The RBS Group Pension Fund
Pensioners’ Newsletter 2009

Protecting Your Interests
A message from the Chairman

Welcome to the 2009 RBS Group Pension Fund member newsletter.

Since we issued the last newsletter we have seen unprecedented turbulence in banking and financial markets, with deteriorating economic conditions in the UK and for the world economy as a whole. The financial crisis, accompanied by the onset of a global recession, had a severe negative impact on all asset classes apart from government bonds and cash. UK equities fell by 29.9% and UK commercial property fell 25.5% in the year to 31 March 2009. This widespread reduction in asset values has led to the Fund falling in value by 20.9%.

Further details of how the Fund performed over the fund year to 31 March 2009 are shown on pages 4 to 8.

The Trustee Board is keeping the financial health of the Fund under constant review. We are working with the Group as scheme sponsor to review the funding and investment strategy for the Fund, with the aim of improving the investment return on the Fund’s assets whilst controlling the risk profile of the Fund. Following discussions between the Group and the Trustee, we are pleased that the Group has increased its regular contributions to the Group Fund from 21.5% to 25% of salaries with effect from 1 July 2009.

I also want to take this opportunity to advise you of changes to the Trustee Board. Iain Allan retired from the Group and resigned from the Board on 31 January 2009, with his position as Bank nominated Director being taken by Donald Workman. I would like to thank Iain for his valued contribution to the Board and welcome Donald as a Trustee Director. I am sure that the Fund will benefit from his skills and experience. In addition John McGuire, has been appointed Deputy Chairman of the Board.

Finally, I would like to thank my fellow Trustee Directors and our professional advisers for their hard work and commitment throughout a demanding year.

Miller McLean
Chairman – RBS Pension Trustee Limited

Security of your Pension
Working for you

> The Group and Trustee Board remain committed to protecting the benefits and interests of all members.

The Group’s commitment
The Group announced a total loss of £24 billion in 2008 and, although RBS group made a loss in the first quarter of 2009, the message from Stephen Hester, Group Chief Executive, is more positive. The Group has been fortunate to receive the support of the UK Government which has strengthened the Group’s capital base.

The assets of the Group Fund are completely separate from those of the Group and are unaffected by the losses of the Group. The Group continues to pay the agreed contribution into the Group Fund so that it can pay benefits in accordance with the Rules, and fully expects to continue to do so.

The Trustee commitment
Every year presents new challenges for the Trustee of the Group Fund and this year has proved no exception. The Trustee, together with the Group, is working hard to ensure the proper running of the Group Fund and provide security for all members’ benefits.

In order to meet the long-term liabilities of the Group Fund the Trustee focus is on both the short and long term. To be able to meet the liabilities when they fall due, the Trustee Board monitor the funding level of the Group Fund and the employer’s ability to meet the funding requirement. They manage the existing investments and invest contributions.

Trustee knowledge
The demands on the Pension Fund Trustee Directors continue to increase as legislation develops. The Trustee Board must have a good understanding of general pension and trust law, along with specific knowledge of their own scheme. During the year the Trustee Directors received training to help support them in their role.

Who’s who
The Trustee Board is comprised as follows:

Chairman Miller McLean
Investment Committee
Miller McLean (Chairman), Peter Easton, Graham Halstead, David Morrison, Finlay Williamson and Donald Workman.

The Committee sets the investment strategy and reviews the performance of the assets.

Administration & Benefits Committee
John McGuire (Chairman), Peter Boyd, Ian Purves and Colin Wilson.

The Committee ensures that the benefits are administered in accordance with the Rules of the Group Fund and relevant legislation, including exercising their discretion as required and monitoring scheme advisers.
Changes to National Insurance contribution rules – April 2009

The Pensions Act 2008 includes a provision from April 2009 to allow certain individuals to make additional voluntary National Insurance (NI) contributions to buy back up to 6 years in their NI contribution record. This change affects individuals that reach State Pension Age between 6 April 2008 and 5 April 2015, and already have 20 qualifying years on their NI record. If you think making additional voluntary NI contributions could help your pension situation please visit the Pension Service website or call their general enquiry service on 0845 6060265.

Budget 2009

The budget contained a number of changes that affect occupational pensions and pensioners. The changes that affect pensioners are shown below.

> **Basic State Pension** - The Chancellor announced a guaranteed minimum increase of 2.5% on State Pensions in April 2010 regardless of the rate of increase in the Retail Price Index (RPI).

> **Assistance for lower income pensioners** - Measures are being introduced to target support on lower income pensioners who have seen a fall in their savings. The Government has increased the level of savings that can be held by pensioners without impacting their entitlement to the Pensions Credit. This has been increased by £4,000 to £10,000 and will benefit relevant pensioners by around £4 per week. For further information on the Pensions Credit contact the Pension Service on 0800 991234 or visit their website at www.thepensionservice.gov.uk.

**Benefit checker**

> It is estimated that £4.6 billion in benefits go unclaimed by pensioners every year. Age Concern have launched a Benefits checker on their website. Visit www.ageconcern.org.uk to use their simple calculator to work out how much you could claim.

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**Pensions News**

*Changes ahead*
Every year, the Trustee is required to send you an annual Summary Funding Statement to keep you fully informed about the financial health of the Group Fund.

The information in the statement is provided by the Group Fund’s Actuary, based on regular valuations and annual updates.

They address two key issues:

1> Is the Group Fund building enough assets to cover the benefits members have already earned?

2> What level of contributions does the Group need to pay for future benefits?

Summary of financial position
At the time of the 31 March 2009 update, calculations by the Actuary showed that the Group Fund’s assets fell short of the amount needed to provide members’ benefits (known as the ‘liabilities’). The funding level – which measures assets as a percentage of liabilities – was 69%. The 31 March 2008 update had revealed a funding level of 89%, and the funding level at 31 March 2007 was 104%.

Falls in global investment markets over the year to 31 March 2009 have led to a significant reduction in the Group Fund’s assets, and this is the main reason for the drop in the funding level. The graph above shows the changes in the funding level of the Group Fund since the 2007 valuation.

The Group Fund is not alone when it comes to seeing a reduction in the funding level over the last 12 months. The majority of the pension schemes run by other organisations have seen similar changes in their funding positions. The Group has increased its regular contributions to the Group Fund from 21.5% to 25% of salaries with effect from 1 July 2009. The Trustee continues to monitor the funding position closely and are involved in ongoing discussions with the Group regarding the approach to the next full valuation.

We can confirm that there has been no payment to the Group from the Group Fund in the previous 12 months.

The Pensions Regulator
The Pensions Regulator can make changes to a scheme, give directions on working out its liabilities, or impose a schedule of contributions. We are pleased to say that the Regulator has not needed to use its powers in this way for the Group Fund.

Full solvency
The above figures assume the Group Fund will continue as it is. As part of the valuation, the Actuary also calculates the benefits of the Group Fund were it to be wound up. This is known as the ‘full solvency’ position. To arrive at this figure, the Actuary estimates the cost of buying insurance policies to cover the benefits members have already earned. Insurance companies have to invest in ‘low risk’ assets, which usually give low returns, and their prices include allowances for costs and profits. So the amount needed to buy policies is likely to be far more than the total assets of the fund. The 2007 valuation showed a solvency level of 70%.
The Overall Picture
Investment report

> The world economy entered a severe recession during the period to 31 March 2009. The impact has been felt across both developed and developing countries.

There were considerable changes in equity markets over the year due to the impact of the US sub-prime crisis on the economy. Global equity markets, including the UK equity market fell by over 20%. In credit markets, UK government bond valuations rose while corporate bond valuations fell. The impact of all this turbulence has adversely affected the performance of the Group Fund. However, the Trustee Directors’ investment strategy remains committed to strong performance over the longer term. The Group Fund assets will continue to be invested across a diverse range of asset classes, combining the benefits of long term growth from equities with the increased stability and income generated from bonds.

Performance of the Group Fund over the year

> Over the year to 31 March 2009 the Group Fund had a negative overall rate of return of -20.9%
> Over the 3 years to 31 March 2009 the Group Fund had a negative annualised return of -5.5%

Global equities produced a negative return of -20.5% for sterling investors like the Group Fund. The UK equity market fared worse and produced a negative return of -29.9%. Investment performance is continually monitored by the Trustee Board as is the distribution of assets.

Distribution of assets over the year
Over the year there was a reduction in the allocation to UK equities. The reduction in the allocation to UK equities, relative to overseas equities, has been brought about by the switch into global equities and the appointment of six new managers. The reduction in the allocation to equities in total, relative to fixed interest securities, has been brought about by better performance of fixed income securities.

Distribution of assets

> UK equities = 20%
> Overseas equities = 30%
> Fixed interest securities = 21%
> Index-linked securities = 18%
> Private equity = 6%
> Property = 4%
> Other = 1%
Fund Statistics
Where we stand

> The value of the Group Fund’s net assets over the 12 months to 31 March 2009 decreased from £17.7 billion to £13.7 billion. The Group Fund received contributions of £421 million and paid benefits of £671 million.

Fund Accounts
Below is a summary of the money in and out of the Group Fund and the totals at the start and end of the year.

| Fund value at start of year | £17,665m |
| Contributions in + Transfers in | £421m |
| Benefit payments out + Transfer out + Expenses | (£671m) |
| **Investment Return** | (£3,676m) |
| **Fund value at end of year** | £13,739m |

Membership Movements
The figures below show the total membership at 1 April 2008 and 2009.

<table>
<thead>
<tr>
<th>2009</th>
<th>2008</th>
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<tr>
<td>Active Members</td>
<td>62,553</td>
</tr>
<tr>
<td>Deferred Members</td>
<td>110,007</td>
</tr>
<tr>
<td>Pensioner/Dependant Members</td>
<td>52,748</td>
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<tr>
<td><strong>TOTAL</strong></td>
<td>225,308</td>
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The full accounts were audited by Deloitte LLP.

Where can you find out more?
If you have any questions, or would like to see a copy of the reports listed below, please contact Group Pension Services:

> Latest Actuarial Valuation Report
> Latest Annual Report and Accounts
> Current Schedule of Contributions
> Trustee’s Statement of Funding Principles
> Trustee’s Statement of Investment Principles
> Latest Engagement and Voting Report

Keeping us informed
Death of a pensioner: please notify Group Pension Services as soon as possible to avoid any overpayment of pension to the Estate, and to speed up the payment of dependant’s benefits.

Moving home - Important reminder
When moving home please remember to add Group Pension Services to the list of organisations who need to be advised quickly of your new address.

If we send post to the home address we hold for you and it is returned to us, in the first instance we will try and contact you by telephone to check our records, if we have no success, we will suspend your pension until you get in touch with us.

We appreciate this approach may cause inconvenience if the Royal Mail has returned post to us in error, resulting in us suspending a pension unnecessarily. In all cases we will rectify the situation immediately, and hope pensioners affected will appreciate we are acting to safeguard their security.

Other changes including bank details
Please advise Group Pension Services as soon as possible. We will need any changes to your bank details in writing.

Lately, we have experienced some difficulties because a number of pensioners have assumed that if they have advised an RBS/NatWest branch of their move, details will be passed to Group Pension Services automatically. Unfortunately, this is not the case as your Branch is not authorised to provide us with new address details, you should advise us directly.
Alternative formats

This communication is available in large print, Braille or audio on request from Group Pension Services.

Data protection

The Trustee holds personal data on your behalf and is a registered data controller under the UK Data Protection Act 1998.

The information is mainly used for administering the Group Fund, but occasionally the Trustee may authorise the use for sending you details of products provided by companies of the Group.

Any questions?

Please contact us

Group Pension Services
HR Shared Services
The Royal Bank of Scotland Group
PO Box 1390
Croydon CR9 5WP
Depot Code 190

Pensioners:
UK 0800 046 6786
International +44 (0)161 210 3906

Email:
External - pensionqueries@rbs.co.uk
Internal - ~ HR Pensions, Queries

Website addresses:
Pensioner members -
www.rbspeople.com/pensioners