

Royal Bank of Scotland Group (“RBS”) Common Investment Fund (“CIF”) Investment performance review to 31 December 2012

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This note has been prepared by Lane Clark & Peacock LLP (“LCP”) for the Trustee of the RBS CIF. It is a summary version for members of the full report which is prepared for the Trustee. It reviews the investment performance of the CIF for periods ending 31 December 2012 and provides additional information regarding changes the Trustee is making to the fund options available to members that have not yet been implemented. It is intended to supplement the factsheets provided by Fidelity.

Performance figures in this report have been supplied by Fidelity, in their role as platform provider, and the CIF’s underlying investment managers. We have reviewed the information received and satisfied ourselves that it is reasonable to use the data. Performance figures shown in this report are before the deduction of fees, including those charged by Fidelity in its role as platform provider. We show manager fees in Appendix 1 to this note and include a glossary of the terms used in this report in Appendix 2.

With respect to the performance of RBS funds and underlying component funds shown in the tables throughout this note **outperformance is shown in blue**, **benchmark performance in green** and **underperformance in red**.

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1. Performance of the RBS CIF options (gross of fees) to 31 December 2012

Fund	3 months (%)	1 year (%)	3 years (% pa)	5 years (% pa)	Since inception ¹ (% pa)
RBS Diversified Growth Fund	3.2	12.8	7.4	3.3	4.5
Composite benchmark	2.7	11.5	6.5	2.7	4.0
CPI	1.2	2.7	3.5	3.3	3.1
RBS UK Equity Fund	5.7	18.1	11.0	2.8	3.9
RBS UK Equity Tracker Fund	3.8	12.3	7.6	2.7	4.0
FTSE All-Share Index	3.8	12.3	7.5	2.5	3.8
RBS International Equity Fund	2.5	12.4	7.2	1.0	2.9
Composite benchmark ²	1.9	11.0	6.7	3.5	4.9
RBS International Equity Tracker Fund	2.0	11.9	7.3	3.8	4.9
FTSE All-World Developed ex-UK Index	1.9	11.3	7.0	3.5	4.6
RBS Emerging Market Equity Tracker Fund	5.7	12.5	-	-	12.5
FTSE All-World Emerging Markets Index	5.6	12.4	-	-	12.4
RBS Pre-Retirement Fund	1.4	11.0	13.3	9.9	8.0
Composite benchmark	1.0	9.8	12.1	8.6	6.9
RBS UK Gilts Over 15 Year Tracker Fund	-0.5	-	-	-	3.3
FTSE Over 15 year Gilts Index	-0.5	-	-	-	3.3
RBS Index-Linked Fund	4.5	-0.3	10.6	8.1	7.9
FTSE UK Gilts Index-Linked Over 5 Year Index	4.5	-0.4	10.6	8.1	7.8
RBS Corporate Bond Fund	2.7	-	-	-	13.5
BAML Euro-Sterling over 10 Year Index	2.0	-	-	-	12.1
RBS Property Fund	2.1	9.5	7.1	-6.3	-4.5
Property benchmark ³	3.0	12.8	10.3	9.4	9.1
RBS Cash Fund	0.1	0.6	0.7	1.7	2.5
Libid 7 day Index	0.1	0.7	0.5	1.3	2.2

For active funds out or underperformance greater than +/- 0.5% over a 3 month period, or greater than +/- 1%pa over longer periods is shown in a box.

¹ Inception date for: the RBS Corporate Bond Fund is 29/02/2012, the RBS UK Gilts Over 15 year Tracker Fund is 31/01/2012, the RBS Emerging Market Equity Tracker Fund is 31/12/2011 and all other funds is 30/09/2006, though underlying funds may vary.

² The composite benchmark is 75% MSCI World Index, 25% FTSE World Index. (Lazard is benchmarked against the FTSE World Index).

³ Since inception to 31/12/2011 benchmark has been calculated by Fidelity as CPI +5%pa. From 31/12/2011 benchmark has been calculated by Fidelity as the IMA Property Sector Index.

2. RBS Diversified Growth Fund Performance (gross of fees) to 31 December 2012

%	Underlying Fund	3 months (%)	1 year (%)	2 years (% pa)	3 years (% pa)
	RBS Diversified Growth Fund	3.2	12.8	3.5	7.4
	Composite benchmark	2.7	11.5	2.4	6.5
	CPI	1.2	2.7	3.5	3.5
27.5	BlackRock UK Equity Tracker Fund	3.8	12.3	4.2	7.6
	FTSE All-Share Index	3.8	12.3	4.1	7.5
27.5	BlackRock International Equity Tracker Fund	2.0	11.9	3.1	7.3
	FTSE All-World Developed ex-UK Index	1.9	11.3	2.7	7.0
10	L&G World Emerging Markets Fund	5.7	12.5	-	-
	FTSE AW Emerging Markets Index	5.6	12.4	-	-
15	L&G 70/30 Hybrid Property Fund	2.0	7.8	-	-
	Composite benchmark	1.8	7.2	-	-
15	Fidelity UK Long Corporate Bond Fund	2.7	16.6	-	-
	BAML Euro-Sterling over 10 Year Index	2.0	14.5	-	-
2	H20 Allegro Fund	17.3	-	-	-
3	PIMCO Unconstrained Bond Fund	1.1	-	-	-
	1 month LIBOR +3% pa	0.9	-	-	-

- At its November 2012 meeting the Trustee decided to add the Newton Global Dynamic Bond Fund as the third absolute return bond fund and allocate a total of 8% of the DGF to absolute return bond funds, split 3/3/2 PIMCO/Newton/H2O. The Trustee also decided to allocate 10% of the DGF to multi-asset credit through the M&G Alpha Opportunities Fund and approved the addition of the quoted alternatives fund, to be managed by Henderson, to the DGF.
- The Newton absolute return bond allocation, Henderson quoted alternatives fund (5% of the DGF) (both from developed market equities) and M&G multi-asset credit allocation (from UK long corporate bonds) were in the process of being funded in Q1 2013.
- These changes are intended to further diversify the RBS DGF.

3. RBS UK Equity Fund Performance (gross of fees) to 31 December 2012

%	Underlying Fund	3 months (%)	1 year (%)	2 years (% pa)	3 years (% pa)
	RBS UK Equity Fund	5.7	18.1	6.9	11.0
30	M&G Recovery Fund	2.6	10.4	2.5	7.5
30	Majedie UK Equity Service Fund	7.4	17.2	9.1	10.4
20	River & Mercantile UK High Alpha Fund	8.3	26.2	4.8	9.9
20	Lindsell Train UK Equity Fund	5.1	22.2	11.5	17.6
	FTSE All-Share Index	3.8	12.3	4.1	7.5

4. RBS International Equity Fund Performance (gross of fees) to 31 December 2012

%	Underlying Fund	3 months (%)	1 year (%)	2 years (% pa)	3 years (% pa)
	RBS International Equity Fund	2.5	12.4	2.5	7.2
25	Lazard Global Thematic Equity Fund	1.3	8.6	1.4	5.1
25	MFS Global Equity Fund	4.9	17.8	6.7	10.1
25	Trilogy Global Equity Fund	1.9	12.3	2.7	8.1
25	M&G Global Leaders Fund	1.6	9.1	-1.5	4.5
	Composite benchmark	1.9	11.0	2.6	6.7

- At its meeting of 28 February 2013 the Trustee decided that Lazard should be replaced by Veritas as manager in the International Equity Fund. It is expected that this change will be made in late Q1 2013 / Q2 2013.

5. RBS Pre-Retirement Fund Performance (gross of fees) to 31 December 2012

%	Underlying Fund	3 months (%)	1 year (%)	2 years (% pa)	3 years (% pa)
	RBS Pre-Retirement Fund	1.4	11.0	14.5	13.3
	Composite benchmark	1.0	9.8	13.5	12.1
40	L&G Over 15 Years UK Gilt Index	-0.5	2.7	-	-
	FTSE Over 15 Years Gilt Index	-0.5	2.8	-	-
60	Fidelity UK Long Corporate Bond Fund	2.7	16.6	14.6	13.6
	BAML Euro Sterling Over 10 Year Index	2.0	14.5	12.9	11.9

6. RBS Property Fund performance (gross of fees) to 31 December 2012

%	Underlying Fund	3 months (%)	1 year (%)	2 years (% pa)	3 years (% pa)
	RBS Property Fund	2.1	9.5	4.2	7.1
	Benchmark	3.0	12.8	11.1	10.3
	L&G 70/30 Hybrid Property Fund	2.0	7.8	-	-
	Composite benchmark	1.8	7.2	-	-
	Standard Life Select Property Fund¹	2.3	10.4	4.6	7.4
	IMA Property Sector Index ¹	3.0	12.8	2.9	5.3

¹ Provided by Standard Life. Note: Standard Life changed their benchmark (from CPI +5%) on 30 September 2010. Fidelity did not change the benchmark for the RBS Property Fund from CPI +5% to the IMA Property Sector Index until 31 December 2011.

- The L&G Fund was added to the RBS Property Fund on 27 January 2012. As at 31 December 2012, the RBS Property Fund was split approximately 12% L&G, 88% Standard Life. All new contributions are invested in the L&G fund rather than incur the high transaction costs associated with buying and selling property fund units.

Manager fees

Fund	AMC	OCF
Growth Fund	0.21%	0.23%
BlackRock UK Equity Index Fund	0.03%	0.04%
BlackRock World (ex UK) Fund	0.03%	0.05%
Fidelity UK Long Corporate Bond Fund	0.20%	0.27%
L&G 70/30 Hybrid Property Fund	0.40%	0.42%
L&G World EM Equity Index Fund	0.28%	0.28%
H2O Allegro Fund	0.65%	0.75%
PIMCO (RBS) Unconstrained Bond Fund	0.70%	0.70%
UK Equity Fund	0.77%	0.89%
Lindsell Train UK Equity Fund	0.65%	0.83%
M&G UK Recovery Fund	0.75%	0.90%
Majedie UK Equity Service Fund	0.75%	0.78%
River and Mercantile UK Equity High Alpha	0.75%	0.90%
UK Equity Tracker Fund	0.07%	0.09%
BlackRock UK Equity Index Fund	0.03%	0.05%
International Equity Fund	0.75%	0.91%
Lazard Global Thematic Fund	0.80%	0.94%
M&G Global Leaders Fund	0.75%	0.92%
MFS Global Equity Fund	0.60%	0.71%
Trilogy Global Diversified Fund	0.70%	0.91%

The Ongoing Charges Figure ("OCF") was formerly known as the Total Expense Ratio ("TER").

Appendix 1

Fund	AMC	OCF
International Equity Tracker Fund	0.07%	0.09%
BlackRock World (ex UK) Fund	0.03%	0.05%
Emerging Markets Equity Tracker Fund	0.32%	0.32%
L&G World Emerging Markets Fund	0.28%	0.28%
Pre-Retirement Fund	0.17%	0.21%
Fidelity UK Long Corporate Bond Fund	0.20%	0.27%
L&G +15 Year Gilt Fund	0.03%	0.03%
UK Gilts Over 15 Year Tracker Fund	0.07%	0.07%
L&G Over 15 Year Gilt Fund	0.03%	0.03%
Index-Linked Gilt Fund	0.07%	0.07%
L&G Over 5 Year Index Linked Gilt Fund	0.03%	0.03%
Corporate Bond Fund	0.24%	0.31%
Fidelity UK Long Corporate Bond Fund	0.20%	0.27%
Property Fund	0.67%	0.77%
Standard Life Select Property Fund	0.65%	0.76%
L&G 70:30 Hybrid Property Fund	0.40%	0.42%
Cash Fund	0.09%	0.09%
L&G Cash Fund	0.05%	0.05%

- The current ongoing charges figure on the Diversified Growth Fund is 0.23% pa.
- Fidelity's platform fee of 4 basis points (0.04%) is included within the RBS Fund AMCs shown above in bold.

Glossary of terms

Absolute return bond funds

A fund that aims to produce a positive return without reference to a benchmark by investing across bond markets.

Active funds

A fund is managed actively if the manager has discretion over what is included in the fund relative to its benchmark (typically a reference portfolio or index). This is in contrast to passive, or tracker, funds where there is no, or very limited, discretion. An actively managed fund has the potential to provide higher returns than the comparable passive alternative, but also the risk of lower returns. Active management also typically involves higher fees than passive management.

AMC – Annual Management Charge

The annual investment management fee levied by the relevant investment manager within its fund.

Basis point

A basis point is one hundredth of one percent (ie 0.01%).

Composite benchmark

A benchmark made up of a number of component parts. It is usually calculated by weighting the component parts in line with their benchmark allocations.

CPI – Consumer Prices Index

This is a measure of inflation. In the UK inflation is measured chiefly by the CPI and the Retail Prices Index (“RPI”).

DGF – Diversified growth fund

DGFs typically aim to achieve a return in excess of cash or inflation by investing in a range of underlying asset classes. The RBS targets CPI plus 3-5% per annum over the longer term.

Inception date

The date on which the initial investment into a fund was made.

LIBOR

This stands for “London Interbank Offered Rate”. This is the rate that banks pay when borrowing from another bank. LIBOR rates vary depending upon the term of the loan, which might be, for example, one week or three months.

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Multi-asset credit fund

A fund that invests in a range of different types of corporate debt instruments.

Ongoing charges figure

The total charges paid by investors to for a fund. This measure adds other fund expenses (such as administration and custody) to the AMC to give an overall figure.

Tracker funds

A tracker (or passive) fund is constructed with the aim of replicating, rather than outperforming, the performance of an appropriate benchmark such as the FTSE All-Share Index. Tracker funds aim to capture the market return and normally have much lower fees than the equivalent active funds.

Appendix 2 (cont)