<tr>
<td>Person members</td>
<td>201,472</td>
<td>200,394</td>
</tr>
<tr>
<td>RBS AA section</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active members</td>
<td>92</td>
<td></td>
</tr>
<tr>
<td>Deferred members</td>
<td>745</td>
<td></td>
</tr>
<tr>
<td>Person members</td>
<td>8,580</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>221,721</td>
<td>220,394</td>
</tr>
</tbody>
</table>

**Table 1: Risk allocation and liability hedging at 31 March 2012**

<table>
<thead>
<tr>
<th>Component</th>
<th>Currency</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash &amp; Liquid Assets</td>
<td>£m</td>
<td>13%</td>
<td>14%</td>
<td>14%</td>
</tr>
<tr>
<td>Fixed Interest Bonds</td>
<td>£m</td>
<td>22%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td>Growth assets</td>
<td>£m</td>
<td>28%</td>
<td>26%</td>
<td>26%</td>
</tr>
<tr>
<td>Liability Hedging</td>
<td>£m</td>
<td>5%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Total assets</td>
<td>£m</td>
<td>60%</td>
<td>60%</td>
<td>60%</td>
</tr>
</tbody>
</table>

**Table 2: Asset mix as at 31 March 2012**

- **Direct Global Equity**
  - £4.95m
- **Private Equity**
  - £1.5m
- **Credit**
  - £5.84m
- **Property**
  - £655
- **Hedge funds**
  - £588
- **Remuneration**
  - £365
- **Index-linked bonds**
  - £255
- **Liability hedging**
  - £6,030
- **Cash & Liquidity Assets**
  - £2,659

**Table 3: Fund performance**

- **1 Year**
  - £2,894
- **3 Years**
  - £20,903
- **5 Years**
  - £221,721

**Table 4: Distribution of assets**

- **Direct Global Equity**
  - £4.95m
- **Private Equity**
  - £1.5m
- **Credit**
  - £5.84m
- **Property**
  - £655
- **Hedge funds**
  - £588
- **Remuneration**
  - £365
- **Index-linked bonds**
  - £255
- **Liability hedging**
  - £6,030
- **Cash & Liquidity Assets**
  - £2,659

**Table 5: Fund value at 31 March 2012**

- **Fund value at 31 March 2011**
  - £19,469
- **Income**
  - £1,921
- **Dividends**
  - £1,331
- **Commissions and charges**
  - £67
- **other income**
  - £82
- **Total income**
  - £2,072

**Table 6: Expenditure**

- **Total expenditure**
  - £1,786

**Table 7: Net returns on investments**

- **Net returns on investments**
  - £2,221

**Table 8: Fund value at 31 March 2012**

- **Fund value at 31 March 2012**
  - £22,758

**Table 9: Accounts for the year ended 31 March 2012**

- **Accounts for the year ended 31 March 2012**
  - £221,721
> Investment report

Market commentary:  The key issues affecting markets in the last year have been the US economy’s return to growth and the debt crisis in Europe.  

- In the UK the coalition government has set out austerity policies which aim to reduce spending and maintain a balanced budget. For the UK this has resulted in AAA credit rating. The Bank of England has kept interest rates at low levels and continued with quantitative easing (QE) to encourage growth through private and corporate spending.  

- Europe is struggling to deal with the changing economic conditions in the region. Germany, where there has been strong manufacturing growth over the past two years is struggling to cope with the debt problems of peripheral states. Spain and Ireland are economies with extremely small markets are concerned by the creditworthiness of the peripheral countries and their ability to borrow in order to maintain social stability.  

- The US, the world’s largest economy, has been the main bright spot in the last year. US growth has improved with the housing market showing signs of stabilising and unemployment starting to fall. US corporations have shown strong levels of profitability. With an election due later in 2012, a key question is whether the US government will continue spending and maintain tax breaks to support growth.  

Emerging markets have continued to see higher levels of growth than the West. China and India benefit from a low currency compared to the dollar, giving them a competitive advantage for manufacturing and exporting goods, while strong commodities market has been key for Brazil and Indonesia. However, inflation has picked up in China eroding some of its advantage and the strength of commodity markets has been key for Brazil and India benefit from a lower cost base than the West, giving them a competitive advantage.  

Emerging markets have continued to see higher levels of growth than the West. China and India benefit from a low currency compared to the dollar, giving them a competitive advantage for manufacturing and exporting goods, while strong commodities market has been key for Brazil and Indonesia. However, inflation has picked up in China eroding some of its advantage and the strength of commodity markets has been key for Brazil and India benefit from a lower cost base than the West, giving them a competitive advantage.  

- Politics will be key for both Europe and America in deciding the path going forward.

The US is pursuing austerity to protect its credit rating. Growth in Europe is weak and inflation concerns in the peripheral countries are now high to the sustainability of government debts. Supported by high levels of government spending, the US has seen a return to growth with corporate America making healthy profits. Politics will be key for both Europe and America in deciding the path going forward.

The allocation to growth assets in the new strategic benchmark has been designed to increase diversification and reduce the concentration of risk to equity markets.  

Actuarial Valuation. The calculation is based on a three year liability valuation where the actuarial assumptions are the same as those used in the previous year.  

> Asset Mix as at 31 March 2012  

<table>
<thead>
<tr>
<th>Asset class</th>
<th>RBS Group £m</th>
<th>RBS AA £m</th>
</tr>
</thead>
<tbody>
<tr>
<td>Direct Equity</td>
<td>6,764</td>
<td>18</td>
</tr>
<tr>
<td>Private Equity</td>
<td>1,213</td>
<td>-</td>
</tr>
<tr>
<td>Credit</td>
<td>8,584</td>
<td>82</td>
</tr>
<tr>
<td>Property</td>
<td>663</td>
<td>36</td>
</tr>
<tr>
<td>Hedge Funds</td>
<td>588</td>
<td>-</td>
</tr>
<tr>
<td>R&amp;I</td>
<td>365</td>
<td>-</td>
</tr>
<tr>
<td>Index linked bonds</td>
<td>205</td>
<td>-</td>
</tr>
<tr>
<td>Cash &amp; Liquid Assets</td>
<td>2,059</td>
<td>16</td>
</tr>
<tr>
<td>Total assets</td>
<td>22,920</td>
<td>667</td>
</tr>
</tbody>
</table>

The performance of the Fund broadly mirrors that of (bond and equity) markets; the FTSE Index Linked Gilt Index (UK government bonds) returned 18.1% while the FTSE All World Index (global equity) returned -0.2%. The Table below is a summary of the financial statements contained in the Trustee Annual Report & Accounts for the year ended 31 March 2012 which has been independently audited by Deloitte LLP.

> Fund performance

Assets returned 11.4% for the year to 31 March 2012.

> Distribution of assets

Clockwise from the top:  

- 5% Direct Equity  
- 17% Private Equity  
- 26% Credit  
- 22% Property  
- 28% Hedge Funds  
- 9% R&I  
- 28% Index linked bonds  
- 28% Cash & Liquid Assets  
- 0% Total assets

> Fund membership

<table>
<thead>
<tr>
<th>RBS Group section</th>
<th>At 31 March 2011</th>
<th>At 31 March 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active members</td>
<td>46,019</td>
<td>45,957</td>
</tr>
<tr>
<td>Deferred members</td>
<td>158,866</td>
<td>158,832</td>
</tr>
<tr>
<td>Pensioner members</td>
<td>221,721</td>
<td>220,903</td>
</tr>
<tr>
<td>RBS AA section</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Active members</td>
<td></td>
<td>92</td>
</tr>
<tr>
<td>Deferred members</td>
<td></td>
<td>2,216</td>
</tr>
<tr>
<td>Pensioner members</td>
<td></td>
<td>540</td>
</tr>
<tr>
<td>Total</td>
<td>221,721</td>
<td>223,797</td>
</tr>
</tbody>
</table>

> Fund finances

The table below is a summary of the financial statements contained in the Trustee Annual Report & Accounts for the year ended 31 March 2012 which has been independently audited by Deloitte LLP.
The RBS Group Pension Fund

02

Investment report

Market commentary: The key issues affecting markets in the last year have been the US economy’s return to growth and the debt crisis in Europe.

In the UK the coalition government has set out austerity policies which aim to reduce spending and maintain a deficit in the government bond markets. So far for the UK has retained its AAA credit rating. The Bank of England has kept interest rates at low levels and continued with quantitative easing (QE) to encourage growth through private and corporate spending.

Europe is struggling to deal with the changing economic conditions in its core economy, Germany, where there has been strong manufacturing growth over the past two years. Recovery in the peripheral countries, Spain, Portugal, Ireland and Greece has been weak and growth rates remain unusually slow. Markets are concerned by the creditworthiness of the peripheral countries and the potential for growing debt in countries such as Greece.

The UK, the world’s largest economy, has been the main drag on the last year’s US growth, with the housing market showing signs of stabilising and unemployment starting to fall. US corporate companies have shown strong levels of profitability. With an election due in 2012, a key question is whether the US government will continue spending and maintain tax breaks to support growth.

Emerging markets have continued to see higher levels of growth than the West. China and India benefit from a slower consumer than the West, giving them a competitive advantage for manufacturing and export sales, while strong commodity markets has been key for Brazil and Russia. However, Argentina has proved at some of its advantage in this area and the rate of growth appears to be moderating. A key issue is whether the emerging economies can transition from wealth generated by exports only to a more balanced mix of exports and domestic spending.

Politics will be key for both Europe and America in deciding the path going forwards.

Activity: In the second half of 2011 the Investment Executive undertook a full review of the strategic benchmark for the Trustees. A new strategic benchmark was adopted which incorporates growth assets as well as a liability hedging portfolio.

Growth assets: Growth assets are investments such as equities, credit, property, hedge funds and alternative investments; basically assets whose purpose is to provide growth rather than match the liabilities.

The new strategic benchmark has been designed to allocate absolute amounts (in Sterling) allowing the Fund to close the deficit from the 2010 Actuarial Valuation.

Liability hedging: The new strategic benchmark has been designed to increase diversification and reduce the concentration of risk in equity markets.

Liability hedging: The Fund uses UK government bonds and derivative contracts such as interest rate and inflation swaps to help offset movements in the liabilities.

Implementation: The new strategic benchmark is being phased in through 2011 and 2012. So far the Fund has reduced its equity exposure by £2 billion to reduce investment risk and introduced new asset classes – infrastructure and real estate hedging.

> Distribution of assets

Asset mix as at 31 March 2012

Clockwise from the top:

- 15%
- 70%
- 12%
- 4%
- 28%
- 5%
- 3%
- 22%
- 26%
- 9%
- 11.4%
- 11.4%
- 10%
- 5%
- 0%

> Fund performance

Assets returned 11.4% for the year to 31 March 2012

> Fund finances

The tables below are a summary of the financial statements contained in the Trustee Annual Report & Accounts for the year ended 31 March 2012 which has been independently audited by Deloitte LLP.

<table>
<thead>
<tr>
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<th>At 31 March 2011</th>
<th>At 31 March 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Active members</td>
<td>46,018</td>
<td>45,957</td>
</tr>
<tr>
<td>Deferred members</td>
<td>161,431</td>
<td>168,932</td>
</tr>
<tr>
<td>Pensioner members</td>
<td>501,412</td>
<td>560,014</td>
</tr>
<tr>
<td>RBS AA section</td>
<td>611,221</td>
<td>626,937</td>
</tr>
<tr>
<td>Active members</td>
<td>92</td>
<td>92</td>
</tr>
<tr>
<td>Deferred members</td>
<td>2,538</td>
<td>2,538</td>
</tr>
<tr>
<td>Pensioner members</td>
<td>640</td>
<td>640</td>
</tr>
<tr>
<td>Total</td>
<td>2,094</td>
<td>2,094</td>
</tr>
</tbody>
</table>

At 31 March 2012 the Group Fund had additional exposure to equity markets through futures contracts of £557m, equivalent to 14% of Fund assets.

The performance of the Fund strongly retained that of (bond and equity) markets as the FTSE All World Index (global equity) returned 15.5% and the FTSE 100 Index (UK equity) returned 17.7%.

The new strategic benchmark is designed to reduce investment risk while also allowing the Fund to close the deficit over time.

> Fund membership

The tables below are a summary of the financial statements contained in the Trustee Annual Report & Accounts for the year ended 31 March 2012 which has been independently audited by Deloitte LLP.

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<td>45,957</td>
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<tr>
<td>Deferred members</td>
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</tr>
<tr>
<td>RBS AA section</td>
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<td>626,937</td>
</tr>
<tr>
<td>Active members</td>
<td>92</td>
<td>92</td>
</tr>
<tr>
<td>Deferred members</td>
<td>2,538</td>
<td>2,538</td>
</tr>
<tr>
<td>Pensioner members</td>
<td>640</td>
<td>640</td>
</tr>
<tr>
<td>Total</td>
<td>2,094</td>
<td>2,094</td>
</tr>
</tbody>
</table>
The Trustees of the RBS Common Investment Fund have recently made a number of changes to the investment choices available to members, including some changes to the Group Fund. As a Director to the Trustees, the current investment priorities are straightforward:

- **New Fund Choices**: Two new actively managed funds have been introduced:
  - **Corporate Bond**: This fund aims to perform ahead of an index of over 10 Year Corporate Bonds by investing in UK and overseas corporate bonds.
  - **Emerging Markets Equity**: This fund aims to perform ahead of an index of emerging markets stocks by holding shares in companies in emerging markets.

- **Existing Fund Choices**:
  - **Over 15 Year Gilt**: This fund aims to perform in line with the index of over 15 Year Gilts (UK government long-term bonds).
  - **International Equity**: This fund aims to perform ahead of the international stock market (overseas markets).

These changes are present for the current RBS employees who are members of the RBS Group Pension Fund, and for those who are no longer employed by the Group, but who still have benefits in the Fund (our deferred members).

### Changes during the year

The Trustees held election meetings to reappoint two Directors of the Trustees Board in March 2012.

- **Colin Wilson** stepped down from the Administration and Benefits Committee and joined the Investment Committee on 21 March 2012.
- **Peter Easton** stepped down from the Investment Committee and joined the Administration and Benefits Committee on 21 March 2012.
- **David Morrison** was appointed Deputy Chairman of the Trustees Board on 21 March 2012.

Trustee meetings during the year

In addition, the Trustees met the Group on a number of occasions to discuss the funding strategy of the Fund.

- The Board sub-committees met as follows during the period:
  - The Administration and Benefits Committee: met seven times
  - The Investment Committee: met five times

- **Total payments**: £22.8 billion at 31 March 2012.

- **Returns**: 11.6% for the Fund overall, 10.1% for the UK equities and 16.9% for the international equity fund.

- **RBS employees can elect to pay an additional saving (extra pension contributions - EPs) to the RBS Group Pension Fund, which could include additional pension contributions to the UK equities fund.**

#### Contact us

**External**

- **RBS Group Pension Fund**: Pensions (See table below for contact details.)

**Internal**

- **RBS Staff pensions**
- **RBS employees**: Pensions (See table below for contact details.)

- **Pension Services**: 0800 302 302
- **Deferred members**: Pensions (See table below for contact details.)
- **Pensioners**: Pensions (See table below for contact details.)

### Alternative formats

- **The Fund**
  - The Fund is available in large print, Braille, audio or on request from Group Pension Services.

- **Group Pension Services**
  - The Royal Bank of Scotland Group
  - Pensions (See table below for contact details.)

### Find out more

- **The Trustee's Statement of Investment**
  - This newsletter is produced by the Trustees of the RBS Group Pension Fund, in order to provide you with an update on the performance of the Fund.

- **The Trustee's Statement of Funding**
  - The Fund is one of the largest pension funds in the UK and the Trustee Board keeps the financial health of the Fund under constant review.

- **The RBS Group Pension Fund**
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### Find out more

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- **The Trustee's Statement of Funding**
  - The Fund is one of the largest pension funds in the UK and the Trustee Board keeps the financial health of the Fund under constant review.

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Changes during the year

The Chair of the Trustees is now Chair of the Trustees and the Trustees have appointed a new Deputy Chair. Following John McGuire’s retirement, David Morrison has been appointed by the Trustee Board as Deputy Chairman and Chairman of the Investment Executive.

The Fund is now the largest pension scheme in the UK and the Trustee Board has been informed throughout yet another challenging year. The work of the Investment Executive is central to the success of the Fund, and to providing you with an update on the performance of the Fund.

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Message from the Chairman

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