

Strategic Report 2013

Serve customers well.
This is our purpose.

RBS is a UK-based banking and financial services company. Headquartered in Edinburgh, RBS operates in the United Kingdom, Europe, the Middle East, the Americas and Asia, serving over 24 million customers worldwide.

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 Citizens, Charter One, Ulster Bank and Coutts.

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Strategic Report

2013 Financial Results	02
Our purpose and values	06
Our business model and strategy	08
RBS at a glance	11
UK Retail	12
UK Corporate	13
Wealth	14
International Banking	15
Ulster Bank	16
US Retail & Commercial	17
Markets	18
Non-Core	19
Business Services	19
Governance at a glance	20
Chairman's statement	22
Chief Executive's review	24
Economic and monetary environment	28
Risk overview	29
Sustainability	31
Approval of Strategic Report	34

Supplementary information

Our Board	36
Directors' Remuneration Report	40
Other Remuneration Disclosures	61
Financial results	65
Shareholder information	69
Important addresses	71

2013 Financial Results

RBS reports a pre-tax loss for 2013 of £8,243 million, including regulatory and redress provisions of £3,844 million, and impairments and other losses of £4,823 million related to the establishment of RBS Capital Resolution (RCR).

Excluding the impact of the creation of RCR, RBS operating profit (1) was £2,520 million, down 15% from 2012:

- Retail & Commercial down 4% to £4,078 million, with lower income in UK Corporate and International Banking offsetting improved impairments in Ulster Bank and UK Retail;
- Markets down 58% to £638 million, reflecting smaller balance sheet and reduced risk levels; and
- Non-Core losses down 27% to £2,107 million, with the cost base falling in line with run-off.

In 2013 RBS launched a comprehensive business review, aimed at transforming the bank. The results of this review were announced on 27 February 2014 (see pages 8 to 10).

(£2,303m)

Group operating loss (1)

10.9%

Core Tier 1 ratio – Basel 2.5 (2)

94%

Loan:deposit ratio (4)

4.6%

Core return on equity (7)

(£8,243m)

Loss before tax

£385bn

RWAs

£32bn

Short-term wholesale funding (5)

64%

Core cost:income ratio (8)

(£8,995m)

Attributable loss

8.6%

Common Equity Tier 1 ratio – FLB III (3)

£146bn

Liquidity portfolio (6)

2.01%

Group net interest margin

Notes:

- (1) Operating profit/(loss) before tax, own credit adjustments, Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs, regulatory and legal actions, integration and restructuring costs, gain on redemption of own debt, write-down of goodwill, amortisation of purchased intangible assets, strategic disposals, bank levy, write-down of other intangible assets and RFS Holdings minority interest.
- (2) Ratio calculated under requirements in force at 31 December 2013.
- (3) Ratio calculated under requirements in force from 1 January 2014.
- (4) Net of provisions, including disposal groups and excluding repurchase agreements.

- (5) Excludes derivatives collateral.
- (6) Eligible assets held for contingent liquidity purposes including cash, Government issued securities and other eligible securities with central banks.
- (7) Based on indicative Core attributable profit taxed at standard rates and Core average tangible equity per the average balance sheet (89% of Group tangible equity based on risk-weighted assets at 31 December 2013).
- (8) Cost:income ratio is based on total income excluding own credit adjustments, gain on redemption of own debt, strategic disposals and RFS Holdings minority interest, and operating expenses excluding Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs, regulatory and legal actions, amortisation of purchased intangible assets,

- integration and restructuring costs, bank levy, write-down of goodwill and other intangible assets and RFS Holdings minority interest.
- (9) Includes the impact of business exits such as Citizens Financial Group and Williams & Glyn; bank levy; restructuring costs; and, from 2015, the EU resolution fund charge.
- (10) During the year the Group recognised £4,823 million of impairment and other losses related to the establishment of RCR. This comprises impairment losses of £4,490 million (of which £173 million relate to core Ulster Bank assets which were not transferred to RCR but are subject to the same strategy) and £333 million reduction in income reflecting asset valuation adjustments.



Restructuring our balance sheet

Third party assets were reduced by £130 billion over the course of 2013, with Markets down £72 billion and Non-Core down £29 billion. In the five years since the end of 2008, the funded balance sheet has been reduced by £487 billion and total assets by £1,191 billion.

The Core Tier 1 ratio was 10.9% at 31 December 2013. On a fully loaded Basel III basis, the Common Equity Tier 1 ratio was 8.6%. The impact of the regulatory and redress provisions booked in Q4 2013 was already reflected in our future capital plan, and RBS continues to target a fully loaded Basel III Common Equity Tier 1 ratio of c.11% by the end of 2015 and 12% or above by the end of 2016.

Continued improvement in credit quality, particularly in the UK Retail and Non-Core portfolios, saw risk elements in lending fall by 4%. Reflecting the increased impairments associated with the creation of RCR, provision coverage increased from 52% at end 2012 to 64% at end 2013.

RBS remains highly liquid, with short-term wholesale funding down £10 billion to £32 billion at the end of 2013, covered more than four times by a £146 billion liquidity portfolio.

Building a bank that is trusted by its customers

RBS has announced a refreshed strategic direction with the ambition of building a bank that earns its customers' trust by serving them better than any other bank.

The bank will be structured around the needs of its customers, with seven existing operating divisions realigned into three businesses: Personal & Business Banking, Commercial & Private Banking and Corporate & Institutional Banking.

Ulster Bank in Northern Ireland will benefit from a closer integration with our personal, business and commercial banking franchises in Great Britain. We are continuing to explore further opportunities in the Republic of Ireland with a view to being a challenger to the systemic banks.

To position RBS to deliver a sustainable overall return on tangible equity of 12% plus in the long term, we must achieve a significant reduction in costs and complexity.

This simplification is intended to deliver significant improvements to services delivered to our customers while at the same time helping to bring our cost base down from £13.3 billion in 2013 to £8 billion in the medium term⁽⁹⁾.

Future performance will be reported against customer and financial measures. Further details are set out on page 10.

Operating results

RBS recorded an operating profit⁽¹⁾ of £2,520 million excluding the impact of the creation of RCR which reduced income by £333 million and increased impairments by £4,490 million. Including these RCR-related impairment and other losses of £4,823 million⁽¹⁰⁾, RBS recorded an operating loss of £2,303 million.

Group income, excluding the RCR impact, was down 10% to £19,775 million, principally reflecting a £1,161 million reduction in Markets income, with expenses down 4% to £13,313 million.

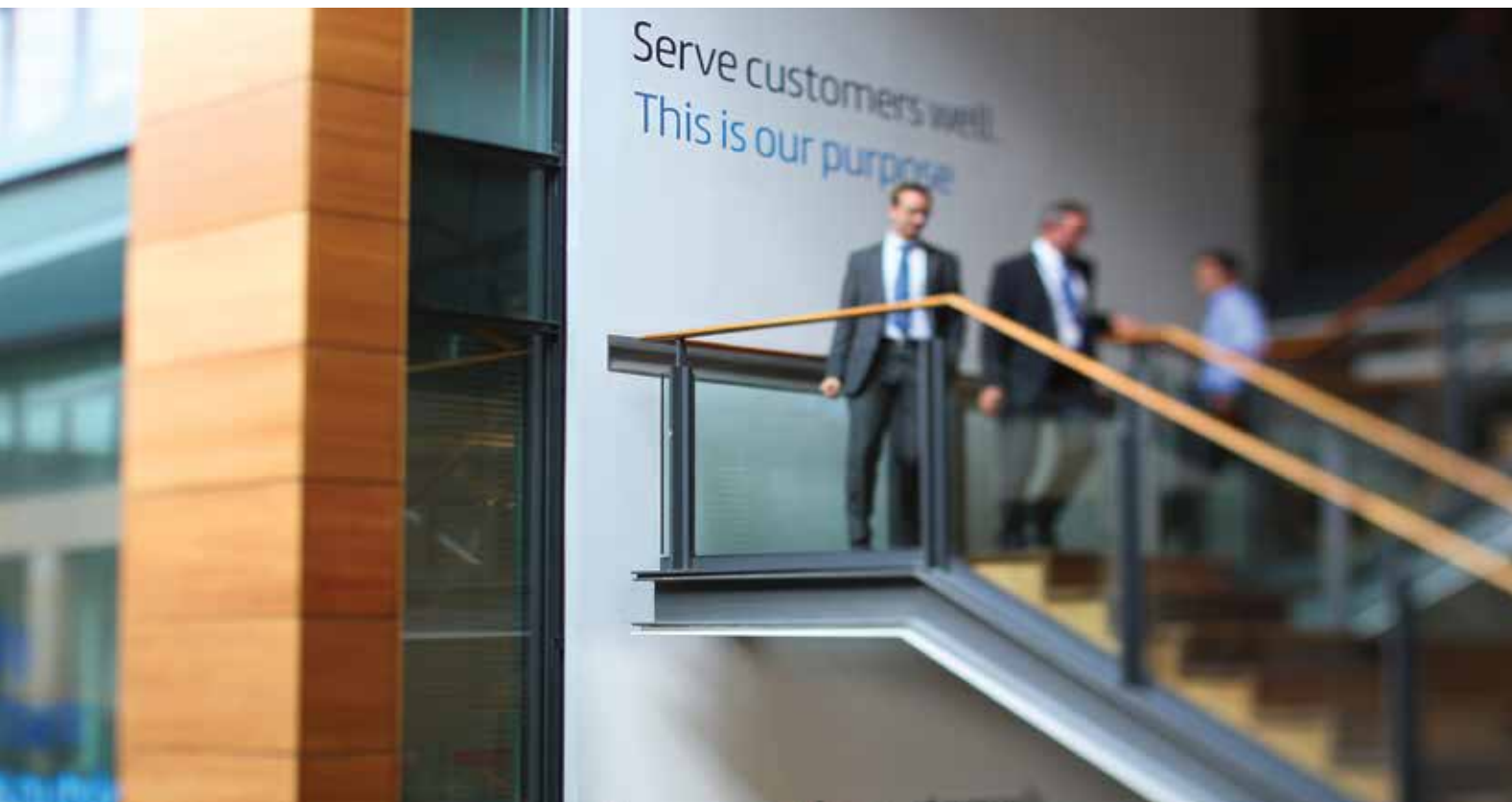
Retail & Commercial operating profit, excluding £1,385 million of impairments and other losses related to the creation of RCR, was down 4% to £4,078 million, with lower income in UK Corporate and International Banking offsetting improved impairments in Ulster Bank and UK Retail.

Markets operating profit, excluding £18 million of impairments related to the creation of RCR, was down 58% to £638 million, reflecting its smaller balance sheet and reduced risk levels.

Non-Core losses, excluding £3,420 million of impairments and other losses related to the creation of RCR, were down 27% to £2,107 million, with the cost base falling in line with run-off.

Loss attributable to shareholders was £8,995 million, reflecting the charges relating to the creation of RCR and legacy conduct litigation and redress, the write-down of goodwill and other intangible assets and deferred tax assets.

Tangible net asset value per ordinary and B share was 363p at 31 December 2013.



Delivering our capital plan

To deliver our capital plan RBS has formed the Capital Resolution Group (CRG), which is made up of four pillars: exiting the assets in RCR, delivering the IPOs for both Citizens and Williams & Glyn, and optimising the bank's group-wide shipping business.

RCR was set up from 1 January 2014 and will manage a pool of £29 billion of assets with particularly high capital intensity or potentially volatile outcomes in stressed environments, aiming to accelerate run-down of these exposures to free up capital for the bank. The revised strategy to run down high risk loans faster led to an increased impairment charge. When originally announced, RCR assets were projected to be £38 billion at the end of 2013, but accelerated disposals and increased impairments have reduced this total to £29 billion. Further details about RCR are set out on page 160.

During the course of 2013 RBS sold two tranches of its remaining shares in Direct Line Insurance Group, realising gross proceeds of £1,137 million. At 31 December 2013, RBS held 28.5% of Direct Line Insurance Group. On 26

February 2014, RBS announced that it had entered into a placing agreement to complete the sale of its residual interest (except for 4.2 million shares held to satisfy long term incentive plan awards granted by RBS to Direct Line Group management). Accordingly, on settlement of the placing, the Group will have completed the disposal as required by the European Commission.

On 27 November 2013, RBS announced the sale of its remaining economic interest in the WorldPay global payments business. A gain on sale of £159 million was recognised in Q4 2013.

On 1 November 2013, RBS announced plans to accelerate the divestment of Citizens, its US banking subsidiary. Preparations for a partial initial public offering (IPO) in 2014 remain on track, and the bank intends to fully divest the business by the end of 2016.

Following the conclusion of a £600 million pre-IPO investment by a consortium of investors led by global financial services specialists Corsair Capital and Centerbridge Partners, and including the Church Commissioners for England and RIT Capital Partners plc, the

Williams & Glyn business (formerly known as "Project Rainbow") has made good progress towards its IPO.

Discussions with the UK Government over the retirement of the Dividend Access Share (DAS) are well advanced. A successful restructuring of the DAS will represent a significant step towards the normalisation of RBS's capital structure.

On 16 December 2013, RBS cancelled its £8 billion Contingent Capital Facility with HM Treasury.

Legacy conduct issues

As announced in a trading update on 27 January 2014, RBS has provided £1,910 million in Q4 2013 covering claims and conduct-related matters primarily relating to mortgage-backed and other securities litigation. Regulatory and litigation provisions for the full year amounted to £2,394 million.

An additional £465 million provision for Payment Protection Insurance (PPI) redress and related costs was booked in Q4 2013, making a total of £900 million for the full year

Over time, with steady focus and disciplined delivery, the new RBS will emerge. The businesses we operate will be highly effective and relentless in their pursuit of delivering service that makes us number one for customers.



2013. Out of a cumulative PPI provision of £3.1 billion, £2.2 billion had been utilised by 31 December 2013. The remaining £0.9 billion provision covers approximately 12 months at current levels of redress and administrative expenses.

A further £500 million provision was made in Q4 2013 for interest rate hedging products redress and administration costs, reflecting higher volumes, higher anticipated redress payments and recalibration of our methodology based on more recent trends. The total charge for the full year was £550 million making a total of £1.25 billion of which £0.2 billion had been utilised by 31 December 2013.

Serving our customers

Investment of £700 million has been committed over the next 3-5 years to build the best retail and commercial bank in the UK. Investment in digital channels continued, with 50% of eligible customers now banking online or on mobile.

Mortgage balance growth was affected in H1 2013 by advisor training, but application volumes recovered during the second half, helped by RBS's lead in launching the second

phase of the Help to Buy scheme. Gross new lending in 2013 was £14.3 billion, up 3% from 2012. This represented an 8% market share, slightly in excess of RBS's share of mortgage stock.

UK Corporate will implement all the recommendations of the independent review of its lending standards and practices led by Sir Andrew Large.

Support for SME customers during 2013 included pro-active 'Statements of Appetite' sent to over 12,000 customers, resulting in more than £5.9 billion of new loan offers.

SME demand for credit has picked up over the course of the year, with new and increased lending sanctioned in 2013, up 6% from the prior year to £9.9 billion. SMEs drew down £6.4 billion of new loans in 2013, up 2% from 2012. However, businesses' cash generation remained strong, with SME current account balances up 13% from the end of 2012. Many customers increased their loan repayments and reduced overdraft utilisation, which dropped to 37% at the end of 2013 compared with 42% a year earlier.

Among larger businesses, £12.9 billion of new facilities were made available to new and existing clients. RBS also helped UK companies, universities and housing associations to raise £24.7 billion through bond issues in 2013.

RBS repaid all its borrowings from the Bank of England Funding for Lending Scheme (FLS) in 2013 but continues to participate fully in the scheme. In the period since launch to 31 December 2013, RBS allocated more than £4.7 billion of new FLS-related lending to business customers, with discounts targeted at SMEs and mid-sized manufacturers. We intend to remain in the scheme throughout 2014 (subject to no further changes in the scheme rules).

Total net lending flows reported within the scope of the FLS scheme were minus £2,295 million in Q4 2013, with net lending of plus £349 million to households and minus £2,645 million to private sector non-financial corporations, of which minus £671 million was to SMEs.

We are here to serve our customers. From the end of 2008 we have drastically changed as a business – our balance sheet has reduced by £1,191 billion, our capital ratios strengthened, our conduct and risk management framework overhauled. As a result, we are smaller, safer and stronger with a clearer focus. However, there was a clear need to unite the bank behind a single purpose and common set of values.



Our purpose and values

Our future is not about us, its about our customers. We needed to ensure that this ran through the bank – from boardroom to branch.

We spent time with colleagues across the bank debating what should be at the core of our ambition to build a bank known for its consistent, high quality customer service. We agreed on a single, simple purpose – to serve customers well. We want to be trusted, respected and valued by our customers, shareholders and communities. To do this we have put a common set of values at the heart of how we do business. Our values are not new, but capture what we do when we are at our best.

- Our purpose:** Serve customers well.
- Our vision:** We want to be trusted, respected and valued by our customers, shareholders and communities.

Our values:

Serving customers

We exist to serve customers.
We earn their trust by focusing on their needs and delivering excellent service.

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.

Doing the right thing

We do the right thing.
We take risk seriously and manage it prudently.
We prize fairness and diversity and exercise judgement with thought and integrity.

Thinking long term

We know we succeed only when our customers and communities succeed.
We do business in an open, direct and sustainable way.

All this comes together in Our Code.



We have a programme of change in place that embeds a working culture which celebrates challenge when business decisions or behaviours are not in line with our values. We have engaged our employees to stimulate ideas and change that ultimately results in material improvements to the customer experience.

At the beginning of 2013, a personalised letter launching the new purpose and values was signed by the members of our Executive Committee and sent to all of our employees. Employees were invited to engage in an open debate online to discuss the new values – 25,000 joined that conversation.

Regional leadership workshops were designed to build understanding and engagement for more than 3,000 of our leaders. Those leaders then engaged locally to help their people understand how the purpose and values were relevant to their business area. By September, 66% of staff had been involved in a

conversation with their leader, and 93% of those have a better understanding of the relevance to their part of the business.

We made fundamental, lasting changes to the way we do business by re-writing our code of conduct and policy framework. Our Code was an important milestone in our focus on the customer and our values. Our Code included a new decision making tool – the YES Check. It is a simple guide to help employees check whether they are making the right decision in line with our purpose and values. Mapped back to regulatory principles, the YES Check was another important recognition that the decisions we take everyday impact our customers and our communities.

We have continued to professionalise our customer facing staff, committing to accredit them against professional standards by the end of 2014.

We also changed the way we recognise the best behaviours in the bank. We

launched Our Values Awards for all our employees and nominations were submitted of examples where people were living the values and serving customers well.

New Leadership Standards were developed to align them directly with our values. These standards support Our Code and provide us with a clear view of what is expected from leaders and is being built into how we recruit, develop and reward them.

We have made progress but we need to continue to have a rigorous focus on how to serve customers well, and work to fully embed our values in everything we do. Our employees believe in the goals of RBS and already 1 in 2 people have seen a change in how their team works.

More information on our progress in 2013 to build an engaged and inclusive workforce will be available in our RBS Sustainability 2013 Report at rbs.com/sustainable.

The RBS business model is that of a UK-focused retail and commercial bank. Our market leading customer franchises in the UK – serving personal, business and corporate customers – form the anchor of the RBS strategy. Our wholesale banking operations in the corporate and institutional business enhance and complement the proposition to our commercial customers.



Our business model and strategy

Our major source of income in our retail and commercial banking businesses is net interest income. This is the difference between the income we earn from the loans and advances we have made to our personal, corporate and institutional customers and on our surplus funds and the interest we pay on deposits placed with us by our customers and our debt securities we have issued. We also earn fees from financial services and other products we provide to our customers as well as rental income from assets we lease to our customers.

Our Markets business earns income from client driven trading activities particularly Rates, Currencies, Asset-Backed Products and Credit.

Our leading customer franchises serve 24 million customers globally, of which more than 70% are in the UK. We aim to provide them with a comprehensive range of products, delivered through a number of channels, which are increasingly digital.

We do business in competitive markets but we have strong franchises and good growth

opportunities, and we aim to target our investment to maximise these opportunities.

Over the period 2009-2013, the RBS strategic approach has focused first and foremost on rebuilding financial resilience:

- reducing total assets, principally through the run-off of Non-Core;
- reducing risk concentrations;
- reducing dependence on short-term wholesale funding while achieving a deposit-led funding model; and
- reducing balance sheet leverage.

This emphasis was necessary in order to correct historical weaknesses and to set RBS on a sound footing, but it left us falling short in our ability to build long-term shareholder value on the foundation of serving our customers and meeting more of their financial needs.

In 2013 we have refocused our Markets and International Banking businesses to deliver a targeted wholesale banking proposition to UK corporates and global financial institutions.

Strategic review

On 1 November 2013 RBS announced a full review of its customer-facing businesses, its IT and operations, and its organisational and decision-making structures. As a result of this review, we have announced a refreshed strategic direction with the ambition of building a bank that earns its customers' trust by serving them better than any other bank.

Business structure

RBS will be structured to deliver this ambition by organising itself around the needs of its customers, so as to combine customer groups with similar needs into business units able to deliver co-ordinated services. The seven existing operating divisions will be realigned into three businesses:

- Personal & Business Banking will serve UK personal and affluent customers together with small businesses (generally reporting up to £2 million turnover), with more business bankers moving back into branches.
- Commercial & Private Banking will serve commercial and mid-corporate customers and high net worth individuals, deepening relationships with commercial clients operating overseas through its market-leading trade and foreign exchange services while connecting our private banking brands more effectively to successful business owners and entrepreneurs.
- Corporate & Institutional Banking will serve our corporate and institutional clients primarily in the UK and Western Europe, as

well as those US and Asian multinationals with substantial trade and investment links in the region, with debt financing, risk management and trade services, focusing on core product capabilities that are of most relevance to our clients.

Ulster Bank in Northern Ireland will benefit from a closer integration with our personal, business and commercial franchises in Great Britain, while continuing to operate under the Ulster Bank brand. We are continuing to review our business in the Republic of Ireland with a view to being a challenger to the systemic banks in Ireland.

The reorganised bank will be a UK-focused retail and corporate bank with an international footprint to drive its corporate business. It will be managed as one bank, with one strategy.

Each of the three businesses is built on franchises that have the potential to be the number one bank for their respective customer groups. Each is designed to:

- Serve customer needs better than the existing operating divisions.
- Help eliminate duplication of costs in front and back offices.
- Position RBS to deliver a sustainable overall return on tangible equity of 12% plus in the long term.

A more detailed review of component business lines continues within each business, and further updates will be provided over the course of the year.

Addressing costs and returns

Key to achieving this is a significant reduction in RBS's costs and complexity. Transforming the bank to deliver this involves rationalising and simplifying systems, based on a target architecture with improved resilience.

Examples of these measures include:

- The number of technology platforms we use will be reduced by over 50%.
- We will move from 50 core banking systems to around 10.
- From 80 payment systems currently maintained we will move to approximately 10.
- Our property portfolio will be reduced from 25 million square feet to 18 million square feet, including significant reductions in central London.
- We will maintain a similar level of investment spending but directed at customer-facing process improvements, instead of maintaining inefficient legacy infrastructure.

This simplification is intended to deliver significant improvements to services delivered to our customers but at the same time serves as the cornerstone of a programme designed to bring our cost base down from £13.3 billion in 2013 to £8 billion in the medium term, including the impact of business exits such as Citizens Financial Group and Williams & Glyn, the bank levy, restructuring costs and, from 2015, the EU resolution fund charge. This plan will take RBS towards a cost:income ratio of around 55%, moving towards 50% in the longer term. Bringing our cost base back into alignment with the reduced scale of our business underpins our potential to deliver improved returns in future years.

The costs to achieve this plan will total approximately £5 billion over 2014 to 2017; of this approximately £1 billion has already been committed to previous plans related primarily to Citizens, Williams & Glyn and the previous restructuring announced for Markets. Approximately £0.6 billion relates to the costs of achieving asset reductions and realisations in Markets as we reshape this business over the next three to five years.

	Personal & Business Banking	Commercial & Private Banking	Corporate & Institutional Banking
CEO	Les Matheson	Alison Rose	Donald Workman
RWAs profile (%) (1)	~35%	~30%	~35%
Operating profit profile (%) (1)	~50%	~30%	~20%
Target RoE (1)	15%+	15%+	~10% (2)

Notes

(1) All business targets refer to steady state performance 2018 – 2020.

(2) 7-8% medium-term.

Measures

Future performance will be reported against both customer and financial measures.

	Measure	2013	Medium term	Long term
Customer	Service (1) Trust	<25% of businesses at #1		All businesses at #1 #1 trusted bank in the UK
People	Great place to work			Engagement index ≥ Global Financial Services norm (2)
Efficiency	Cost:income ratio Costs	73% (3) £13.3 billion	~55% (3) ~£8 billion (3)	~50% (3)
Returns	Return on tangible equity (4)	Negative	~9-11%	12%+
Capital strength	Common Equity Tier 1 ratio (5) Leverage ratio (5)	8.6% 3.5%	≥12% 3.5-4%	≥12% ≥4%

Notes:

(1) Measured by Net Promoter Score, with the exception of Corporate & Institutional Banking, which will use customer satisfaction. NPS nets the percentage of "promoters" (loyal enthusiasts of the company) and the percentage of "detractors" (unhappy customers) to give a measure of customer advocacy.

(2) Global Financial Services norm currently stands at 82%.

(3) Including bank levy, restructuring charges and, from 2015, the EU resolution fund charge.

(4) Calculated with tangible equity based on CET1 ratio of 12%.

(5) Fully loaded Basel III.

(6) This table contains forecasts with significant contingencies. Please refer to 'Forward Looking Statements' and 'Risk Factors'.

Delivery of 2009-2013 Strategic Plan

In 2009 RBS set out a five year strategic plan aimed at restoring RBS to standalone strength. The plan was built on four business objectives:

- To base RBS on enduring customer franchises, with each business capable of generating a sustainable return in excess of its cost of capital;
- To deliver the RBS strategy from a stable risk profile and balance sheet, with each banking business self-funding (100% loan:deposit ratio);
- To deliver an attractive blend of profitability, stability and sustainable growth from the chosen business mix; and
- Management hallmarks to include an open, investor-friendly approach; discipline and proven execution effectiveness; strong risk management; and central focus on serving our customers well.

We set out key measures and have consistently reported on our progress against these over the course of the five year plan. Progress against the risk measures has been strong, with all targets exceeded, in some cases by very large margins. Progress against value drivers, however, has not lived up to our expectations at the time the plan was established, with deterioration in both return on equity and cost:income ratio.

Progress versus Strategic plan

Key Measures	Worst point	2012	2013
Value drivers		Core	Core
Return on equity (1)	(31%)(2)	8.9%	4.6%
Cost:income ratio	97%(3)	59%	64%
Risk measures		Group	Group
Core Tier 1 ratio	4%(4)	10.3%	10.9%
Loan:deposit ratio	154%(5)	100%	94%
Short-term wholesale funding (STWF)	£297bn(6)	£42bn	£32bn
Liquidity portfolio (7)	£90bn(6)	£147bn	£146bn
Leverage ratio (8)	28.7x(9)	15.0x	14.4x

Notes:

(1) Based on indicative Core attributable profit taxed at standard rates and Core average tangible equity per the average balance sheet (89% of Group tangible equity based on RWAs at 31 December 2013);

(2) Return on tangible equity for 2008;

(3) Year ended 31 December 2008;

(4) As at 1 January 2008;

(5) As at October 2008;

(6) As at December 2008;

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

(8) Funded tangible assets divided by total Tier 1 capital; and

(9) As at June 2008.

“We must become a company that knows what it means to obsess about our customers. This is a fundamental challenge that will involve the whole organisation.”



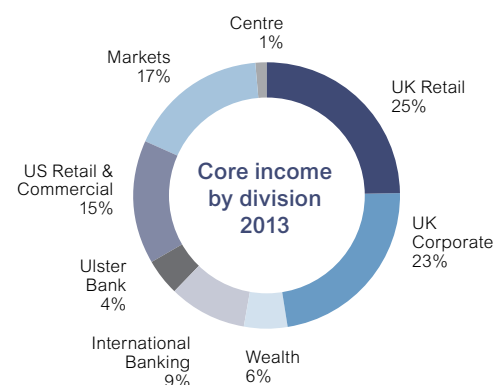
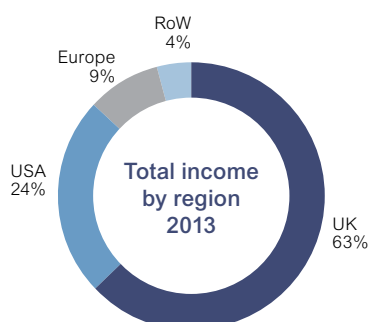
RBS at a glance

RBS is rooted in the UK, serving personal, business and institutional customers in the UK and many other countries. Our businesses are strong players in the markets in which we choose to compete. The businesses are stronger together than apart, to the benefit of customers and shareholders.

RBS is now safer and the day when we will be able to offer shareholders a decent return is closer. But making RBS a really good bank demands more. That is why we are still investing more effort in all of our businesses to serve customers well.



For further information on divisional performance see the Annual Report and Accounts 2013 available at rbs.com/annualreport



Customer story

Mobile nation

With over one billion logins since its launch, the RBS mobile banking app helps customers access their money while on the move.

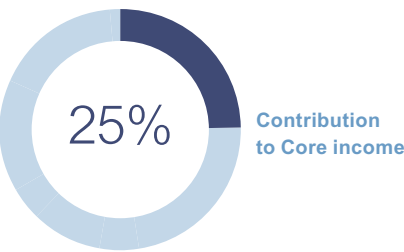
Over £30 million transferred every day

At the swipe of a smartphone customers can check their balance, move money, view their transaction history, pay a contact or even take cash out without a debit card. With over £30 million transferred every day, it's actually the bank's busiest branch: over a 30 day period, we had around 78 million logins which is equal to each customer visiting a physical branch around 30 times a month. By contrast, people tend to visit an actual branch less than once a month.



UK Retail

Les Matheson
Chief Executive



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

Performance highlights	2013	2012
Return on equity (%)	26.3	24.4
Cost:income ratio (%)	54	51
Loan:deposit ratio (%)	97	103
Risk-weighted assets (£bn)	43.9	45.7

Performance overview

- Operating profit increased 3% from £1,891 million to £1,943 million, driven by a decline in impairment losses.
- Mortgage balance growth was affected in H1 2013 by advisor training but recovered during H2 2013.
- Customer deposits increased by 7%, above UK market average.
- Net interest margin held steady, despite tightening margins on new mortgages. Lower income was earned on current account balances, but savings margins improved.

Building a better bank that serves customers well

In March 2013 UK Retail announced its strategy to become a simpler and more customer-focused business. Investment of £700 million over the next 3-5 years has been committed to build the best retail bank in the UK. Investment in digital channels continued, with half of all eligible customers now banking online or on mobile. Although branch counter transactions have fallen 30% since 2010 a programme to refurbish our branches has begun.



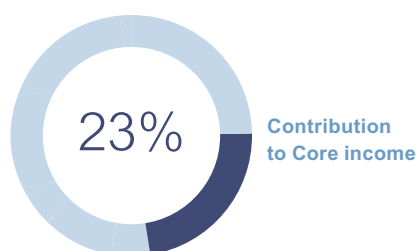
Customer story

Stormy weather

The UK suffered from terrible weather at the end of 2013, which caused serious damage and destruction. Adverse weather can have a dramatic effect on a business – loss of property and stock, failing systems, supply chain failures and halted trading – pushing them into financial difficulty, impacting employees and local communities. To help ease the pressure for businesses who have been directly or indirectly affected, we launched a £250 million UK Storm Business Fund. Interest-free loans can be provided for three months to viable and eligible businesses, whether or not they are existing customers (maximum of £250k per loan). Short-term, interest-free financing can be provided to cover, for example, cost of repairs and replacement stock while businesses wait for insurance claims to be paid.

UK Corporate

Chris Sullivan
Chief Executive



We are a leading provider of banking, finance and risk management services to the corporate and SME (small and medium-sized enterprise) sector in the United Kingdom. We offer a full range of banking products and related financial services.

Performance highlights	2013	2012
Return on equity (%)	7.9	14.5
Cost:income ratio (%)	50	44
Loan:deposit ratio (%)	80	82
Risk-weighted assets (£bn)	86.1	86.3

Performance overview

- Operating profit was down 41% at £1,060 million. Excluding £410 million impairments related to the creation of RCR, operating profit was down 18%.
- Impairments included an additional £410 million related to the creation of RCR. Excluding this, impairments were 7% lower than in 2012.
- Excluding the impact of increased impairment losses related to the creation of RCR, return on equity was 11%.
- Net interest income fell in a lower interest rate environment.
- Continued run-off of property and shipping, outweighed growth in other sectors, leaving loan balances down 5%.

Building a better bank that serves customers well

To reinforce its commitment to supporting the UK economy, RBS appointed Sir Andrew Large to lead an independent review of its lending standards and practices. UK Corporate has undertaken to implement all the Independent Lending Review's recommendations and is adopting a revised strategy to accomplish this. Support for SME customers included proactive "Statements of Appetite" sent to over 12,000 customers, resulting in approximately £6 billion of new loan offers.

Customer story

Network connection

Every entrepreneur knows the power of networking to build connections and contacts. Taking that network to the next level takes time and effort, things which are often in short supply.

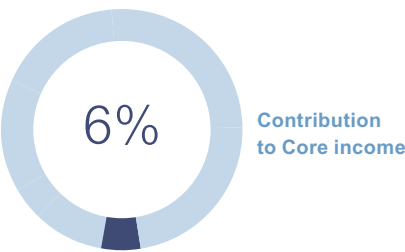
Coutts were able to bring the right people to the table

However, Coutts' focus on adding value to every relationship can also help bring the right people together. When one client was looking to diversify into renewables and food security in the Middle East, Coutts were able to bring the right people to the table, providing a catalyst for the client's growth opportunities and showing the value of our inter-connected world.



Wealth

Rory Tapner
Chief Executive



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

Performance highlights	2013	2012
Return on equity (%)	12.0	13.1
Cost:income ratio (%)	77	75
Loan:deposit ratio (%)	45	44
Risk-weighted assets (£bn)	12.0	12.3

Performance overview

- Operating profit was 9% lower at £221 million.
- Income was 7% lower, with net interest income declining over the year, reflecting tighter deposit spreads. Deposit margins improved in the fourth quarter following a repricing initiative.
- Assets under management rose 3%, but total client assets and liabilities managed by the division declined by 2% following the repricing initiative.
- Expenses were 4% lower, partly reflecting reduced headcount and tight discretionary cost management.

Building a better bank that serves customers well

2013 saw a major shake-up of the UK financial advice landscape with the implementation of the Retail Distribution Review. Clients welcomed Coutts' new fully compliant advice-led model, where advisers must achieve the more stringent Level 6 rating, in excess of the Level 4 minimum required by the Financial Conduct Authority. Work continued to streamline client-facing processes and drive increased technology benefits.



Customer story

Straight ahead

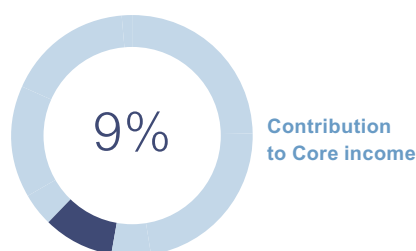
TomTom's navigation and location systems are used by customers in over 35 countries. To comply with finance regulations, they had to implement a standard format for payments across the Single Euro Payments Area.

Used by customers
in over 35 countries

They also wanted to use this as an opportunity to make payments more efficient and reduce risk. They worked closely with RBS to make a number of changes to their internal processes and thanks to meticulous planning and communication, the changes were successful. TomTom now has one, single payment process for suppliers across the world.

International Banking

John Owen
Chief Executive



We offer a core banking proposition to multi-national corporates and financial institutions by providing debt financing, risk management and transaction services. We work with clients to find the best product mix to execute their strategy.

Performance highlights	2013	2012
Return on equity (%)	3.9	9.1
Cost:income ratio (%)	73	66
Loan:deposit ratio (%)	91	91
Risk-weighted assets (£bn)	49.0	51.9

Performance overview

- Operating profit decreased by 53% to £279 million, with cash management income depressed by the decline in LIBOR interest rates. Excluding impairments of £52 million related to the creation of RCR, operating profit was down 44%.
- Expenses were reduced by 5%, as International Banking kept costs under tight control and achieved timely run-off of discontinued businesses.
- Customer deposits declined by 15% in line with a change in Group funding strategy.

Building a better bank that serves customers well

With business conditions still challenging as themes of low interest rates and margin compression continue, International Banking remained focused on cost discipline throughout 2013. The division continued to strengthen its balance sheet, reducing risk-weighted assets by 6%, despite the introduction of more severe credit risk models.

RBS received a number of awards for trade finance and cash management services.

Customer story

Home run

Demand for affordable housing is extremely high across the UK and Apex, one of Northern Ireland’s largest housing associations, is working hard to help meet this need. Apex employs 570 people and has over 4,000 units under management, including general needs housing, supported housing, sheltered housing and registered care.

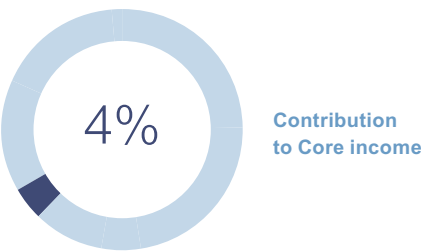
1,000 brand-new social and affordable homes

A £10 million loan from Ulster Bank will help Apex deliver around 1,000 brand-new social and affordable homes, creating much-needed new homes as well as hundreds of construction jobs.



Ulster Bank

Jim Brown
Chief Executive



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

Performance highlights	2013	2012
Return on equity (%)	(32.4)	(21.8)
Cost:income ratio (%)	64	62
Loan:deposit ratio (%)	120	130
Risk-weighted assets (£bn)	30.7	36.1

Performance overview

- Operating loss for 2013 was £1,457 million, including increased impairment losses of £892 million relating to the creation of RCR. Excluding the impact of the creation of RCR, operating loss improved by £494 million or 48%.
- Impairment losses improved significantly, excluding the RCR impact, with a 64% reduction in losses in the mortgage portfolio.
- Retail and SME deposit balances increased by 2%, offset by a reduction in wholesale customer balances, resulting in a 2% decline in total deposit balances.

Building a better bank that serves customers well

The creation of RCR will expedite the resolution of underperforming, capital intensive assets and allow Ulster Bank to focus on building a stronger core business for the future. Ulster Bank is committed to supporting the Irish economic recovery and £1.7 billion of funding has been made available to support new lending in 2014, £1 billion for business customers and £700 million for personal customers.



Customer story

System success

Our new Branch Image Capture (BIC) teller system has helped create a much better customer experience. Cheques and documents can now be scanned at the teller window, with transactions being balanced there and then in front of the customer. That means fewer errors and corrections as well as helping to reduce fraud.

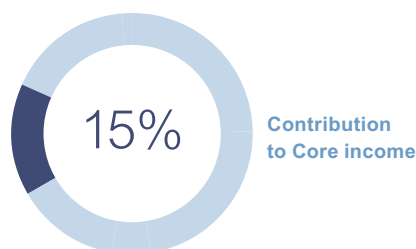
The system helped create a much better customer experience

BIC supports our goal of becoming our customers' primary banking partner through greater convenience, more privacy and fewer errors. Now we have a truly functional tool that delivers efficiency and security for our customers.

US Retail & Commercial

Bruce Van Saun

Chief Executive, RBS Citizens and
Head of RBS Americas



We provide financial services primarily in the Northeastern, Mid-Atlantic and Midwest United States through the Citizens Bank, Charter One and RBS Citizens brands. We are engaged in retail and corporate banking activities.

Performance highlights

	2013	2012
Return on equity (%) (1)	7.2	8.9
Cost:income ratio (%) (1)	73	71
Loan:deposit ratio (%)	91	86
Risk-weighted assets (£bn)	56.1	56.5

Note (1) Excludes the litigation settlement and net gain on sale of Visa B Shares in 2012.

Performance overview

- Operating profit of \$1,012 million was down 15%, with low short-term interest rates continuing to limit net interest margin expansion while rising long-term rates slowed mortgage refinance volumes.
- Average loans and advances were flat, with commercial loan growth of 5% partly offset by run-off of long-term fixed rate consumer products.
- Impairment losses increased by \$99 million to \$244 million.

Building a better bank that serves customers well

On 1 November 2013 RBS announced plans to accelerate the initial public offering of RBS Citizens Financial Group (RBSCFG) into the second half of 2014. It is expected that by the end of 2016 RBSCFG will be a standalone regional bank, wholly owned by public shareholders. RBSCFG commenced a number of actions in 2013 aimed at improving financial performance, driving profitable growth by focusing on the customer and delivering an enhanced experience.

Customer story

Weighing anchor

Peel Ports Group, one of the UK's biggest port operators, handles over 65 million tonnes of cargo a year. An RBS backed refinancing programme has enabled the development of Liverpool2, the new deep sea container terminal in the Port of Liverpool, costing in excess of £300 million.

The benefit of this investment is hugely positive.

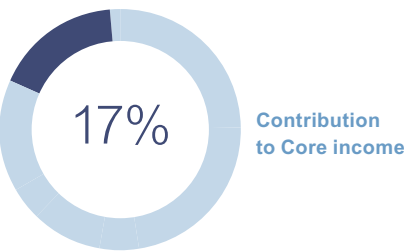
As one of their most important sites, this investment in growth will assist the UK's shipping industry to remain globally competitive as well as acting as a catalyst for future development. It's believed Liverpool2 will help create around 5,000 jobs in Merseyside, including additional apprenticeships – a great boost for the local economy.



Markets

Peter Neilson
Co-CEO

Suneel Kamlani
Co-CEO



We provide financing, risk management and advisory services to RBS corporate and institutional clients.

Performance highlights	2013	2012
Return on equity (%)	5.0	9.6
Cost:income ratio (%)	79	66
Risk-weighted assets (£bn)	64.5	101.3

Performance overview

- Operating profit fell by £889 million, 59% to £620 million with income falling by 26%, partly offset by significant cost reductions. The de-risking of Markets resulted in a 36% reduction in risk-weighted assets.
- Currencies income increased but returns from the Rates business were subdued.
- Costs fell by 11%, reflecting a reduction in headcount of 1,000 evenly split between front and back office – and tightly controlled discretionary expenses.
- Third party assets were reduced by £72 billion (down 25%) and risk-weighted assets by £37 billion (down 36%).

Building a better bank that serves customers well

In 2013, Markets launched and executed a strategy aimed at reducing risk, tightening controls, consolidating the geographic footprint and reducing complexity by refocusing on the franchise's core strengths. The division met or exceeded all internal targets for reducing controllable costs, risk-weighted assets and the balance sheet, while meeting revenue and income expectations. Lower income in 2013 compared with 2012 reflected both the strategic scaling back of the balance sheet and risk reduction in a difficult market environment with client activity limited by uncertainty over monetary policy in the US.

Non-Core

Rory Cullinan

Chief Executive

Established in 2009 as the principal vehicle of risk reduction. At inception it had £258 billion of third party assets and £171 billion of risk-weighted assets. Non-Core reduced these assets in a capital efficient manner and at a pace the bank could afford.

Performance highlights

	2013	2012
Risk-weighted assets (£bn)	29.2	60.4
Third party assets (£bn)	28.0	57.4

Performance overview

- Third party assets declined by £29 billion, or 51%, reflecting run-off, disposals and impairments.
- Risk-weighted assets were down £31 billion, driven by disposals and run-off.
- Operating loss of £5,527 million was £2,648 million higher than in 2012, predominantly due to £3,118 million of 2013 impairments related to the creation of RCR.

Building a better bank that serves customers well

Non-Core has successfully achieved and surpassed its five year strategic plan target set in 2009, reducing third party assets by 89% from an initial £258 billion. By the end of 2013 Non-Core represented c.4% of RBS's funded balance sheet, compared with 21% when the division was created.

While the new RCR is similar in size to Non-Core, the assets have been selected on a different criteria and are not directly comparable.

Business Services

Simon McNamara

Group Chief Administrative Officer

In Business Services we keep RBS running, supporting our customers 24 hours a day, 365 days a year. We put money in the ATMs, keep the bank's technology systems operating, help to keep our customers safe from fraud, process billions of pounds worth of payments across the world, and provide call centre and online services to customers.

We work across four business areas: Technology Services, Group Operations, Corporate Services and Strategy & Architecture. Together we connect colleagues and customers, providing the tools and services that help us to serve our customers when and where they need us.

- We issued two million time-saving contactless cards in 2013 allowing customers to make quick and easy payments for everyday items under £20 in less than a second.

- Through our Simplifying Customer Life initiative 4,500 ideas have been submitted improving over four million customer interactions each year.

- We have delivered almost 50 Cyber Crime and Fraud Prevention seminars to more than 2,500 RBS customers, non-customers and RBS Relationship Managers worldwide.

- Over two million customers log on to online or mobile banking every day.

- Since 2010, when we launched our mobile app, we have had more than a billion logons.

- Our energy initiatives have resulted in an 18% reduction in energy consumption in our flagship buildings during 2013.

- We introduced a funds transfer option on our ATMs, which allows customers to move funds between their accounts.

- IT incidents in recent years have caused inconvenience to our customers. To reduce the impact of any technology outages on our customers, we are investing over £750 million in a three-year period to improve the resilience of our systems, becoming safer and more secure.

Governance at a glance

Board and committee activity increased significantly in 2013, with a number of key strategic issues taking centre stage, and Board committees continued to play a crucial role in our governance framework, undertaking their complex work comprehensively and effectively supporting the work of the Board.

Conduct and culture have been key areas of focus throughout the year and our 2013 results reflect the impact that conduct related matters continue to have on financial and operating performance. The Board fully supports our new values, which were launched in 2013 and focus on serving customers, working together, doing the right thing and thinking long term. It is vital that the Board continues to set the tone from the top to drive essential cultural change and that our governance framework continues to evolve to support this and our key strategic changes. These will be key priorities for the Board and its Committees in 2014.

Philip Hampton

Chairman of the Board of directors

Our Board

The Board has 11 directors comprising the Chairman, two executive directors and eight independent non-executive directors, one of whom is the Senior Independent Director. Biographies for each director and details of which Board Committees they are members of can be found on pages 36 to 39.

There were a number of changes to the Board's composition during 2013, details of which can be found in the Chairman's Statement on pages 22 and 23.

The Board is the main decision making forum for the company. It is collectively responsible for the long-term success of the company and is accountable to shareholders for financial and operational performance.

The Board has overall responsibility for the following areas:

- the establishment of strategy and consideration of strategic challenges;
- the management of the business and affairs of the Group;
- ensuring that risk is managed effectively through the approval and monitoring of risk appetite;

- considering stress scenarios and agreed mitigants and identifying longer term strategic threats to the Group's business operations;
- the allocation and raising of capital; and
- the preparation and approval of the RBS annual report and accounts.

We conducted an internal evaluation of the effectiveness of the Board and its committees in 2013, led by the Group Secretary. The evaluation has concluded that the Board is operating effectively but has identified some areas for improvement which we will focus on during 2014.

Our Board committees

Group Audit Committee

Assists the Board in discharging its responsibilities for monitoring the integrity of the financial statements of the Group. It reviews the accounting policies, financial reporting and regulatory compliance practices of the Group and the Group's system and standards of internal controls, and monitors the Group's processes for internal audit and external audit.



For further information on corporate governance see the Annual Report and Accounts 2013 available at rbs.com/annualreport

Board of directors and Executive Committee

Board

Chairman

Philip Hampton

Executive directors

Ross McEwan

Nathan Bostock

Non-executive directors

Sandy Crombie (Senior Independent Director)	Robert Gillespie
	Penny Hughes
Alison Davis	Brendan Nelson
Tony Di Iorio	Baroness Noakes
	Philip Scott

Secretary and Head of Corporate Governance

Aileen Taylor

Executive Committee*

Ross McEwan

Group Chief Executive

Nathan Bostock

Group Finance Director

Rory Cullinan

Chief Executive,
RBS Capital Resolution Group

Suneel Kamrani

Co-Chief Executive, Markets

Les Matheson

Chief Executive, UK Retail

Simon McNamara

Group Chief Administrative Officer

Jon Pain

Group Head of Conduct &
Regulatory Affairs

David Stephen

Group Chief Risk Officer

Chris Sullivan

Chief Executive, Corporate Banking

Bruce Van Saun

Chairman & Chief Executive,
RBS Citizens Financial Group, Inc and
Head of RBS Americas

* As at the date of signing of the Annual Report and Accounts.

Board Risk Committee

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

Group Performance and Remuneration Committee

Responsible for overseeing performance and the Group's policy on remuneration. It also considers senior executive remuneration and makes recommendations to the Board on the remuneration of executive directors.

Group Nominations Committee

Assists the Board in the selection and appointment of directors. It reviews the structure, size and composition of the Board, and membership and chairmanship of Board committees.

Group Sustainability Committee

Responsible for overseeing and challenging how management is addressing sustainability and reputation issues relating to all stakeholder groups, except where such issues have already been dealt with by other Board committees.

Executive Committee

Supports the Group Chief Executive in managing the Group's businesses. It reviews strategic issues and initiatives, monitors financial performance and capital allocations and considers risk strategy, policy and management.

RBS Capital Resolution (RCR) Board Oversight Committee

Provides oversight of RCR's progress against, and compliance with, its primary objective and asset management principles. It reports to the Board on its own activities and recommends changes, where appropriate, to RCR strategy.

UK Corporate Governance Code

This is the first year that we are reporting under the new narrative reporting requirements which include the new Strategic Report and changes in remuneration reporting. Throughout the year ended 31 December 2013, the company has complied with all of the provisions of the UK Corporate Governance Code 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. The company considers that this is a matter which should rightly be reserved for the Board.

For
biographies
see pages

36 - 39

“We are confident that the actions announced will deliver a customer-focused bank.”



Chairman's statement

Philip Hampton
Chairman

Five years ago RBS embarked on a strategic restructuring designed to correct the aspects of its business that made it particularly vulnerable to the financial crisis of 2008.

The execution of that restructuring has transformed the financial position of the bank: we have reduced our balance sheet by more than £1 trillion, repaid hundreds of billions of Government funding support and removed the imminent threat that our size, risk and complexity posed to the UK economy. In 2013 we took further steps to resolve our remaining legacy balance sheet issues by announcing the creation of RCR, with the aim of accelerating the removal of these legacy assets and releasing the capital they are still tying up.

We have also taken very substantial charges for a variety of conduct-related issues, including LIBOR, PPI, interest rate swaps and RMBS litigation. Almost all of these costs for

RCR and conduct issues can properly be described as legacy costs, arising from events and actions in the run-up to the financial crisis.

As our 2013 results make clear, however, restoring the strength of the bank's balance sheet was only one part of the job. In June the Board announced that Stephen Hester, who had led our financial restructuring since 2008 very effectively, would be stepping down as Group Chief Executive. We selected Ross McEwan to re-energise the task of building a bank that earns its customers' trust, improves operating efficiency and can move down the path back to full private ownership. The Board and I want to thank Stephen Hester for his dedication to RBS and to congratulate him on his success in putting the bank on to a sound footing.

There have been a number of other changes to the Board's composition during the year.

Bruce Van Saun took up his new role as Chairman and Chief Executive of RBS Citizens Financial Group, Inc. on 1 October 2013 and has stepped down from the Board having done an excellent job as our Group Finance Director. He was succeeded by Nathan Bostock, who has since confirmed his resignation; his leaving date has not yet been agreed and the search for his replacement is under way.

Two of our non-executive directors, Joe MacHale and Art Ryan, also retired from the Board in 2013 and Philip Scott will step down from the Board by 31 October 2014. I thank them all for the hard work and wisdom they have brought as directors. In December 2013, we also welcomed Robert Gillespie as a new non-executive director. I would like to take this opportunity to express my appreciation to all of my fellow directors for their commitment and readiness to deal with the unusual challenges of a government-controlled listed company.

Ross McEwan is bringing a fresh perspective to RBS's challenges, and that perspective is now bearing fruit in the results of the strategic review that we are setting out. The Board believes that this was the right time for this review, so as to ensure that we target our future efforts firmly towards serving our customers, shareholders and wider stakeholders in the best possible way.

Regrettably, last year brought further reminders that many of our customers and stakeholders do not trust us to do so. In response to persistent criticism of our performance in lending to SMEs the Board commissioned an independent review by Sir Andrew Large; we expect to adopt all of his recommendations.

We also faced accusations that our Global Restructuring Group had been culpable of "systematic and institutional" behaviour in artificially distressing otherwise viable businesses. No evidence has been provided for that allegation but it has, nevertheless,

done serious damage to RBS's reputation. That is why we instructed the law firm Clifford Chance to conduct an independent review. This is an area where all banks routinely make difficult judgments, and indeed the banking sector has been criticised for excessive forbearance in recent years, charged with supporting unviable "zombie" companies for too long.

Issues like this continue to underscore the important role played by culture and values in enabling us to become the trusted bank we aspire to be. The Board fully supports the new values we launched in 2013, and it is vital that we continue to set the tone from the top in the coming year to drive essential cultural change.

On many of these issues we have engaged closely with HM Treasury (HMT) through UK Financial Investments, which manages HMT's shareholding, and with our two main regulators, the Prudential Regulation Authority and the Financial Conduct Authority. Over the course of the year they have all proposed actions for consideration by the Board.

Ross McEwan has spoken of the need to reset our relationship with HMT and our main regulators. I hope and believe that we have made good progress in this direction. There is a desire on all sides that our relationship with the Government in its role as controlling shareholder should be primarily managed by UKFI on a commercial, arm's length basis. I want to make it clear, however, that the path we have set and decisions we have taken reflect the Board's view of what is in the interests of all RBS's shareholders and other stakeholders.

We are monitoring the debate on Scottish independence but, as I and my colleagues have said many times, we are politically neutral. We don't support political parties or political movements. We will respond to whatever voters decide and governments agree.

Clearly there are issues we are looking at – currency, the application of financial regulation, lender of last resort, credit ratings – which could affect us. But there is real uncertainty about how any of these matters would be settled in the event of a Yes vote and the outcome would depend on negotiations between the two governments. Indeed, there could be a prolonged period of uncertainty over each of the issues so it really is impossible to quantify with any precision what the effects of each might be right now.

We are confident that the actions announced will deliver a customer-focused bank with undoubted capital strength, the potential for attractive returns and an ability to recommence dividends over the medium term.

Philip Hampton
Chairman

“Our focus will be determined by where our customers need us, and where we can serve their needs better than anyone else.”



Chief Executive's review

Ross McEwan
Chief Executive

Since 2009 RBS has cleaned up the world's largest bank balance sheet by removing more than £1 trillion in assets. This was a remarkable achievement, born of absolute necessity, but delivered with exceptional skill.

These skills now need to be deployed on a task of equal magnitude: creating a step-change in the customer service and financial performance of RBS. The hardest part of our financial restructuring is now complete, and we now need to use our strengths and capabilities to make RBS an example for everything that should be right with banking.

Since taking up post in October, I have listened extensively to our customers and our staff. It is clear to me that people have not given up on us. Our customers tell me we have good people with good intentions. But they also tell me they are frustrated by the way we work.

The potential for RBS is tangible, we have points of brilliance, but these are masked by a heavily damaged reputation, very high cost base and a structure that reflects the bank we are leaving behind, not the one we will become.

We hold many excellent market leading positions across the bank and, despite the distractions of our recovery, there are areas where we have started to excel for our customers. But this remains an inconsistent picture and the returns in our strongest businesses can often be diluted by weaker parts of the franchise, the price of past misconduct and an uncompetitive cost base.

We are clear on our purpose as a bank: to serve customers well, but we are yet to operate in a way that means we can really deliver on this. Delivering on our purpose will mean running the bank differently.

To meet more of our customers' needs we must earn more of their trust. This starts with improving the things that matter most to customers, and then rewarding their loyalty. There are too few rewards for customer loyalty in banking and we need to change this. Loyal and rewarded customers are the basis for the higher quality earnings we intend to deliver.

Change won't happen overnight, but we are clear where we can improve and our progress will be evident quarter-by-quarter. We have already started calling out the barriers to our ambition.

The opportunity cost of our current approach is clear. We have an 18% share of the GB main current account market but less than half our customers have a mortgage with us. The same is true in different forms across all our businesses and paints a clear picture of untapped potential. I know this frustrates our people, all of whom want to prove the worth of this bank through better service to customers.

The lack of connectivity for customers is a by-product of our own complexity. Too many customers are forced to bank around us; adapting their behaviour to fit with our processes. It's frustrating for them and value destructive for us.

Our customers rightly demand that we are competitive, in every setting and in every sector. We currently carry the cost base of a global financial services group when in fact we are now largely a UK-based bank. Our operating model means our customers and shareholders end up paying for parts of the business that cost too much and deliver too little in their interests.

This needs to change.

RBS needs a strategy that will address the weakness in our performance for customers, so that we can provide acceptable returns to our shareholders. The business review I have conducted has revealed our key challenges, but it has also given us a clear path to improve the bank.

On every dimension our opportunity to improve the relative and absolute performance of the bank is significant. It is my job to make sure our strategy for customers translates into value for our shareholders.

2013 Financial performance

This bank has had an extraordinary five years. Cleaning up a £2.2 trillion balance sheet whilst addressing the many failings of the past has carried a very heavy cost, which shows in our results.

Even by recent standards, 2013 was a difficult year. Regulatory fines, wide-ranging customer complaints, technology problems and public questioning of our integrity all weighed heavily, and bring into sharp focus the job we have at hand.

For the full year, we reported a pre-tax loss of £8.2 billion. The loss includes £3.8 billion of legacy litigation, conduct and regulatory costs and £4.8 billion of impairments and other losses relating to the establishment of RBS Capital Resolution (RCR).

Looking at underlying performance, total income was down £2.3 billion for the year, primarily reflecting lower revenues from the re-sized Markets business while costs were only down £0.5 billion – pushing the cost:income ratio towards the worse end of our peer group at 67%.

Returns varied across our businesses, but only UK Retail and Wealth delivered returns above the cost of equity. That said, the bank continued to make progress despite our financial performance.

Our business milestones included completing the run-down of another £29 billion of Non-Core assets – ahead of plan and taking the total reduction since Non-Core was established to £230 billion – setting up the RCR unit and reducing risk-weighted assets, and hence our risk profile, by £66 billion, on a fully loaded Basel III basis.

We also cancelled the £8 billion Contingent Capital Facility with HM Treasury, reduced our stake in Direct Line Group to 28.5% – in line with our commitment to the EC – and we are in advanced discussions to restructure the Dividend Access Share.

It is clear that the underlying performance over the last year underlines the need for us to shift the emphasis from restoring the balance sheet to recharging our performance.

Why we must change

Capital: The capital plan we announced in November outlined a number of concrete actions to place the bank on a sure footing. Among them, the creation of RCR and the flotation of Citizens Financial Group will allow us to target a Common Equity Tier 1 capital position of 12% or greater by the end of 2016.

The capital plan has been designed to allow us to focus without distraction on improving our operating performance.

We will do what it takes to reach and maintain a prudent capital position.

Cost and Complexity: There was a necessary complexity to running an organisation with a £2.2 trillion balance sheet, as ours was five years ago, but this need has reduced as we have scaled the bank dramatically down over recent years. We now need to simplify our structure and cost base to match.

RBS remains a complex bank. We can be hard to do business with, costly to operate, and complicated to work in. We have seven customer-facing divisions as well as RCR and central functions, many of which are duplicated across divisions. Across this we have hundreds of internal committees. These are costly barriers to interaction between our people and with our customers, meaning we lose out too many times on the opportunity to serve them with more products and services.

This complexity shows in our cost:income ratio, which reaches 73% when fully loaded to include the bank levy and restructuring costs. Reducing costs and divesting businesses in the bank will inevitably result in reduced staff levels. We do not yet have detailed plans for implementation and as always we will deal with such matters sensitively, talking to our staff before communicating any such changes.

Trust and Reputation: Behaviour and performance influence the perception of worth. RBS carries huge reputational discount due to the extent of bad headlines the bank attracts. This carries through into our customer and investor interaction and can only be solved by a sustained improvement in the quality of our earnings and meaningful change in the way we deal with customers.

Our customers like and trust the people they deal with, but not the bank itself. We can change this by moving more of the appropriate decision making and process management closer to the people who deal with customers.

Performance: Great companies know that quality service goes hand-in-hand with disciplined management; they chase down costs intelligently so they can invest more for their customers. They prioritise and invest with relentless focus on the areas that deliver the strongest, most sustainable returns.

RBS has earned credibility for the execution of our financial restructuring. The same discipline and focus is now needed on our day-to-day operating performance to better deliver for the customer. The costs that subdue our performance need to be intelligently removed and redirected towards activities that enhance our earnings.

Our new strategy

We now have a strategy to deliver a sustainable bank with a clear ambition: we want to be number one for customer service, trust and advocacy, in every one of our chosen business areas by 2020.

Our ambition aims to deliver a bank that is more trusted than others in the UK. We will earn the trust of customers by serving them better than any other bank.

Quality service leads to repeat business and customer advocacy. Repeat business and higher advocacy leads to sustainable income. We won't compromise on this logic.

The bank will be structured to deliver this ambition by organising around the needs of our customers.

We will collapse seven operating divisions into three customer businesses that can understand our customers' needs and provide appropriate, consistent services far better than we can across current silos.

Our support functions will be smaller, more expert and dedicated to helping the businesses succeed for customers. We will run highly disciplined and well managed conduct and risk functions to maintain safety and soundness.

This will be a highly effective bank and in the medium term we will aim to deliver a cost:income ratio (including bank levy, restructuring charges and, from 2015, the EU resolution fund charge) of around 55%, falling in the long term to around 50%.

The frontline of this bank is where we'll stand out. Accountable, trusted professionals will staff the perimeter of the bank and drive it forward. They will be supported by simple, effective processes on a sound technology platform.

Only 30% of our people today deal directly with the customer. By 2017 more than half will deal directly with the customer and all our people will be measured against our success in improving customer advocacy.

Our focus will be determined by where our customers need us, and where we can serve their needs better than anyone else.

The UK is our home market and our strongest market. It is also our biggest advantage. Our corporate customer trade flows mean we need a strong European and US presence, so this is where we will be. Our UK clients rely on inward investment, so we'll retain a presence in Asia.

Our three customer businesses will cover Personal & Business Banking, Commercial & Private Banking, and Corporate & Institutional Banking. Across the businesses we will have one management team, working to one joined-up plan.

The businesses will be built on franchises that can be number one for customers. We have a family of brands across the bank and will use these to deliver on our ambition.

Not every business in our current structure will be best placed to deliver on our strategy. Technology investment will enable some to improve service at a rate that outpaces the market, but others will not.

For those activities where we can't see a clear path to being number one, we will review on the basis of 'fix, close or dispose'. These will become clear as each of our three businesses defines its new customer franchises over the coming months.

The three businesses of the go-forward bank have been designed against a number of goals. Firstly, they will better serve customer needs than the existing operating divisions. Secondly, they will help eradicate duplication of cost in both the front and back office. Thirdly, they will position us to deliver a sustainable return on equity in each business.

Update on capital plan

We announced in November that we will target a fully loaded Basel III Common Equity Tier 1 ratio of 12% or greater by the end of 2016 which will principally be delivered through the Capital Resolution Group.

Ahead of results, we announced that we would take an additional £2.9 billion of charges for litigation and conduct related matters. While these charges were in our future capital plan, provisions were recognised in 2013 and reduced our fully loaded Basel III Common Equity Tier 1 ratio to 8.6% at the end of 2013.

So how do we get to our 12% 2016 target? This will primarily be due to the successful run-down of RCR and the IPO of Citizens, as well as further targeted risk-weighted asset reduction, which will continue to be the main drivers of our plan to deliver our 12% target by the end of 2016.

Citizens Financial Group: The cornerstone of the capital plan is the IPO of Citizens Financial Group in the United States. We have appointed advisers and this is on schedule for later this year.

RCR: The creation of RCR from 1 January 2014 originally identified £38 billion of third party assets that were highly capital intensive. This represented 5% of our funded balance sheet but used up 20% of our capital.

Mainly as a result of the increased impairments we have taken and significantly higher levels of disposals in Non-Core than had been forecast, the opening balance is £29 billion of third party assets and £65 billion of risk-weighted asset equivalents (RWAE). This reduction in assets has also resulted in a corresponding decrease in the bank's funding requirements.

UK branch divestment: To meet our EC-mandated branch divestment, the Williams & Glyn brand will return to the high street via an IPO over the coming years. To achieve this we signed a deal with a consortium of investors led by Corsair Capital and Centerbridge Partners in September 2013. The business will require separation from RBS and this process is well under way.

Ulster Bank: The thinking behind every aspect of our new strategy applies to our business in the island of Ireland.

Consumers and businesses across the island of Ireland deserve a better banking service. To achieve this, however, we must change the way we currently organise our business in the Irish market place. We took the first major step at the end of 2013 when we

announced our intention to remove £9 billion of the worst credit risks from the Ulster Bank balance sheet. Our second step is focused on improving customer experience and shareholder return.

As outlined in November, we are reviewing our business to make it viable and sustainable into the future. In this regard we are accelerating our strategy for the bank to improve service to our customers, reduce costs and simplify our operating model.

Our bank in Northern Ireland will benefit from a closer integration with our personal and business franchises in the rest of the United Kingdom. There are meaningful synergies in terms of investment, costs and customer experience from doing this. It is essential if we are to provide a more appealing and compelling service to our customers in Northern Ireland under the Ulster Bank brand.

In the Republic of Ireland we will continue to explore further opportunities to transform our business. We have a range of options but we are now clear on the goal; we will build on our position to be a compelling challenger bank to the domestic pillar banks.

Our customers in the island of Ireland need to know that we are committed to providing them with a great everyday banking service. We will finalise our plans in the coming months – but this is about a change in business strategy not a withdrawal from the market.

These moves are designed to position the bank to do more for our customers and consequently reward our shareholders for their patience.

Measures that matter

We will only succeed in delivering our goals if everyone who works in the bank is clear on the measures that matter. It is too easy to be distracted by measures that flatter progress on things that ultimately don't count towards our ambition.

The measures we use must have credibility with customers and the wider public if we are to regain trust. And they must focus the bank relentlessly on improving returns for shareholders. It is abundantly clear to me that

we need to reward our existing shareholders for their patience and attract new ones based on our potential and performance.

Measure 1: Customer

We will target the best Net Promoter Score in the market in the long term in each of our chosen business areas. The most trusted bank in the UK in the long term.

Measure 2: Efficiency

We will aim to deliver a cost:income ratio (including bank levy, restructuring charges and, from 2015, the EU resolution fund charge) of approximately 55% in the medium term, falling in the long term to around 50%. On the same basis, we target a reduction in our costs to approximately £8 billion in the medium term.

Measure 3: Returns

Our overall targeted return on tangible equity (RoTE) will be approximately 9-11% in the medium term. Our long-term RoTE target is 12% plus.

Measure 4: Capital strength

We will target a CET1 capital ratio, on a fully loaded Basel III basis, of 12% or greater by the end of 2016. Our targeted leverage ratio, on the same basis, will be 3.5-4% in the medium term and 4% or above in the long term.

These simple measures mean we will strike a permanent balance between the needs of our stakeholders.

How we'll do business

The scale of the challenge we have faced over the last few years taught us a simple fundamental lesson: you cannot succeed at your customers' expense. This is why last year we agreed a very simple purpose for the bank: to serve customers well.

Our future is not about us, it's about our customers. These words greet our employees as they walk into our offices every day. They have come to represent a shorthand for what went wrong, but also what we need to get right.

Although we remain in the shadow of our past conduct failings, we have a clear and universal set of values that bind the bank together.

Serving customers

We exist to serve customers. We earn their trust by focusing on their needs and delivering excellent service.

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.

Doing the right thing

We do the right thing. We take risk seriously and manage it prudently. We prize fairness and diversity and exercise judgement with thought and integrity.

Thinking long term

We know we succeed only when our customers and communities succeed. We do business in an open, direct and sustainable way.

These values are the basis for how we lead, how we reward, how we make decisions and how we treat our customers and each other. They are not yet etched in stone, but become stronger the more they are tested. They are core to us succeeding as a bank.

Conclusion

RBS isn't just any bank. Few, if any, comparisons do justice to the scale of the turnaround that RBS required.

We've got to a point of safety and soundness through a steady focus and patient determination. There will be more things from our past that come back to haunt us, but they will be fewer in number.

Over time, with steady focus and disciplined delivery, the new RBS will emerge. The businesses we operate will be highly effective and relentless in their pursuit of delivering service that makes us number one for customers.

We will be simple to do business with, free from distractions and supported by a strong capital base.

The outcome will be a bank that is truly trusted by customers.

Ross McEwan
Chief Executive

Economic and monetary environment

It has been noted before that when economies are emerging from recessions rooted in high levels of debt and stresses in the financial system, growth is slower than in the typical recovery. That was the experience again in 2013 in the major markets in which RBS operates.

In the UK, performance improved. Total economic activity, as measured by gross domestic product (GDP), grew by 1.9% compared with growth of 0.3% in 2012. At the start of the year, expectations had been for an increase of only 1.0%. Consumption led the way, despite falling real wages. There were more people in work and households drew down savings to fund spending.

Unemployment fell, from around 7.9% at the start of the year towards 7.0% at its end.

Housing market activity accelerated sharply, prompted in part by measures to encourage house purchases such as Help to Buy. According to the Halifax house price index, the average price of a house in the UK increased by 5.8% during the year. Other indices reported stronger price growth. Prices look to have risen in all parts of the UK but inflation was strongest in London, where prices rose by more than 10%.

Inflation ended the year at the 2.0% target having averaged 2.6% for the year as a whole. The Bank of England continued its ultra-loose monetary policy stance. The Bank Rate remained at 0.5%, although market rates increased towards the end of the year on expectations of tighter monetary policy in the United States. There were no additions to the stock of assets purchased through the quantitative easing programme. In August 2013, the Monetary Policy Committee began offering 'forward guidance' on its intentions. It said that it will not consider changing the Bank Rate or the stock of assets purchased until the unemployment rate reaches 7.0%, unless inflation threatens to take off or there are concerns about financial stability.

The Funding for Lending Scheme was adjusted during the course of the year to

enhance the incentives for banks to lend to small firms and later to withdraw that support for lending to individuals. The Bank of England's Credit Conditions Survey suggested that the supply of credit had expanded towards the end of the year.

In the face of considerable fiscal austerity and continuing disputes about the public finances, which led to a government shutdown in the autumn, GDP growth in the United States was 1.9% compared with 2.8% in 2012. There was encouraging news on the job market, where unemployment had fallen to 6.7% in December 2013, although part of the fall was accounted for by people leaving the job market rather than finding work. The housing market again performed strongly, with prices up 14% in the year to November.

In December, the Federal Reserve took the first formal steps towards tightening monetary policy. It announced that it would reduce the amount of assets purchased under its quantitative easing programme by \$10 billion each month, with the programme likely to be ended in the second half of 2014. It maintained its guidance that the Fed Funds Target Rate would remain at 0.25% until the unemployment rate reaches 6.5%.

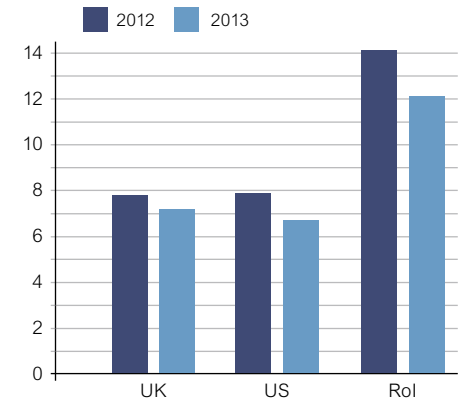
Ireland was able in early 2014 to exit the adjustment programme it had agreed with the European Central Bank, the European Commission and the International Monetary Fund. However, GDP contracted by 0.7% in the four quarters to Q3 2013. The export sector continued to benefit from the boost to competitiveness delivered by falling real wages, although export performance also reflected the decision of companies with limited local activity to domicile in Ireland.

For Ireland, gross national product (GNP) is a better measure of the performance of Ireland's domestic economy and people's material well-being. It reflects the income residents receive rather than the value of the incomes generated in the country, an important distinction where there is a large foreign-owned sector that remits profits overseas. GNP increased by 2.7%.

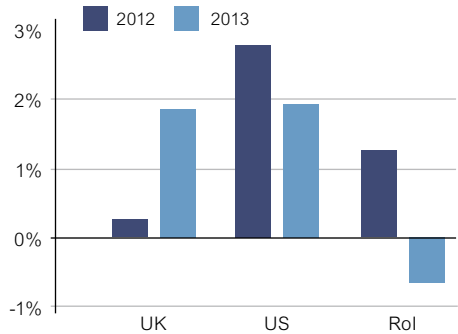
Unemployment averaged 13.2% and finished the year at 12.4%. House prices rose by 6.4%, the first year-on-year increase since 2007. However, rises were confined to Dublin, where prices increased by 16%. Outside the capital, prices fell slightly. Nationally, prices ended the year 45% below their 2007 level.

Entering 2013, the greatest economic concern was how problems related to sovereign debt in the euro zone would be managed. With the exception of Cyprus, there were none of the episodes of concern that had marked previous years. Markets were generally convinced that the European Central Bank would indeed 'do what it takes' to sustain the single currency. Further steps were taken towards a banking union. Nevertheless, the region's economy remained weak. Unemployment averaged 12.1%, a record, and inflation fell to 0.8% at the end of the year.

Unemployment rates, % December



Real GDP growth rates, %



Financial strength and resilience are at the heart of our Strategic Plan.



Risk overview

Key themes of 2013

Safety and soundness

The Group continued to pursue its safety and soundness agenda during 2013, with Non-Core's assets falling to £28 billion and Markets repositioning its business, both resulting in risk reduction and lower RWAs.

Whilst the continued deleveraging led to a significant reduction in RWAs, this was more than offset by the impact of the regulatory and redress provisions and increased impairment losses reflecting the establishment of RCR. Our Core Tier 1 capital ratio improved over the year, increasing from 10.3% to 10.9%. The fully loaded Basel III Common Equity Tier 1 ratio also improved in the year to 8.6%.

The Group's liquidity position continued to strengthen and at the end of the year, the liquidity portfolio of £146 billion was more than four times greater than its short-term

wholesale funding of £32 billion. The loan:deposit ratio continued to improve and was 94% at the end of the year.

Loan impairment charges were £8.4 billion during 2013 of which £4.5 billion related to the creation of RCR. Underlying impairment losses fell by £1.4 billion and provisions coverage of risk elements in lending increased to 64%, up from 52% a year ago. The Group continued to reduce risk concentrations, notably in commercial real estate. Exposure to eurozone periphery countries also continued to fall, down by 11% to £53 billion at the end of the year. Of this, 70% related to Ireland. The Group still has significant credit risk exposures in absolute terms with credit risk RWAs at £313 billion, following a 16% reduction in the year.

The Group's exposure to market risk continued to fall, with average trading VaR declining to £79 million from £97 million. Market risk RWAs at £30 billion are now less than half their end 2010 level of £80 billion.

Conduct risk is one of the most significant issues facing the bank, and the Group continued to suffer from legacy conduct

issues during 2013, notably in relation to PPI, Interest Rate Hedging Products and mortgage-backed and other securities litigation. During the year, the Group focused on embedding good conduct at the heart of its business, working to complete the development of its conduct risk framework and promoting staff understanding of conduct issues. It also worked to enhance its assessment of operational risk to identify important vulnerabilities.

Strategic review

The Group launched a strategic review in the fourth quarter of 2013 to reshape the business to deliver superior customer service. This involved a wide-ranging review of core activities, resulting in the formulation of a plan to address the business challenges of the next five years. While the Group believes the resulting strategy is appropriate, risks remain; the strategy may prove inadequate or the Group may be unable to execute it successfully. Its successful execution, despite increasing regulatory demands and scrutiny as well as a challenging economic environment, is key to the future success of the Group.

To deliver its capital plan, RBS has formed Capital Resolution Group (CRG), which comprises four pillars: exiting the assets in RCR, delivering the IPOs of both Citizens Financial Group and Williams & Glyn, and optimising the bank's group-wide shipping business. RCR was set up from 1 January 2014 and will manage a pool of funded assets (£29 billion) with particularly high capital intensity or potentially volatile outcomes in stressed environments, aiming to accelerate the run-down of these exposures to free up capital for the Group.

The Group continues to target a fully loaded Basel III Common Equity Tier 1 ratio of approximately 11% by the end of 2015 and 12% or above by the end of 2016. The timely run-down of RCR and the successful divestment of Citizens Financial Group, in particular, are cornerstones of this capital strategy.

Top and emerging risk scenarios

RBS identifies and monitors its top and emerging risk scenarios. A number attracted particular attention from senior management during 2013 which are discussed below.

Macroeconomic risks

- Increased impairments arising from defaults in sectors to which RBS has concentrated exposures, particularly commercial real estate and shipping. Optimisation of the Group's shipping and a significant proportion of commercial real estate portfolios is part of CRG strategy.
- Increased impairments arising from a more severe-than-expected economic downturn. RBS developed business plans to take into account the possibility of slow economic growth and implemented strategies, such as cost reductions, to reduce its earnings vulnerability.
- An increase in RBS obligations to support pension schemes. The trustee is responsible for the investment of the main scheme's assets, which are held separately from the assets of RBS.

Conduct, regulatory and legal risks

- Increased conduct costs and reputational damage arising from a failure to achieve fair customer outcomes. In order to address this risk, during the year RBS continued to embed good conduct at the heart of the business to ensure fair outcomes for customers.
- Increased costs and reputational damage arising from a failure to demonstrate compliance with existing regulatory requirements regarding conduct, particularly with respect to mis-selling. Although more work needs to be done to mitigate this risk, RBS has simplified some products and stopped offering others. Where appropriate, it has compensated purchasers of some products and services, such as payment protection insurance and certain interest rate hedging products.
- Losses or reputational damage arising from litigation. RBS defends claims against it to the best of its ability and co-operates fully with various governmental and regulatory authorities.

Risks related to the Group's operations

- Increased losses arising from cyber attacks. The Group has participated in an industry-wide cyber attack simulation. It has also initiated a program to improve controls over user access, taken steps to rationalise its websites, put anti-virus protection in place and educated staff on information protection.
- Increased losses arising from the failure of information technology systems. RBS has launched a major program to improve resilience, enhanced back-up systems and created a 'shadow bank' capable of providing basic services in the event of need.
- Increased costs arising from a failure to execute successfully major projects. RBS is working to implement change in line with its plans while assessing the risks to implementation and taking steps to mitigate those risks where possible.
- Increased costs due to an inability to recruit or retain suitable staff. RBS has communicated expected changes in its organisational structure to members of staff, implementing plans aimed at minimising unexpected staff losses.

Political risks

- RBSG and the Royal Bank, its principal operating subsidiary, are both headquartered and incorporated in Scotland. The Scottish Government is holding a referendum in September 2014 on the question of Scottish independence from the UK. Although the outcome of such referendum is uncertain, subject to any mitigating factors, the uncertainties resulting from an affirmative vote in favour of independence would be likely to significantly impact the Group's credit ratings and could also impact the fiscal, monetary, legal and regulatory landscape to which the Group is subject.
- Were Scotland to become independent, it may also affect Scotland's status in the EU.
- The occurrence of any of the impacts above could significantly impact the Group's costs and would have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The integral role of risk management

Risk management is essential to making RBS safe and sustainable, and is an activity performed throughout all of RBS operations. A strong culture of risk management and control will provide the foundation for improving performance and deliver future success.

For information on how we manage Environmental, Social and Ethical (ESE) risks, please see our Sustainability report, available at rbs.com/sustainable.



“The success of a bank depends on two things. A strong financial position; and a reputation for great customer service based on a deep connectivity with the society the bank supports, and is in turn supported by.”

Ross McEwan
Chief Executive



Sustainability

Sustainability at RBS means building our future on long term thinking that focuses on our customers and supporting the communities in which they live. We are committed to being open and transparent regarding the challenges faced by our business, so our stakeholders can see what we are doing to become a more sustainable bank. You can read more about the issues raised here, as well as about our wider sustainability agenda, at rbs.com/sustainable.

Governance

The sustainability programme at RBS is built on a robust governance framework that provides direction on our sustainability objectives. The Group Sustainability Committee (the “Committee”) is a Committee of the Board and comprises three independent non-executive directors. The Committee is chaired by our Senior Independent Director, Sandy Crombie, and attended by senior

representatives from the customer facing divisions as well as Human Resources, Sustainability, Risk Management, Communications, Legal, Strategy and Corporate Services. The Chairman of the board also regularly attends the meetings. The work of the Committee is essential to ensuring that our approach to issues is managed effectively and debated at the appropriate level.

Stakeholder engagement

Operating in a sustainable manner is about managing our business in a way that takes account of the impact of our activities on our stakeholders. As such, we work with a number of stakeholder groups to understand their views of our organisation, to help shape the way we do business. As a large company we have many stakeholders and we engage with them in a variety of ways, from focus groups to meetings to online forums. These interactions inform decision making and ultimately improve our company. More detail about our stakeholder engagement is available at rbs.com/sustainable.

As part of our wider stakeholder engagement programme, the Committee runs its own programme of structured stakeholder engagement sessions. In 2013, the Committee took part in seven of these stakeholder sessions, open forums where advocacy groups can discuss key areas of concern with the most senior decision-makers in RBS.

We will continue to host these sessions to ensure that we understand our stakeholders’ priorities. For more detailed information on these sessions see our sustainability pages on rbs.com.

External commitments

RBS is a signatory to a number of voluntary sustainability commitments and standards. We understand that implementing commitments is an ongoing process, and we are continuously working to integrate these into how we run our business. We are a member of the Equator Principle (EP)

Environmental impacts table

Assessment Parameters					
Baseline year	2011				
Consolidation approach	Operational control				
Boundary summary	All entities and facilities either owned or under operational control				
Emission factor data source	DEFRA (2013)				
Assessment methodology	The Greenhouse Gas Protocol revised edition (2004)				
Materiality threshold	Materiality was set at group level at 5%				
Intensity ratio	Emissions per full time employee (FTE)				
Independent assurance	Limited assurance provided by Deloitte LLP over all Scope 1* and 2** GHG emissions				
GHG Emissions	2011	2012	2013	Change 2011 vs 2013 (%)	Change 2012 vs 2013 (%)
Total Scope 1 CO ₂ e emissions (tonnes)	73,117	61,880	79,855	+9.2%	+29%
Total Scope 2 CO ₂ e emissions (tonnes)	559,389	486,872	434,816	-22.3%	-10.7%
Total Scope 1 & Scope 2 CO ₂ e emissions (tonnes)	632,506	548,752	514,671	-18.6%	-6.2%
Total Scope 1 & Scope 2 CO ₂ e emissions per FTE (tonnes)	4.7	4.3	4.2	-12.1	-3.2
Total Scope 3 CO ₂ e emissions (tonnes)	79,120	67,109	89,164	+12.7%	+32.9%
Emissions of ozone-depleting gases					
Emissions of ozone-depleting gases (tonnes)	n/a	9,185	23,928	n/a	+160.5%
Incidents					
Total number of environment incidents, fines and legal non-compliance	0	0	0	n/a	n/a

* 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

Scope 3: Emissions related to RBS business travel

Association Steering Committee. The EPs are a voluntary set of standards adopted by banks for determining, assessing and managing social and environmental responsibilities in project financing. We will not provide project finance where the borrower will not, or cannot, comply with these principles of socially responsible investment.

We have been members of the United Nations Global Compact (UNGC) since 2003, the leading platform for the development, implementation and disclosure of responsible policies and practices in the areas of: human rights, labour, environment and anti-corruption.

Each year RBS receives ratings for its environmental and social performance by external indices. RBS has been included in the Dow Jones Sustainability World Index (DJSI) every year since its launch in 1999, achieving our best ever score in 2013. The Index ranks companies' corporate sustainability performance, based on analysis of economic, environmental and social issues like corporate governance, risk management, branding and climate change.

The CDP is an independent, investor-driven organisation which facilitates the

measurement and disclosure of Green House Gas (GHG) Emissions for 2,500 organisations in over 60 countries. In 2013 RBS received a disclosure score of 88% and a performance score B.

The FTSE4Good Index Series measures the performance of companies that meet globally recognised corporate responsibility standards. RBS has been included in the FTSE4Good since it was launched 10 years ago.

Transparency and disclosure

We are committed to being open and transparent in our reporting of material issues facing our company. Here we present data on our GHG emissions, diversity data, as well as an update on our approach to managing Human Rights issues. To find more sustainability data read our latest Sustainability Report, available at rbs.com/sustainable.

Managing our impact on the environment

We aim to be recognised as a leader among large global financial institutions in managing our own environmental impacts and developing financial services that support sustainable development.

The activities of RBS and those of our clients can present a number of Environmental, Social and Ethical (ESE) risks and it is our responsibility to manage these risks. We have a robust ESE policy framework, with sector specific policies relating to high risk sectors including oil and gas, mining and metals and forestry.

We are reducing the environmental impact of our operations, led by our 2011 Environment Targets that cover our use of energy, water, waste, paper and CO₂ emissions from business travel. In order to ensure our targets continue to be stretching, we have re-examined the baseline on which they are set and adjusted for the decrease in headcount the company has experienced since they were set.

For a full breakdown of our direct environmental impacts, as well as the basis of reporting for the data above, please visit our sustainability pages on rbs.com.



RBS in the Community

We run a number of targeted programmes focused on providing support to the communities where we operate. In addition to this, we have a well established employee volunteering and giving programme in RBS. As well as matching employee donations and fundraising, we also support volunteering during work time. For more information on our community investment please visit rbs.com/sustainable.

Diversity at RBS

We believe it is important that everyone in RBS feels valued and supported. We appreciate the unique perspective and skills that individual staff can bring to the business. Inclusion is more important to RBS than it's ever been. Through 2013, we've taken time to refresh our focus, step back and think about how we support all our colleagues to reach their full potential and better serve our customers. This is delivering a more 'joined up' approach to influencing key organisational processes and practices, achieving better balance and sustainable development. We've continued to progress diversity and inclusion initiatives (including Sexual Orientation, Disability, Race and Gender). Our inclusion policy standard applies to all employees, in every part of the business, in every part of the world and is published online. The strategy for diversity and inclusion sits with the Board and Executive Committee.

As at 31 December 2013, of our global population of 118,079 employees, 54,370 (46%) were male and 63,709 (54%) female. We had 1,071 senior managers (of which 915 (85%) were male and 156 (15%) were female), which encompasses our executive employee

population and individuals who are directors of our subsidiaries. The Company's Board of Directors has 11 members, comprising eight male and three female directors.

Our approach to Human Rights

We recognise our corporate responsibility to respect and uphold human rights, regularly review our policies and procedures to ensure that we avoid infringing on the human rights of others, both in our own operations and throughout our sphere of influence. In 2013, we contributed to the Thun discussion paper on the implications of UN Guiding Principles 16-21 for banks and are committed to the implementation of the Guiding Principles within our operations.

We have adopted and contributed to a number of internationally accepted codes, notably the Equator Principles and the UN Global Compact, which specifically address the management of human rights issues. The RBS Group Code of Conduct sets out the standards we expect our people to work to, including a clear commitment to respecting human rights. We listen to our people in a variety of ways, including through an annual employee survey, enabling our people to raise

issues regarding their working environment. We also have in place an independent whistleblowing facility for employees to raise concerns, without fear of adverse consequence.

Our Sustainable Procurement Code sets out our expectations of the companies that we work with. It clearly states that our suppliers should not engage in breaches of human rights or labour rights, or in discrimination. We are also committed to equal opportunities for suppliers, and we recognise that diversity strengthens our supply chain.

Our ESE risk policies include sector-specific human rights risk screenings and are regularly reviewed and updated to ensure best practice. We conduct due diligence on clients relating to human rights standards, and expect our clients to share our commitment to respecting human rights within their operations.

For further information
visit rbs.com/sustainable



Approval of Strategic Report

The Strategic Report for the year ended 31 December 2013 set out on pages 1 to 33 was approved by the Board of directors on 26 February 2014.

By order of the Board.

Aileen Taylor
Secretary
26 February 2014

Chairman
Philip Hampton

Executive directors
Ross McEwan
Nathan Bostock

Non-executive directors
Sandy Crombie
Alison Davis
Tony Di Iorio
Robert Gillespie
Penny Hughes
Brendan Nelson
Baroness Noakes
Philip Scott

Our Board

Chairman

**Philip Hampton (age 60)**

Date of appointment: 19 January 2009 (Board)
3 February 2009 (Chairman)

Experience: Previously chairman of J Sainsbury plc and group finance director at Lloyds TSB Group, BT Group plc, BG Group plc, British Gas and British Steel plc, an executive director of Lazards and a non-executive director of RMC Group plc and Belgacom SA. He is also a former chairman of UK Financial Investments Limited, which manages the UK Government's shareholdings in banks.

External appointment(s):

- Non-executive director, chairman of the remuneration committee and member of the audit committee of Anglo American plc and senior independent director with effect from April 2014.

Committee membership(s)

- Group Nominations Committee (Chair)
- RCR Board Oversight Committee

Executive directors

Group Chief Executive

**Ross McEwan (age 56)**

Date of appointment: 1 October 2013

Experience: Has more than 25 years experience in the finance, insurance and investment industries. He joined RBS in August 2012 as Chief Executive Officer for UK Retail, having previously been Group Executive for Retail Banking Services and Executive General Manager responsible for the branch network, contact centres and third party mortgage brokers at Commonwealth Bank of Australia, Managing Director of stockbroking business First NZ Capital Securities, and Chief Executive of National Mutual Life Association of Australasia Ltd/AXA New Zealand Ltd.

External appointment(s):

None

Committee membership(s)

- Executive Committee

Group Finance Director

**Nathan Bostock (age 53)**

Date of appointment: 1 October 2013.

Nathan Bostock has since confirmed his resignation although his leaving date is still to be agreed.

Experience: Joined RBS in 2009 as Head of Restructuring and Risk and Group Chief Risk Officer. Prior to this, he spent eight years with Abbey National plc (now Santander UK), latterly as Chief Financial Officer, ten years with RBS in a number of roles, including Chief Operating Officer of Treasury and Capital Markets and Group Risk Director and seven years with Chase Manhattan Bank in a variety of areas and functions. He is a chartered accountant and holds a BSc (Hons) in Mathematics.

External appointment(s):

None

Committee membership(s)

- Executive Committee

Our Board

Independent non-executive directors



Sandy Crombie (age 65)

Date of appointment: 1 June 2009

Experience: Previously group chief executive of Standard Life plc. He was also previously a director of the Association of British Insurers, a member of the former Chancellor of the Exchequer's High Level Group on Financial Services and Chairman of the Edinburgh World City of Literature Trust. In 2007 he was the Prince of Wales' Ambassador for Corporate Social Responsibility in Scotland.

External appointment(s):

- Chairman of Creative Scotland
- Member and vice-chairman of the Board of Governors of The Royal Conservatoire of Scotland
- President of the Cockburn Association

Committee membership(s):

- Group Sustainability Committee (Chair)
- Board Risk Committee
- Group Nominations Committee
- Group Performance and Remuneration Committee
- RCR Board Oversight Committee



Alison Davis (age 52)

Date of appointment: 1 August 2011

Experience: Managing partner of Fifth Era, an investment firm focussed on early stage technology investments. Previously, she served as a director of City National Bank and First Data Corporation and as 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 managing partner of Belvedere Capital, a private equity firm focused on buy-outs in the financial services sector.

External appointment(s):

- Managing partner of Fifth Era Financial LLC
- Non-executive director and member of the finance and compensation committees of Unisys Corporation
- Non-executive director, chair of the compensation committee and member of the audit committee of Diamond Foods Inc.
- Non-executive director, and chair of the audit committee of Xoom Corporation
- Non-executive director and chair of the audit committee at Gamefly, Inc
- Director of the Governing Board of Women's Initiative for Self Employment

Committee membership(s):

- Group Nominations Committee
- Group Performance and Remuneration Committee
- Group Sustainability Committee



Tony Di Iorio (age 70)

Date of appointment: 1 September 2011

Experience: Began his career at Peat Marwick (now KPMG) where he worked in the firm's Financial Institutions Practice in New York and Chicago. After leaving Peat Marwick he worked for several leading financial institutions, including as Co-controller of Goldman Sachs, Chief Financial Officer of the Capital Markets business of NationsBank (now Bank of America), Executive Vice President of Paine Webber and CEO of Paine Webber International. He joined Deutsche Bank in Frankfurt in 2001 and later became the Bank's Chief Financial Officer and a member of its Board and Group Executive Committee. After retiring in 2008 he served as senior adviser to Ernst & Young working with the firm's financial services partners in the UK, Europe, the Middle East and Africa. He is a non-executive director of RBS Citizens Financial Group, Inc.

External appointment(s):

None

Committee membership(s):

- Board Risk Committee
- Group Audit Committee
- Group Nominations Committee

Our Board

Independent non-executive directors



Robert Gillespie (age 58)

Date of appointment: 2 December 2013

Experience: 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 of Warburg by UBS in 1995, 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 Somerset House Trust
- Chairman of the Boat Race Company Limited
- Director of Social Finance Limited

Committee membership(s):

- Group Nominations Committee



Penny Hughes, CBE (age 54)

Date of appointment: 1 January 2010

Experience: Previously a director and chairman of the Remuneration Committee of Skandinaviska Enskilda Banken AB and a non-executive director of Home Retail Group plc and chairman of its Remuneration Committee. She 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. Former non-executive directorships include Vodafone Group plc, Reuters Group PLC, Cable & Wireless Worldwide plc and The Gap Inc.

External appointment(s):

- Non-executive director, chair of the corporate compliance and responsibility committee and member of the audit, nomination and remuneration committees of Wm Morrison Supermarkets plc
- Trustee of the British Museum

Committee membership(s):

- Group Performance and Remuneration Committee (Chair)
- Group Nominations Committee
- Group Sustainability Committee



Brendan Nelson (age 64)

Date of appointment: 1 April 2010

Experience: Former global chairman, financial services for KPMG. 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. Chairman of the Audit Committee of the Institute of Chartered Accountants of Scotland from 2005 to 2008.

External appointment(s):

- Non-executive director and chairman of the audit committee of BP plc
- Member of the Financial Reporting Review Panel
- President of the Institute of Chartered Accountants of Scotland

Committee membership(s):

- Group Audit Committee (Chair)
- Board Risk Committee
- Group Nominations Committee
- RCR Board Oversight Committee

Our Board

Independent non-executive directors



Baroness Noakes, DBE (age 64)

Date of appointment: 1 August 2011

Experience: 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, John Laing and STthree.

External appointment(s):

- Non-executive director and chairman of the audit committee of Severn Trent plc
- Deputy chairman and senior independent director and chairman of the nominations committee of Carpetright plc

Committee membership(s):

- Board Risk Committee
- Group Audit Committee
- Group Nominations Committee



Philip Scott (age 60)

Date of appointment: 1 November 2009

Experience: Wide-ranging experience of financial services and risk management, including previous responsibility for Aviva's continental European and International life and long-term savings businesses. He held a number of senior executive positions during his career at Aviva including his role as group finance director until January 2010. Fellow of the Institute and Faculty of Actuaries and Fellow of the Association of Certified Public Accountants.

External appointment(s):

- Non-executive director and chairman of the audit committee of Diageo plc

Committee membership(s):

- Board Risk Committee (Chair)
- RCR Board Oversight Committee (Chair)
- Group Audit Committee
- Group Nominations Committee

Group Secretary and Head of Corporate Governance



Aileen Taylor (age 41)

Date of appointment: 1 May 2010

Experience: A qualified solicitor, 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 at Direct Line Financial Services.

She is a fellow of the Chartered Institute of Bankers in Scotland and a member of the European Corporate Governance Council.

Directors' Remuneration Report

Annual Statement from the Chair of the Group Performance and Remuneration Committee Penny Hughes



Dear Shareholder,

This year's remuneration report is published at an important moment for RBS. Five years on from the company's rescue, RBS is substantially safer and smaller, has a new Group Chief Executive, and has embarked on a new strategy positioning customers at its centre. In this changing environment, the complex challenges surrounding remuneration that I have written about in this space for the last few years, have not gone away.

The Committee is tasked with making decisions on pay that encourage good service to our customers, are fair to all of our employees, and are in the interests of all of our shareholders. These decisions are never easy and are rarely popular in all quarters. Sometimes it would be easier for the Committee to make different decisions, prioritising the needs of one stakeholder group over another. We understand why RBS is subject to public and political scrutiny and has an obligation to the public that goes beyond that of our competitors. But truly living up to our responsibilities means we have to reject easy options which are not in the long-term interests of our stakeholders.

2013 performance – a challenging year

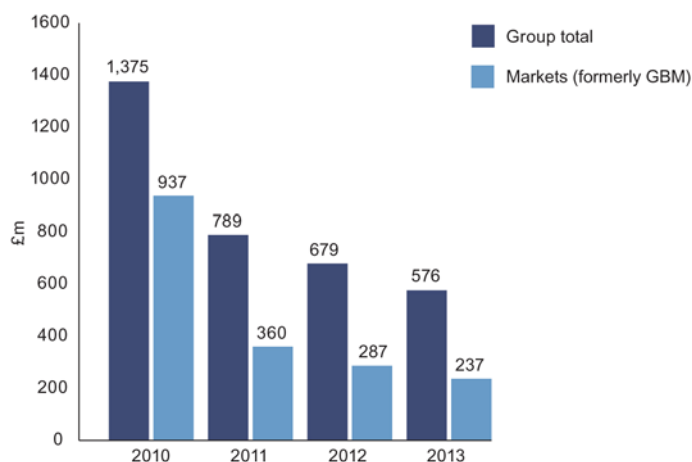
Although now safer and more secure than it was five years ago, RBS is still beset by issues that have their roots in the past. Our substantial loss for 2013 arises primarily from the decision to remove more of the bad assets from our balance sheet and make additional provisions for conduct and litigation issues. It is a matter of great regret that it is against this background that I have to make this report. I know shareholders had hoped that losses like this would have been well behind RBS by now. Those who served on the Executive Committee during the year did not receive any bonus for 2013. Most of this team is relatively new, but this was an important leadership issue.

Continuing pay reform

There has been a fundamental cultural shift in our approach to pay:

- Over the last four years alone, bonus pools have fallen by 58% at a Group level and by 75% within the Markets division.

Bonus pool reductions - 2010 to 2013



- The Group bonus pool has fallen between 2012 and 2013 in line with the fall in pre-RCR operating profit.
- The underlying reduction is significantly greater when taking account of the deduction made last year for LIBOR.
- The percentage of staff receiving no bonuses has increased over the last year from 40% to 43% as we continue to target high performers.
- In our UK retail business, incentive schemes for customer facing staff have minimum standards relating to customer and risk measures which must be met before any payments can be considered.
- Performance related pay is linked to a combination of performance measures covering financial and non-financial metrics.

Operating in markets where absolute and relative levels of pay are still high, RBS has been a back-marker. But we do not and cannot operate in a vacuum. Many of our employees have done good work this year to help rebuild the company for the future. While pay in aggregate will continue to remain at the lower end of current market practice, I firmly believe our pay levels must remain competitive to attract and retain a high calibre of staff. This is essential if we are to build a business of value for our customers and our shareholders.

It is worth noting that bonuses and other variable pay arrangements are standard practice for FTSE100 companies, not just banks. Research indicates that 99% of executives in the FTSE100 at Executive Committee level or above have a variable to fixed pay ratio that exceeds 1:1.

I know it is not always easy to accept, but if RBS is to thrive we must do what it takes to attract and keep the people who will help us achieve our goals. We think that the right positioning of the business is to be commercial. While we are sensitive to public opinion, particularly given our ownership structure, the ability to pay competitively is fundamental to getting RBS to where we need it to be.

Directors' Remuneration Report

There is an understandable public focus on the highest paid specialist talent at RBS. However, as a Committee, we are equally concerned about pay for staff at all levels. We provide oversight and guidance on all RBS remuneration arrangements. In 2014 we are directing a greater proportion of our salary budget to our lower paid employees. We continue to pay our permanent employees in the UK at or above the "Living Wage" benchmarks (National and London) and intend to apply for full accreditation.

Our remuneration policy promotes transparency and accountability; pay is clawed back when things go wrong, and awards are suspended when investigations are ongoing. Clawback is a powerful tool and we have put it to use. This year we have suspended awards pending investigations triggered by serious allegations of misconduct. It is important for the company and the executives involved that discretionary awards are put on hold until all the facts are clear.

CRD IV

Many of you will be aware that a "bonus cap" has been introduced under the fourth European Capital Requirements Directive (CRD IV). Whilst the actual regulation and setting of a hard cap is not what we would have wished for, it is essentially aligned to our own actions to moderate pay levels and reduce pay leverage. We will therefore seek to comply with the spirit as well as the letter of the regulations.

We are considering whether to ask shareholders to approve a maximum ratio of variable to fixed pay at 2:1, rather than the default ratio of 1:1, at the 2014 AGM. As the legislation is now in force, we are reviewing how best to structure remuneration arrangements that are both compliant and aligned with shareholders' interests. The Board will agree its final position in light of emerging market practice and details of any proposals will be contained in the Letter to Shareholders prior to the AGM.

New Share Plan

At the 2014 AGM we will seek approval for the RBS 2014 Employee Share Plan. This will replace the Deferral Plan which expires in December 2014 and the Long Term Incentive Plan. Further details will be set out in the Letter to Shareholders.

Review of year and Group performance

Further progress was made in the run down of Non-Core during 2013. Our balance sheet and capital levels indicate how far RBS has come in building a safe and sustainable foundation. From a strategic point of view, progress was also made in re-shaping the Markets business, selling a further stake in Direct Line Group, agreeing a pre-IPO investment of the Williams and Glyn branches and bringing forward the IPO of Citizens. However, I won't shy away from the fact that overall it's been a tough year for RBS in terms of financial performance. Results in certain divisions have been disappointing and revenue growth is not what we would like it to be at this point in our recovery.

The regulatory landscape and increasing capital requirements have an impact on our returns to shareholders and, in turn, this must be reflected in our returns to employees. The Committee considers all these factors when determining appropriate reward levels.

Performance considerations for 2013

- Group Operating Profit, excluding the impact of RBS Capital Resolution (RCR) of £2,520 million, a reduction of 15% on 2012.
- Loss before tax of £8,243 million, due in part to the impact of RCR which will help to remove uncertainty associated with legacy issues.
- Markets division making strategic progress, staff costs are down 19% and RWAs are down 36%.
- Core Tier 1 capital ratio improved to 10.9% from 10.3% at the end of 2012.
- Reduction in Non-Core assets to £28 billion.
- RBS offered £58.5 billion of loans and facilities to UK businesses in 2013 of which £31.5 billion was to SMEs. RBS also helped UK companies, universities and housing associations to raise £24.7 billion through bond issues in 2013.
- Employee engagement is strong and clear evidence that key values are being embedded across the Group.

Decisions made on pay

- Full details of decisions for both current and former directors are set out in this report.
- Ross McEwan's salary on appointment as Group Chief Executive represented a 17% reduction to his predecessor.
- In line with existing policy, Ross McEwan will receive a long-term incentive award in March 2014.
- Nathan Bostock has announced his departure and all outstanding share awards will lapse.
- Total compensation, both on an overall and per employee level, has been reduced for 2013.
- Total variable compensation reduced again for 2013, down 15% at a Group level and 17% for Markets compared to 2012. This includes a £25 million reduction as part of the committed LIBOR related actions.
- Total Group variable compensation as a percentage of operating profit (pre-RCR and before variable compensation), a key ratio, has remained at 19%.
- The proportion of deferred variable compensation delivered in shares has increased significantly for 2013, representing 63% for Group and 81% for Markets.
- Incentive awards continue to be targeted towards high performers. 43% of employees who are eligible will not receive a bonus.

Directors' Remuneration Report

- Of those employees who do receive an award, 47% will receive £2,000 or less and 70% will receive less than £5,000.
- Any awards above £25,000 will be delivered 100% in shares and deferred over a three year period.
- Average salary increases made across the business in 2014 will be less than 2%.

In conclusion, I believe our decisions on pay take account of performance while giving us the flexibility to attract and retain the expertise needed to build for the future. The Committee continues to receive valuable and independent advice from PwC and I would like to thank my fellow Committee members and those who support the Committee for their insight and guidance during another eventful year. I am also greatly encouraged by the willingness of shareholders to engage constructively in the pay debate and grateful for their support.

Following the publication of the Parliamentary Commission on Banking Standards report in June 2013 and the announcement from the Prudential Regulation Authority (PRA) that they intend to consult on a revised Remuneration Code in 2014, it is likely that remuneration will continue to be an important part of the agenda facing banks in the year ahead. We welcome any developments that help to make banks safer and ensure fair returns for both shareholders and employees.

RBS is a major UK employer and, as a bank playing a key role in the economic recovery, we understand the importance of getting our pay decisions right. We are committed to a high level of transparency and I believe the new reporting and voting requirements that apply to this year's remuneration report can add to this process.

My closing message is simple. Pay must align with the long-term strategy and be cut when performance disappoints. This is what RBS is doing. I hope shareholders find this year's report helpful and feel able to support the proposals at the AGM.

Penny Hughes
Chair of the Group Performance and Remuneration Committee
26 February 2014

Directors' Remuneration Policy

Directors' Remuneration Policy

Future policy table for executive directors (EDs)

Fixed pay elements

To provide a level of competitive remuneration for performing the role with less reliance on variable pay in order to discourage excessive risk-taking and with partial delivery in shares to align with long-term shareholder value.

Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics and period
Base salary	To aid recruitment and retention of high performing individuals whilst paying no more than is necessary. To provide a competitive level of fixed cash remuneration, reflecting the skills and experience required, and to discourage excessive risk-taking.	<p>Paid monthly and reviewed annually.</p> <p>The rates for 2014 are as follows: Group Chief Executive - £1,000,000 Group Finance Director - £765,000</p> <p>Further details on remuneration arrangements for the year ahead are set out on pages 56 to 58 of the annual report on remuneration.</p>	<p>Determined annually.</p> <p>Any future salary increases will be considered against peer companies and will not normally be greater than the average salary increase for RBS employees over the period of the policy.</p>	No performance conditions are directly applicable although any future salary increases will take into account performance rating during the year.
Fixed share allowance	To provide fixed pay that reflects the skills and experience required for the role. This will be delivered in shares and held for the long term.	A fixed allowance, paid entirely in shares. Individuals will receive shares that vest immediately subject to any deductions required for tax purposes and a retention period will apply. Shares will be released in equal tranches over a five year period. The fixed share allowance will be paid in arrears, initially at six monthly intervals, and in the event of termination, only in respect of service completed ⁽¹⁾ .	<p>An award of shares with an annual value of up to 100% of salary at the time of award.</p> <p>The fixed share allowance is not pensionable.</p>	N/A
Benefits	To provide a range of flexible and market competitive benefits to further aid recruitment and retention of key individuals.	<p>A set level of funding is provided and EDs can select from a range of benefits including:</p> <ul style="list-style-type: none"> • Company car • Private medical insurance • Life assurance • Ill health income protection <p>Also entitled to use of a car and driver on company business and standard benefits such as holiday and sick pay.</p> <p>Further benefits including allowances when relocating from overseas may be provided to secure the most suitable candidate for the role.</p>	<p>Set level of funding for benefits (currently £26,250) which is subject to review.</p> <p>Further benefits such as relocation allowances and other benefits (e.g. tax advice, housing and flight allowances and payment of legal fees) may be offered in line with market.</p> <p>The value of benefits paid will be disclosed each year in the annual report on remuneration.</p>	N/A
Pension	To encourage planning for retirement and long-term savings.	<p>Provision of a monthly cash pension allowance based on a multiple of salary.</p> <p>Opportunity to participate in a defined contribution pension scheme.</p>	Pension allowance of 35% of salary.	N/A

Note:

(1) The company believes that delivery in shares is the most appropriate construct for a fixed allowance to executive directors, qualifying as fixed remuneration for the requirements imposed under CRD IV. If regulatory requirements emerge that prohibit any such allowances being delivered in shares, then the company reserves the right to provide the value of the allowance in cash instead in order to comply.

Directors' Remuneration Policy

Variable pay

To further incentivise superior long-term performance, with rewards aligned with shareholders and adjusted for risk, based on the achievement of stretching performance measures.

Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics and period
Variable pay award (long-term incentive)	<p>To support a culture where good performance against a full range of measures will be rewarded. To incentivise the delivery of stretching targets in line with the Strategic Plan. The selection of performance metrics will be closely aligned with Key Performance Indicators.</p> <p>Performance is assessed against a range of financial and non-financial measures to encourage superior long-term value creation for shareholders.</p> <p>Delivery in shares with the ability to clawback further supports longer-term alignment with shareholders.</p>	<p>Any variable pay award made will be delivered in the form of a long-term incentive, paid in shares (or in other instruments if required by regulators) and subject to a combination of time deferral and performance-based requirements. A minimum three year performance period will apply.</p> <p>As a minimum, shares will be subject to deferral and retention periods as required under the PRA Remuneration Code.</p> <p>The award will have an overall five year vest period, vesting in equal tranches in years four and five.</p> <p>Provision for clawback prior to and post vesting of awards.</p> <p>The award will be delivered under the RBS 2014 Employee Share Plan, subject to shareholder approval at the 2014 AGM.</p>	<p>The maximum level of award is subject to any limit on the ratio of variable to fixed pay as required by regulators. If shareholder approval is sought and obtained at the 2014 AGM, this will be 200% of fixed pay (i.e. base salary, fixed share allowance, benefits and pension). For these purposes awards will be valued in line with the European Banking Authority rules, including any available discount for long-term deferral.</p> <p>Our intention is that awards for executive directors will be maintained at a maximum of 300% of base salary in line with past practice⁽¹⁾.</p> <p>The vesting level of the award could vary between 0% and 100% dependent on the achievement of performance conditions. Between 20% - 25% will vest at threshold for each performance measure.</p>	<p>Any award made will be subject to future performance conditions over a minimum three year period.</p> <p>Typical measures may fall under the following categories (weighted 25% each):</p> <ul style="list-style-type: none"> • Economic Profit • Relative Total Shareholder Return (TSR) • Safe and Secure Bank • Customers and People <p>A financial and risk performance underpin provides discretion to vary the vesting outcome if the Committee considers this does not reflect underlying performance.</p> <p>These or similar measures and weightings will be applied to reflect the strategy going forward.</p> <p>Details of the award and performance measures for each year will be set out in the annual report on remuneration.</p>

Note:

(1) In the event that shareholder approval is not sought or obtained for the 2:1 cap, corresponding adjustments will be made to ensure that executive directors remain within the variable to fixed limit.

Directors' Remuneration Policy

Other pay elements

Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics and period
Shareholding requirements	To ensure EDs build and continue to hold a significant shareholding to align interests with shareholders.	A period of five years is allowed in which to build up shareholdings to meet the required levels. Any unvested share awards are excluded in the calculation.	Group Chief Executive - 250% of salary. Other EDs - 125% of salary. Requirements may be reviewed and increased in future.	N/A
All-employee share plans	An opportunity to acquire RBS shares.	Opportunity to contribute from salary to the RBS Sharesave and Buy As You Earn Plan.	Statutory limits imposed by HMRC.	N/A
Legacy arrangements	To ensure RBS can continue to honour payments due to EDs.	In approving this policy, authority is given to honour any previous commitments or arrangements entered into with current or former directors, including share awards granted under the 2010 Deferral Plan and 2010 Long Term Incentive Plan (LTIP) and awards granted prior to appointment as an executive director that may have different performance conditions aligned with divisional performance.	In line with existing commitments.	In line with existing commitments.

Notes to policy table

- The Committee sets performance targets taking into account the Group's Strategic Plan, financial forecasts and wider non-financial metrics. The performance conditions for variable pay awards made to EDs have been chosen to promote the building of a safer, stronger and more sustainable business. The Committee selects the measures each year after consultation with major shareholders.
- Clawback - An accountability review process is operated that allows the Committee to respond in instances where new information would change the variable pay decisions made in previous years and/or the decisions to be made in the current year. As a result, clawback can be applied to reduce or lapse any unvested awards as well as reducing any current year's variable pay. The Committee will also consider its approach to the operation of post vesting clawback in light of emerging market practice and regulatory requirements. Further details can be found on page 63.
- Remuneration for EDs broadly follows the policy for all employees but with greater emphasis on delivery in shares and a significant element of variable performance-related pay. This is to ensure that total remuneration to EDs is more aligned with the long-term interests of shareholders and dependent on specific performance measures being met. Further details on the remuneration policy for all employees can be found on page 62 and 63.

Changes for Executive Directors

- EDs will no longer be eligible to receive annual bonuses.
- The new structure outlined in the policy table introduces a fixed share allowance for EDs which will be released in equal tranches over a five year period. However, the Group Chief Executive will not receive a fixed share allowance for 2014.
- Future long-term incentive awards will be subject to an overall five year vest period, with a three year performance period and vesting in equal tranches in years four and five.
- The new structure results in a reduction of 16% of maximum remuneration opportunity, maintaining significant exposure to shares and clawback but with increased holding periods.
- The policy reflects our objective of moderating total remuneration while providing strong alignment with shareholders over the longer-term.

Directors' Remuneration Policy

Fees for non-executive directors

Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics and period
Fees	<p>To provide a competitive level of fixed remuneration that reflects the skills, experience and time commitment required for the role.</p> <p>No variable pay is provided so that non-executive directors can maintain appropriate independence, focus on long-term decision making and constructively challenge performance of the executive directors.</p>	<p>Fees are paid monthly.</p> <p>The level of remuneration for non-executive directors reflects their responsibility and time commitment and the level of fees paid to directors of comparable major UK companies. Non-executive directors do not participate in any incentive or performance plan. Non-executive directors' fees are reviewed regularly.</p>	<p>The rates for the year ahead are set out in the annual report on remuneration on page 56.</p> <p>Any future increases to fees will be considered against non-executive directors at comparable companies and will not normally be greater than the average inflation rate over the period under review, taking into account that any change in responsibilities, role or time commitment may merit a larger increase.</p> <p>Fees have not yet been set for the recently established RCR Board Oversight Committee. Our policy is that additional fees may be paid for new Board Committees provided these are not greater than fees payable for the existing Board Committees as detailed in the annual report on remuneration.</p>	N/A
Benefits	Any benefits offered would be in line with market practice.	Reimbursement of reasonable out-of-pocket expenses incurred in performance of duties. The Chairman also receives private medical cover in line with the scheme rules.	The value of the private medical cover provided to the Chairman will be in line with market rates and disclosed in the annual report on remuneration.	N/A

Directors' Remuneration Policy

Policy start date

The remuneration policy will be effective from the date of the 2014 AGM, subject to shareholder approval. It is intended that the policy will apply for three years unless changes are required in which case a revised policy will be submitted to shareholders for approval.

Recruitment remuneration policy

- The approach to recruitment of directors is to consider both internal and external candidates and to pay no more than is required to attract the most suitable candidate for the role.
- The policy on the recruitment of new directors aims to structure pay in line with the framework and quantum applicable to current directors, competitive in a market context and including the components detailed in the policy table, taking into account that some variation may be necessary to secure the preferred candidate.
- Consideration will be given to the skills and experience held by the individual being recruited as well as the incumbent's position. The present circumstances of the company will also be taken into account.
- In the event of an internal promotion, existing contractual commitments can continue to be honoured.
- Any awards granted on recruitment may be made as part of the company's share plans from time to time or under the provisions provided by Section 9.4.2 of the Listing Rules and will need to comply with the requirements of the PRA Remuneration Code. No sign-on awards or payments will be offered over and above the normal buy-out policy to replace awards forfeited or payments foregone. The Committee will seek to minimise buy-outs wherever possible and will seek to ensure they are no more generous than, and on substantially similar terms to, the original awards or payments they are replacing.
- The maximum level of variable pay which may be granted to new executive directors is the same as that applicable to existing executive directors, excluding any buy-out arrangements. Non-executive directors do not receive variable pay. Full details will be disclosed in the next remuneration report following recruitment.

Discretion

The Committee has certain discretions that allow it, in appropriate circumstances, to vary the remuneration provided to directors. For example, under the LTIP rules and also the proposed RBS 2014 Employee Share Plan, the Committee can determine: whether a leaver would fall into circumstances that would allow awards to vest following leaving; to decide to vest earlier than the normal vesting date; and to vary the pro-rating for time elapsed that would normally apply. Such discretions would only be used in exceptional circumstances to ensure a fair outcome for the director and for shareholders, taking into account the circumstances of departure, the performance of the director and the need to ensure an orderly transition. If discretion is applied in these circumstances then it will be disclosed.

Further discretions include the ability to: treat awards in a range of ways in the event of a change of control; change measures, targets, and adjust awards if major events occur (for example transaction and capital raisings); and make administrative changes to the plan rules.

In addition, the Committee retains discretion to apply clawback to awards and also adjust the vesting outcome in relation to certain long-term incentive awards through the application of a risk underpin. This allows the Committee to reduce or lapse awards if it considers that the vesting outcome does not reflect underlying financial results or if it considers that the results have been achieved with excessive risk.

Consideration of employment conditions elsewhere in the company

The Committee retains oversight of remuneration policy for all employees to ensure there is a fair and consistent approach throughout the organisation. This includes the use of deferral and clawback to promote effective risk management and alignment with shareholders. Further details on our remuneration policy for all employees are set out on pages 62 and 63.

While employees are not directly consulted on setting directors' remuneration, consultation on remuneration generally takes place with our social partners, including representatives from UNITE. We continue to pay our permanent employees in the UK at or above the "Living Wage" benchmarks (National and London), and intend to apply for full accreditation. An annual employee opinion survey takes place which includes a number of questions on pay and culture. This includes questions as to whether employees believe they are paid fairly for the work they do, how remuneration at RBS compares to other financial services organisations and how good a job the organisation is doing in matching reward to performance.

Around 34,000 of our employees are shareholders through incentive and all-employee share plans and have the ability to express their views through voting on the Directors' Remuneration Report.

Directors' Remuneration Policy

Service contracts and policy on payments for loss of office – directors

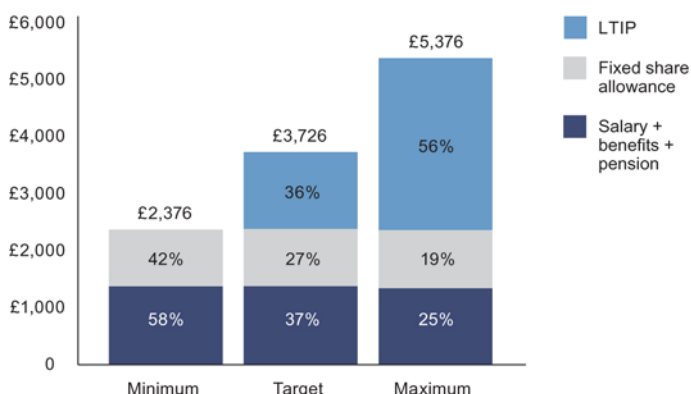
Provision	Policy	Details
Payments for loss of office	Payment in lieu of notice only	<p>If either party wishes to terminate an executive director's service contract they are required to give 12 months' notice to the other party.</p> <p>The service contracts do not contain any pre-determined provisions for compensation on termination. The service contracts give RBS the discretion to make a payment in lieu of notice, which is on base salary only (with no payment in respect of any other benefits, including pension) and is released in monthly instalments. During the period when instalments are being paid, the executive director must take all reasonable steps to find alternative work and any remaining instalments will be reduced as appropriate to offset income from any such work.</p>
Treatment of annual and long-term incentives on termination	Treatment in line with the relevant plan rules as approved by shareholders	<p>Existing annual incentive awards under the Deferral Plan will not normally lapse on termination, unless termination is for Cause (as defined in the rules of the Deferral Plan). The awards will normally continue to vest on the original vesting dates, subject to provisions regarding clawback, competitive activity and detrimental activity.</p> <p>Existing long-term incentive awards normally lapse on leaving unless the termination is for one of a limited number of specified 'good leaver' reasons or the Committee exercises its discretion to prevent lapsing. The Committee may exercise this discretion where it believes this is an appropriate outcome in light of the contribution of the participant and shareholders' interests. Where awards do not lapse on termination, any vesting will normally take place on the original vesting dates, subject to the performance conditions being met and pro-rating to reflect the proportion of the period that has elapsed at the date of termination. Clawback provisions will also apply. These provisions will also apply to variable remuneration delivered under the RBS 2014 Employee Share Plan, subject to shareholder approval at the 2014 AGM.</p>
Fixed share allowances	Treatment in line with the plan rules as approved by shareholders	Any shares already received under fixed share allowances will not be forfeited on termination but must continue to be held for the original retention periods. In leaver circumstances executive directors will also be eligible to receive a pro-rated fixed share allowance.
Other provisions	Standard contractual terms in line with market practice	Contracts include standard clauses covering remuneration arrangements and discretionary incentive plans (as set out in the main policy table above), reimbursement of reasonable out-of-pocket expenses incurred in performance of duties, redundancy terms and sickness absence, the performance review process, the disciplinary procedure and terms for dismissal in the event of personal underperformance or breaches of RBS policies.
Other payments	Discretionary	The Committee retains the discretion to make payments (including but not limited to professional and outplacement fees) to mitigate against legal claims, subject to any payments being made pursuant to a settlement or release agreement.
Provisions for non-executive directors (NEDs) and the Group Chairman		<p>NEDs do not have service contracts or notice periods although they have letters of engagement reflecting their responsibilities and time commitments. No compensation would be paid to any NED in the event of termination of appointment.</p> <p>Arrangements for the Chairman</p> <p>Philip Hampton is entitled to receive a cash payment in lieu of notice of 12 months' fees in the event that his appointment is terminated as a result of the majority shareholder seeking to effect the termination of his appointment, or if RBS terminates his appointment without good reason, or if his re-election is not approved by shareholders in General Meeting resulting in the termination of his appointment.</p>

In accordance with the provisions of the UK Corporate Governance Code, all directors of the company stand for annual election or re-election by shareholders at the company's Annual General Meetings.

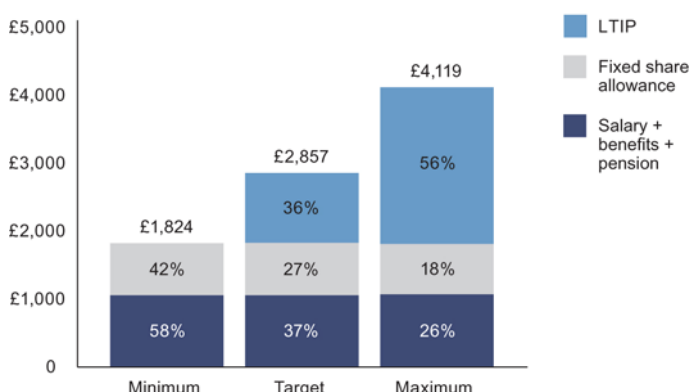
Directors' Remuneration Policy

Illustration of the potential application of the remuneration policy

Group Chief Executive - Remuneration Opportunity £'000s



Group Finance Director - Remuneration Opportunity £'000s



- Salary + Benefits + Pensions delivered in cash. The benefits include standard benefit funding as outlined in the policy but exclude exceptional items such as relocation allowances, the value of which will be disclosed in the total remuneration table each year.
- Fixed share allowance = an allowance of 100% of salary, paid in shares and released in equal tranches over a five year period.
- Target = Fixed remuneration and assuming payout of long-term incentive vesting at 45% of maximum (135% of salary).
- Maximum = Fixed remuneration and assuming full payout of long-term incentive vesting at 300% of salary.
- The graphs above illustrate the application of policy to executive directors for the first full year as the Group Chief Executive will not receive a fixed share allowance in 2014.

The charts shown above are for illustration only and do not take into account any share price movement. Any value receivable in respect of long-term incentive awards will depend on performance over the period and the share price when the holding period comes to an end.

Shareholders views and their impact on remuneration policy

An extensive consultation is undertaken every year with major shareholders including UKFI and other stakeholders on our remuneration approach. The consultation process typically involves inviting our largest shareholders to attend either one-to-one meetings or roundtable sessions with relevant shareholder bodies. A range of topics are discussed including intended remuneration policy for the year ahead and any significant changes. The process takes place in sufficient time for shareholder views to be considered prior to the Committee making any final decisions on remuneration and variable pay awards. Details of shareholder voting on the resolution to approve the last remuneration report can be found in the annual report on remuneration.

In late 2013 and early 2014, meetings took place involving around 20 institutional shareholders and shareholder bodies representing a substantial portion of the non-UKFI shareholding. The topics discussed during the latest consultation included financial performance, determination of pay outcomes for the 2013 performance year, the Board changes, the impact of CRD IV and possible pay arrangements going forward. Shareholders asked wide-ranging questions including the ability to remain market competitive, the accountability review process, retaining and motivating employees through periods of change and the use of performance measures for long-term incentive awards.

The reaction to the consultation process was positive and allowed the Committee to gain valuable insight into areas that shareholders were likely to support and those areas of concern. There was general support for the possible use of role-based allowances for the small number of employees impacted by the cap imposed under CRD IV. Payment of any allowances in arrears, with delivery in shares for more senior roles and with deferral, were viewed as positive features. Many shareholders also welcomed the discontinuation of annual bonus arrangements for executive directors but stressed the need to ensure sufficient variable pay was available for performance adjustment and clawback. The move to a five year overall timeframe for future long-term incentive awards was also viewed favourably. Overall, there was continuing support for simple and transparent pay structures.

A number of shareholders cautioned that legal advice should be obtained to confirm that the proposed pay arrangements complied with the requirements of CRD IV. The Committee responded to these concerns by obtaining independent legal advice. Another theme from shareholders was that there should be a demonstrable reduction in remuneration to reflect the benefits of pay certainty for the participants.

Some shareholders asked for the level of reduction in total compensation opportunity and rationale to be clearly explained. As set out in this report, annual bonus awards have been discontinued for executive directors. A fixed share allowance will be introduced that will deliver up to 100% of salary in shares to be released in equal tranches over a five year period. The new structure results in a reduction of 16% of maximum remuneration opportunity and still maintains alignment in shares and with longer holding periods.

Shareholders continue to play a vital role in developing remuneration practices that support the long-term interests of the business and the Committee is grateful and greatly encouraged by their involvement in the process.

Annual report on remuneration

Annual report on remuneration

Total remuneration paid to directors

Total remuneration for executive directors (£000s)

	Former directors				Current directors			
	Stephen Hester (1)		Bruce Van Saun (2)		Ross McEwan (3)		Nathan Bostock (3)	
	2013	2012	2013	2012	2013	2012	2013	2012
Salary	900	1,200	570	750	250	—	191	—
Benefits (4)	20	26	74	134	40	—	7	—
Pension	315	420	348	436	88	—	67	—
Annual bonus	—	—	—	980	—	—	—	—
LTIP (5)	—	—	—	—	—	—	—	—
Total remuneration	1,235	1,646	992	2,300	378	—	265	—

Notes:

- (1) Stephen Hester stepped down from the Board on 30 September 2013 and did not receive any annual bonus entitlement for the 2013 performance year. See page 53 for details of termination arrangements and payment in lieu of notice.
- (2) Bruce Van Saun stepped down from the Board on 30 September 2013 to become CEO and Chairman of RBS Citizens Financial Group and Head of RBS Americas. Mr Van Saun also stepped down as a non-executive director of Direct Line Insurance Group plc and Worldpay (Ship Midco Limited), for which he did not receive any fees. He is a non-executive director of Lloyd's of London Franchise Board for which he received fees of £51,750 for the period to 30 September 2013. The amounts included in the table in respect of Mr Van Saun's pension relates to contributions that would have been made to his Unfunded Unapproved Retirement Benefit Scheme ("UURBS") (if it had been funded) comprising a pension allowance of 35% of salary, together with additional amounts through a salary sacrifice arrangement plus an investment return at a rate of 4.7% for 2013 (6.2% for 2012).
- (3) Ross McEwan and Nathan Bostock were appointed to the Board on 1 October 2013 and the table reflects their pay for the period as Group Chief Executive and Group Finance Director respectively since appointment.
- (4) Benefits figure includes standard benefit funding of £26,250 per annum with the remainder being relocation expenses provided to Bruce Van Saun (housing allowance) and Ross McEwan (housing and flight allowances).
- (5) The zero value reflects awards granted to executive directors under the Long-term Incentive Plan in 2010 that did not vest in May 2013. See page 52 for details of subsequent LTIP assessments.

Chairman and non-executive directors' remuneration (£000s)

Remuneration of non-executive directors, excluding the Chairman, was reviewed in 2013. Basic board fees were last increased in 2008 and Committee fees were last increased in 2010. It was recognised that time commitment at RBS had increased significantly over the period. This increased time commitment was due to a number of factors including an intense regulatory agenda, the extended remit of Board Committees, wider engagement with the business and the executive team and efforts to drive cultural change. Consideration was also given to evidence of market increases in Board fees over the period. For the current non-executive directors, the Board, excluding non-executive directors, approved a revised fee structure applicable from 1 April 2013 as set out on page 56.

	Board and Committee fees	Benefits and other fees	2013 Total	2012 Total
Philip Hampton (1)	750	1	751	750
Sandy Crombie	186	—	186	150
Alison Davis	132	—	132	114
Tony Di Iorio (2)	136	—	136	128
Robert Gillespie (3)	7	—	7	n/a
Penny Hughes	154	—	154	150
Brendan Nelson	164	—	164	150
Baroness Noakes	136	—	136	124
Philip Scott	164	—	164	150

Former non-executive directors

Joe MacHale (4)	49	—	49	133
Art Ryan (5)	80	—	80	93

Notes

- (1) Philip Hampton is entitled to private medical cover and the value is shown in the benefits column.
- (2) Tony Di Iorio became a non-executive director of RBS Citizens Financial Group, Inc on 15 January 2014, the fees for which will be reported in future years.
- (3) Robert Gillespie was appointed to the Board with effect from 2 December 2013.
- (4) Joe MacHale retired from the Board with effect from 14 May 2013. Board Committee fee included membership of the Asset Protection Scheme Senior Oversight Committee.
- (5) Art Ryan is a non-executive director of RBS Citizens Financial Group, Inc. for which he received fees of US\$131,000 for the period to 30 September 2013, the date he retired from the Group Board.

There have been no payments made to non-executive directors for loss of office.

Annual report on remuneration

Total Pension Entitlements – Bruce Van Saun

Mr Van Saun's UURBS operates as a cash balance plan. The rate of return on the accrued fund is determined annually by the Committee to reflect a long-term low risk investment return on an unsecured basis. For 2013 this rate was 4.7%. His accrued entitlement at the year end is shown below. There is no provision for any additional benefit on early retirement.

	2013 £000s	2012 £000s
Balance at 1 January 2013	682	246
Aggregate contributions that would have been made if funded	306	408
Investment return	42	28
Total value of fund at 31 December 2013	1,030	682

Executive directors' annual bonus for 2013

The normal maximum that could be paid to executive directors under the annual bonus arrangements for 2013 is 200% of salary. The table below sets out the outcome for the 2013 performance year.

Stephen Hester

As part of the exit arrangements detailed on page 53, no annual bonus award is payable to Stephen Hester for 2013.

Bruce Van Saun

As announced on 27 January 2014, no bonus award will be payable to executive directors or members of the 2013 Executive Committee in respect of 2013 performance.

Ross McEwan

Ross McEwan indicated he did not wish to be considered for an annual bonus in respect of his Group Chief Executive role in 2013 or 2014. As announced on 27 January 2014, no bonus award will be payable in respect of the UK Retail role that Mr McEwan undertook during 2013.

Nathan Bostock

Following announcement of his departure, no annual bonus is payable to Nathan Bostock.

Executive directors' LTIP awards granted in 2010 – final assessment of performance outcome

Performance measure	Performance requirements	Vesting outcome
Economic profit (50%)	Maximum vesting triggered by early delivery of Core business profitability, well ahead of the range implied by the published Strategic Plan targets and also in excess of the cost of capital.	The LTIP awarded in 2010 was due to vest in May 2013. The number of shares under award is set out in the table on page 54.
Relative TSR (25%)	20% vesting if TSR is at the median rising to 100% vesting if TSR is at the upper quartile of the companies in the comparator group.	
Absolute TSR (25%)	20% vesting if RBS share price reaches £5.75. 100% vesting if RBS share price reaches £7.75.	Awards did not vest in May 2013 as a result of the threshold performance requirements not being met and the awards lapsed.

Share plan interests awarded under the LTIP during 2013

	Grant date	Face value of award (£000)	Number of shares awarded	% that would vest at threshold and maximum	Performance requirements
Stephen Hester	8 March 2013	3,600	1,164,295	Vesting between 0% - 100% with 20% - 25% vesting at threshold	Conditional share awards subject to stretching performance conditions over a three year period ending on the third anniversary of the grant date, as detailed below.
Bruce Van Saun	8 March 2013	2,250	727,685		
Ross McEwan	8 March 2013	2,153	696,152	vesting at threshold	The LTIP award granted to Ross McEwan will be assessed based on 12 months against the targets applicable as CEO UK Retail and 24 months against the targets applicable as Group Chief Executive.
Nathan Bostock	8 March 2013	2,500	808,539		

Notes:

The number of shares awarded is based on a multiple of salary and the award price is calculated based on the average share price over five business days prior to the grant date of £3.092. In addition to performance conditions, all awards are subject to clawback provisions prior to vesting and a six month retention period post vesting in line with the PRA Remuneration Code. The treatment of outstanding LTIP awards held by Stephen Hester is detailed under the Payments for loss of office section. The LTIP award held by Nathan Bostock has been lapsed following notification that he will be leaving the Group.

Annual report on remuneration

Performance conditions for outstanding LTIP awards granted to executive directors in 2011, 2012 and 2013 – current assessment

Awards are due to vest in 2014 to 2016. An assessment of performance of each relevant element is provided by the control functions and PwC assesses relative TSR performance. The Committee determines overall vesting based on these assessments including consideration of the drivers of performance and the context against which it was delivered. The assessment is analytical and if any discretion is used in the final assessment, it will be explained. The table below represents an early indication of potential vesting outcomes only.

Performance measure	Weighting	Rationale	Vesting	2011 LTIP Current assessment of performance	2012 and 2013 LTIP Current assessment of performance
Core Bank economic profit	25%	Ensures that performance reflects risk adjusted enduring earnings.	Threshold: 25% vesting for meeting minimum economic profit targets. Maximum: 100% vesting for performance ahead of the Strategic Plan.	Continued difficult conditions mean that the economic profit target has not been met.	Excluding the impact of the 2013 RCR action performance is currently broadly in line with expectations. The Committee notes the impact of the RCR impairment and will determine at the point of vesting how this should be taken into account.
Relative TSR	25%	Ensure alignment with shareholders.	Threshold: 20% vesting if TSR is at median of the comparator group. Maximum: 100% vesting if TSR is at upper quartile of the comparator group. Pro rata vesting in between.	Based on share price performance up to 31 December 2013, the threshold target is unlikely to be met by the vesting date.	Based on share price performance up to 31 December 2013, the threshold targets have not yet been met.
Balance sheet and risk	25%	Ensure alignment with the advancement of the strategic position and capability of the organisation and the building of a sustainable business.	Vesting will be qualified by Committee discretion. Indicative vesting levels are: <ul style="list-style-type: none"> Over half of objectives not met: 0%; Half of objectives met: 25%; Two-thirds of objectives met: 62.5%; and Objectives met or exceeded in all material respects: 100%. 	All targets – including Non-Core run down, Core Tier 1 capital, wholesale funding, liquidity, leverage ratio, loan to deposit ratio and funded assets - have been met or exceeded. Credit rating condition was not met, but given over-achievement on other measures, the Committee determined that the Balance Sheet and Risk element would vest in full.	Majority of Balance Sheet and Risk measures are currently on track or ahead of target. Cost:income ratio remains challenging to achieve largely due to market-driven income pressures. Positive performance to date on some of the other Strategic Scorecard measures would result in some level of vesting for this element if continued over the performance period.
Strategic Scorecard	25%			For the Strategic Scorecard, the cost:income ratio target has been missed driven by income shortfall. Overall the Committee determined that fewer than half of the objectives have been met and also took into account the extent of the shortfall on cost:income ratio and determined that this element should not vest.	

In respect of the 2011 LTIP award which is due to vest on 7 March 2014, the latest performance assessment by the Committee indicates a vesting level for executive directors of 27% of the original number of shares under award. The Committee also received advice that BRC and the Group's risk management function is satisfied that risk performance of the Group has adversely impacted the Economic Profit and TSR outcomes and consequently no further adjustment is required to the proposed vesting level.

Annual report on remuneration

Payments to past directors

No payments were made to former directors during the year ended 31 December 2013.

Payments for loss of office

Stephen Hester

Stephen Hester stepped down from the Board on 30 September 2013 and, in line with his contractual arrangements, he received the following payments in lieu of 12 months' notice.

Salary	£1,200,000
Benefits	£26,244
Pension	£420,000
Total	£1,646,244

Stephen Hester also received payment in lieu of five days accrued holiday, a nominal amount (£100) in respect of an undertaking to provide ongoing assistance to RBS with any investigations or claims and a commitment to pay directly to his lawyers legal fees of £23,000 + VAT incurred in connection with his departure. He did not receive any annual bonus award for 2013.

The Committee exercised discretion under the LTIP rules to allow unvested awards to continue subject to time pro-rating and performance assessment. The Committee believed this was an appropriate use of discretion in the circumstances recognising the significant contribution made by Stephen Hester over the period and his willingness to assist in an orderly handover period. The performance conditions will be assessed by the Committee at the end of the relevant performance periods in line with the LTIP rules. Stephen Hester and the Committee agreed that the maximum number of shares available for vesting under outstanding LTIP awards would be capped at 65% after the application of time pro-rating. The maximum number of shares available for vesting is therefore as follows:

Unvested LTIP shares at departure	3,461,886
Shares remaining after time pro-rating	2,064,638
Max number of time pro-rated shares capped at 65% (1)	1,342,014

Note:

(1) The actual number of shares will depend on performance assessment and may be less.

Bruce Van Saun

Bruce Van Saun stepped down from the Board on 30 September 2013 and became CEO and Chairman of RBS Citizens Financial Group and Head of RBS Americas. He continues to be employed within RBS and therefore no termination payment was made in connection with this change of role.

Directors' interests in shares and shareholding requirements

The target shareholding level for the Group Chief Executive is 250% of salary and 125% of salary for other executive directors and members of the Executive Committee, in each case excluding any unvested share awards in the calculation. A period of five years is allowed in which to build up shareholdings to meet the required levels.

	Shares beneficially owned	As at 31 December 2013 (or date of cessation if earlier)			
		Value(1) (£)	% of shareholding requirement met	Unvested LTIP awards (subject to performance conditions)	Unvested Deferral Plan awards
Stephen Hester	761,218	2,740,385	91%	2,064,638	—
Bruce Van Saun	148,421	501,663	49%	2,163,680	466,947
Ross McEwan	516,336	1,745,216	70%	1,259,081	56,395
Nathan Bostock	375,969	1,270,775	133%	2,151,234	289,536
Philip Hampton	27,630		n/a		
Sandy Crombie	20,000		n/a		
Alison Davis	20,000		n/a		
Tony Di Iorio (2)	30,000		n/a		
Robert Gillespie	nil		n/a		
Penny Hughes	562		n/a		
Joe MacHale	28,431		n/a		
Brendan Nelson	12,001		n/a		
Baroness Noakes	21,000		n/a		
Art Ryan	5,000		n/a		
Philip Scott	50,000		n/a		

Notes:

(1) Value is based on the share price at 31 December 2013, which was £3.38 other than for Stephen Hester where the value is based on the share price of £3.60 at 30 September 2013, the date he stepped down from the Board. During the year ended 31 December 2013, the share price ranged from £2.66 to £3.85.

(2) Tony Di Iorio's interests in the company's shares are held in the form of American Depositary Receipts (ADRs). Each ADR represents 2 ordinary shares of £1.00 each in the company. Tony Di Iorio has interests in 15,000 ADRs representing 30,000 ordinary shares.

In line with the requirements of the PRA Remuneration Code and the RBS Staff Dealing Rules, executive directors must not engage in any personal hedging strategies to lessen the impact of a reduction in value of unvested share awards, for example if the RBS share price goes down. No other current director had an interest in the company's ordinary shares during the year or held a non-beneficial interest in the shares of the company at 31 December 2013, at 1 January 2013 or date of appointment if later. The interests shown above include connected persons of the directors. As at 26 February 2014, there were no changes to the directors' interests in shares shown in the table above.

Annual report on remuneration

Directors' interests under the Group's share plans

Long-Term Incentive Plan (LTIP) awards

Awards to executive directors under the LTIP are structured as conditional rights to receive shares and are subject to performance conditions and clawback provisions prior to vesting.

	Awards held at 1 January 2013 (or date of appointment if later)	Awards granted in 2013	Award price £	Awards lapsed in 2013	Awards held at 31 December 2013 (or date of cessation)	End of period for qualifying conditions to be fulfilled
Stephen Hester (2)	857,843		4.90	857,843	—	—
	1,011,417		4.45	56,189	955,228	07.03.14
	1,286,174		2.80	500,179	785,995	09.03.15
		1,164,295	3.09	840,880	323,415	08.03.16
	3,155,434	1,164,295		2,255,091	2,064,638 ⁽¹⁾	
Bruce Van Saun (2)	518,280		4.90	518,280	—	—
	632,136		4.45		632,136	07.03.14
	803,859		2.80		803,859	09.03.15
		727,685	3.09		727,685	08.03.16
	1,954,275	727,685		518,280	2,163,680	
Ross McEwan (3)	562,929		2.14		562,929 ⁽⁴⁾	07.06.14 - 07.08.15
	696,152		3.09		696,152	08.03.16
	1,259,081				1,259,081	
Nathan Bostock (3,5)	449,519		4.45		449,519	07.03.14
	893,176		2.80		893,176	09.03.15
	808,539		3.09		808,539	08.03.16
	2,151,234				2,151,234	

Deferred awards

Awards are structured as conditional rights to receive shares under the RBS 2010 Deferral Plan and are subject to clawback prior to vesting.

	Awards held at 1 January 2013 (or date of appointment if later)	Awards granted in 2013	Award price £	Awards vested in 2013	Market price on vesting £	Value on Vesting £	Awards held at 31 December 2013 (or date of cessation)	End of period for qualifying conditions to be fulfilled
Stephen Hester	229,254		4.45	229,254	3.06	701,517	—	—
Bruce Van Saun	151,544		4.45	151,544	3.06	463,725	—	—
	300,000		2.80	150,000	3.06	459,000	150,000	09.03.13 – 09.03.14
		316,947 ⁽⁶⁾	3.09				316,947	08.03.14 – 08.03.15
	451,544	316,947		301,544			466,947	
Ross McEwan	56,395		3.09				56,395	08.03.14 - 08.03.16
	454,106 ⁽⁴⁾		2.14	454,106	3.40	1,543,960	—	—
	510,501			454,106			56,395	
Nathan Bostock ⁽⁵⁾	28,657		4.45				28,657	07.03.14
	125,045		2.80				125,045	09.03.14 - 09.03.15
	135,834		3.09				135,834	08.03.14 - 08.03.16
	289,536						289,536	

Notes:

- (1) Stephen Hester and the Committee agreed that the maximum number of shares available for vesting would be capped at 65% (a total of 1,342,014 shares). The actual number of shares will depend on the performance assessment and may be less.
- (2) Stephen Hester and Bruce Van Saun stepped down from the Board on 30 September 2013.
- (3) Ross McEwan and Nathan Bostock were appointed to the Board on 1 October 2013.
- (4) This relates to an award made to Ross McEwan on joining RBS as CEO UK Retail in September 2012, in recognition of awards forfeited on leaving Commonwealth Bank of Australia.
- (5) In accordance with the plan rules, Nathan Bostock's outstanding LTIP, Deferred awards and MPP award have subsequently been lapsed and the Executive Share Option will lapse on his final date of employment.
- (6) This relates to a bonus award in respect of the 2012 performance year, awarded in March 2013.

Annual report on remuneration

Share options

	Share Plan	Options held at 1 January 2013 (or date of appointment if later)	Number of options lapsed in 2013	Option price £	Options held at 31 December 2013	
					Number	Exercise period
Nathan Bostock (5)	Executive Share Option Plan	207,467	—	4.62	207,467	17.08.12 – 16.08.19
	Sharesave Plan	3,556	3,556	4.34	—	—
		211,023	3,556		207,467	

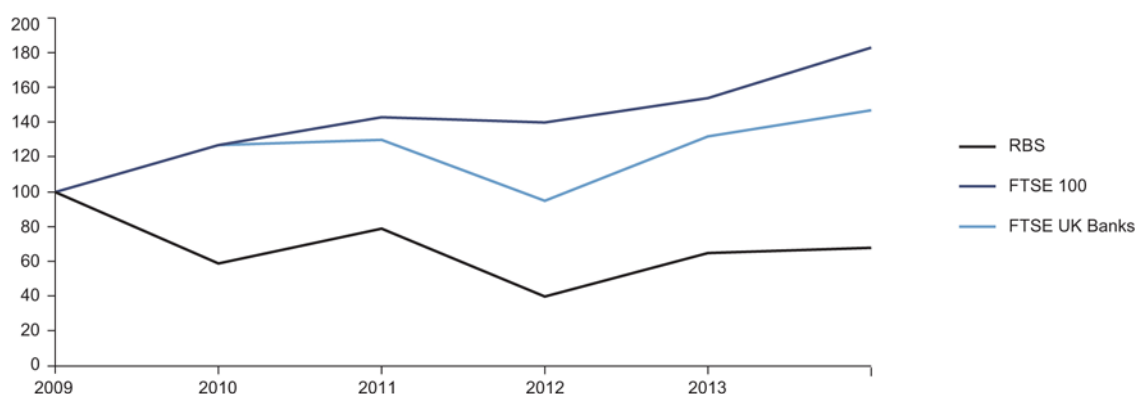
Medium-Term Performance Plan (MPP)

	Scheme interests (nil cost option) at 1 January 2013 (or date of appointment if later)	Award price £	Awards exercised in 2013	Scheme interests (share equivalents) at 31 December 2013	End of period for qualifying conditions to be fulfilled
Nathan Bostock (5)	117,809	4.52	—	117,809	17.08.12

For the notes to this table refer to the previous page.

Total Shareholder Return (TSR) performance

The graph below shows the performance of RBS over the past five years in terms of TSR compared with that of the companies comprising the FTSE 100 Index. This index has been selected because it represents a cross-section of leading UK companies. The TSR for FTSE UK banks for the same period has been added for comparison. The TSR for the company and the indices have been rebased to 100 at 1 January 2009. Source: Datastream



Historic Group Chief Executive pay over same period

	2009	2010	2011	2012	2013(1)
Group Chief Executive single figure of total remuneration (£000s)	1,647	3,687	1,646	1,646	1,235 (SH) 378 (RM)
Annual variable award against max opportunity	0%	85%	0%	0%	0% (SH) 0% (RM)
LTIP vesting rates against max opportunity	0%	0%	0%	0%	0% (SH) 0% (RM)

Note:

(1) Stephen Hester (SH) stepped down from the Board on 30 September 2013 and Ross McEwan (RM) became Group Chief Executive with effect from 1 October 2013.

Change in Group Chief Executive pay compared to employees

The table below shows the percentage change in remuneration for the Group Chief Executive between 2013 and 2012 compared with the percentage change in the average remuneration of RBS employees on a global basis. In each case, remuneration is based on salary, benefits and annual bonus. The Group Chief Executive remuneration reflects the change in remuneration arrangements for the new Group Chief Executive with effect from 1 October 2013 compared to the previous Group Chief Executive.

	Salary 2013 to 2012 change	Benefits 2013 to 2012 change	Annual Bonus 2013 to 2012 change
Group Chief Executive	(16.7%)	—	—
All employees	2.1%	2.1%	(16.6%)

Note:

(1) No bonus was paid to the Group Chief Executive in respect of 2012 or 2013 performance. Standard benefit funding for executive directors remained unchanged between 2012 and 2013. The benefits for the Group Chief Executive excludes the relocation expenses provided to Ross McEwan as part of his recruitment as CEO UK Retail in 2012 and which will last for a set three year period other than an entitlement to two return business class flights which applies from year three onwards. The value of relocation benefits will be disclosed each year in the total remuneration table.

Annual report on remuneration

Relative importance of spend on pay

The table below shows a comparison of remuneration expenditure against other disbursements.

	2013 £m	2012 £m	change
Remuneration paid to all employees (1)	6,371	7,231	(12%)
Distributions to holders of ordinary shares	—	—	—
Distributions to holders of preference shares	398	301	32%
Taxation and other charges recognised in the income statement:			
- Social security and other payments (2)	486	562	(14%)
- Bank levy	200	175	14%
- Corporation tax	382	441	(13%)
Other payments made by the Group			
- Irrecoverable VAT and other indirect taxes suffered by the Group (3)	714	830	(14%)

These measures have been included as they reflect the key stakeholders for the Group and the major categories of disbursements made by the Group to its key stakeholders, including its ordinary and preference shareholders and Governments in the Group's operational territories.

The amounts included above have been calculated in accordance with applicable accounting standards and reflect the amounts included in the Group Income statement and related Notes.

Notes:

(1) Remuneration paid to all employees represents total staff expenses per Note 3 to the Financial statements, exclusive of social security and other staff costs.

(2) Income statement charge for social security costs per Note 3 to the Financial Statements.

(3) Input VAT and other indirect taxes unable to be recovered by the Group due to it being partially exempt.

Implementation of remuneration policy in 2014

The information below sets out how RBS intends to implement the policy in 2014.

Executive directors

	Salary	Benefits	Pension	Fixed Share Allowance (1)	LTIP award
Group Chief Executive	£1,000,000	£26,250 + relocation benefits (3)	35% of salary	No award in 2014	300% of salary
Group Finance Director (2)	£765,000	£26,250	35% of salary	100% of salary	300% of salary

Notes:

(1) Fixed Share Allowance will be payable in arrears and the shares will be released in equal tranches over a five year period.

(2) The search for a new Group Finance Director is underway and the remuneration package will be consistent with the recruitment policy as set out on page 47.

(3) Relocation benefits include housing and flight allowances, the value of which will be disclosed each year in the total remuneration table.

Chairman and non-executive directors' fees

Chairman	£750,000
Non-executive Director Group Board	£72,500
Senior Independent Director	£30,000
Membership of Group Audit Committee, Board Risk Committee, Group Performance and Remuneration Committee	
or Group Sustainability Committee	£30,000
Additional fee to Chair the Group Audit Committee, Board Risk Committee, Group Performance and Remuneration Committee	
or Group Sustainability Committee	£30,000
Membership of Group Nominations Committee	£5,500

The non-executive directors do not receive any annual bonus payments or variable remuneration.

Annual report on remuneration

2014 Annual objectives for the Group Chief Executive and Group Finance Director

The executive directors' annual objectives, as set out below, are approved by the Committee and reflect the Group's key strategic priorities. The Board Risk Committee has approved the risk and control issues. Note that, as described in the Remuneration Policy section of the report, no annual bonus awards will be payable to executive directors. Nevertheless, the Committee believes that annual objectives are an important part of driving the business strategy and meeting agreed targets.

Core objectives	Summary of objectives and targets ⁽¹⁾
Customer & Stakeholder (25%)	<ul style="list-style-type: none">Customer Strategy and Experience - clearly articulate customer strategy; effective customer experience framework and measurement approach.Customer Relationships - develop stronger and deeper customer relationships.Corporate reputation - enhance and support the company's reputation with all stakeholders.
Financial & Business Delivery (25%)	<ul style="list-style-type: none">Common Equity Tier 1 Ratio - deliver fully loaded Common Equity Tier 1 ratio in line with strategic targets, including successful execution of RCR reduction.Return on Equity ⁽²⁾ - improve return on equity in line with strategic targets.Cost:Income Ratio ⁽²⁾ - reduce cost:income ratio in line with strategic targets.
People & Culture (25%)	<ul style="list-style-type: none">Operating Model - deliver first phase of efficient and effective bank-wide operating model.Values & Engagement - embed and role model the Group's values, setting the tone from the top, and building the pride and engagement of our people.Diversity - promote gender diversity in senior talent pools.
Risk & Control (25%)	<ul style="list-style-type: none">Risk Appetite - further progress on embedding enhanced risk appetite and risk frameworks.Governance & Control - maintain an effective governance and control environment and deliver key systems and processes.Conduct - embed the agreed conduct risk framework across the business.End to End Risk Management Framework - maintain an effective risk management framework across the business.

Notes:

(1) Details of targets that are deemed to be commercially sensitive will be disclosed retrospectively.

(2) Excluding RBS Capital Resolution.

Annual report on remuneration

LTIP awards granted in 2014 – Performance criteria

In line with previous practice, awards granted to executive directors in March 2014 will be subject to four equally weighted performance categories, each of which can vest up to 100% of base salary subject to an overall cap of 300% of salary. The performance targets have been reviewed by the Committee and reflect the outcome of the Group's strategic review. In future years, long-term incentive awards will be made under the RBS 2014 Employee Share Plan on the basis of equally stretching measures following consultation with major shareholders and disclosed in the annual report on remuneration. A minimum three year performance period will apply. Any awards that vest will be subject to a minimum six month retention period in line with the PRA Remuneration Code.

Economic profit (25%)

The Economic Profit measure will be based on the 'go-forward' RBS business to align with the long-term future and earnings for the business. Economic Profit, being a risk-adjusted financial measure, is consistent with the PRA Code and also provides a balance between measuring growth and the cost of capital employed in delivering that growth. Economic Profit is defined as Operating Profit after Tax and preference share charges less attributed equity multiplied by the cost of equity, where

- Operating Profit after Tax is Operating Profit taxed at a standard tax rate.
- Attributed Equity is defined as equity allocated to the businesses, calculated as a function of the businesses risk-weighted asset base.
- Current Cost of Equity is 11.0%, which is subject to review at least annually.

Details of the actual targets, and performance against these, will be disclosed retrospectively once the awards vest.

Relative Total Shareholder Return (25%)

The relative TSR measure provides a direct connection between executive directors' awards and relative performance delivered to shareholders. The measure compares performance against a group of comparator banks. The comparator group has been changed for the 2014 awards to be more in line with the new strategic direction of RBS. This has involved removing from the comparator group non-European firms, which in particular reduces the exposure of the peer group to US and Markets activity.

Relative TSR Comparator Group

	Weighting
1 Barclays	200%
2 Lloyds Banking Group	
3 HSBC	100%
4 Standard Chartered	
5 to 13 BBVA, BNP Paribas, Credit Agricole, Credit Suisse Group, Deutsche Bank, Santander, Societe Generale, UBS, Unicredit	50%

- 20% of the award will vest if TSR is at the median of the companies in the comparator group
- 100% of the award will vest if TSR is at the upper quartile of the companies in the comparator group

Safe & Secure Bank (25%)

The Safe & Secure Bank measures have a particular focus on risk reduction and the building of a safer, sustainable franchise. The key measures in this category are Core Tier 1 ratio and Cost Income ratio.

Customers & People (25%)

These measures reward management for building a customer-focussed franchise with strength in terms of efficiency, reputation and the engagement of employees. Net Promoter Score will be used as the primary bank-wide measure for the improvement in customer service, measured versus each segment's defined peer group. Employee engagement will be measured against the Global Financial Services norm.

Performance measures and weightings

Safe & Secure Bank measures (25%)	Core Tier 1 ratio (12.5%) Cost:Income ratio (12.5%)
Customers & People measures (25%)	Net Promoter Score (12.5%) Employee Engagement Index (12.5%)

Commentary will be provided on an annual basis in relation to progress against the targets, where these are not commercially sensitive.

Target ranges will be set for each measure, and will determine vesting, although the overall vesting under the Safe & Secure Bank and Customers & People categories will be qualified by Group Performance and Remuneration Committee discretion taking into account changes in circumstances over the performance period, the margin by which individual targets have been missed or exceeded, and any other relevant factors.

Risk underpin and clawback

The Committee will also review financial and operational performance against the business strategy and risk performance prior to agreeing vesting of awards. In assessing this, the Committee will be advised independently by the Board Risk Committee. If the Committee considers that the vesting outcome calibrated in line with the performance conditions outlined above does not reflect underlying financial results or if the Committee is not satisfied that conduct and risk management during the performance period has been effective, then the terms of the awards allow for an underpin to be used to reduce vesting of an award, or to allow the award to lapse in its entirety. All awards are subject to clawback.

Annual report on remuneration

Consideration of matters relating to directors' remuneration

The role and responsibilities of the Committee

The Committee is responsible for setting the policy on remuneration and overseeing its implementation. It reviews performance and makes recommendations to the Board in respect of variable incentive pools and the remuneration arrangements of the executive directors. No director is involved in decisions regarding his or her own remuneration.

The Committee is also responsible for approving remuneration and severance arrangements for members of the Group's Executive and Management Committees and overseeing arrangements for PRA 'Code Staff'. Details of the PRA Remuneration Code can be found at www.bankofengland.co.uk/prc. A definition of RBS Code Staff along with details of how risk is taken into account in the remuneration process is provided on pages 62 and 63.

The terms of reference of the Group Performance and Remuneration Committee are available on www.rbs.com and these are reviewed at least annually by the Committee and approved by the Board.

Summary of the principal activity of the Committee during 2013

The Committee considered issues under the accountability review process at every meeting held in 2013 and CRD IV implementation at the majority of meetings held in 2013. Set out below is a summary of other key activities considered by the Committee.

First quarter

- 2012 performance reviews and arrangements for members of the Group's Executive and Management Committees, APS in scope employees, Code Staff and high earners. 2013 objectives for the Group's Executive and Management Committee members.
- Approval of Group and Divisional variable pay pools and Directors' Remuneration Report.
- Outcomes of the annual performance evaluation of the Committee.
- Assessment of the performance to date of unvested LTIP awards and performance targets for 2013 awards.
- Consideration of long-term incentive and deferral structure.

Second quarter

- Group Chief Executive departure terms and consideration of appointment and remuneration terms for various senior positions.
- Presentations from Markets, Corporate and Ulster Bank on business and strategic priorities and people plans.
- Review of the implementation of the remuneration policy.
- Review of the Committee's agenda planner, Terms of Reference and delegated authorities for individual remuneration governance.
- Terms of Reference for Group Sales and Service Incentives Committee – which considers short term incentive design principles.

Third quarter

- Half year performance reviews for members of the Group's Executive and Management Committees.
- Presentation from Retail on business and strategic priorities and people plans.
- Areas of focus for remuneration strategy.
- Purpose, Vision & Values and reward issues presentation.
- Consideration of the future shape of pay.

Fourth quarter

- 2013 preliminary variable pay pool discussions for Group and Divisions.
- Remuneration Policy Statement for the PRA.
- Update on Group Internal Audit's review of Code Staff processes.
- Share plan rules review update and AGM considerations.
- Update on shareholder consultation undertaken in December 2013 and planned for January 2014.

Performance evaluation process

A thorough internal review of the effectiveness of the Group Performance and Remuneration Committee was conducted during 2013 involving questionnaires and follow-up interviews. The Committee considered the outcomes of the evaluation and is satisfied with the way in which the evaluation has been conducted.

The review concluded that the Committee continued to operate effectively. Themes that emerged from the evaluation included recognition of the Committee workload and time spent outside of meetings, the ongoing importance of independence, management support and interaction with other Board Committees. Priorities that were identified for 2014 included recruiting an additional member of the Committee and considering how to streamline the agenda to maintain rigorous scrutiny and challenge on key issues. The outcomes of the evaluation have been reported to the Board.

Membership of the Group Performance and Remuneration Committee

All members of the Committee are independent non-executive directors. The Committee held nine scheduled meetings in 2013 and a further seven unscheduled meetings.

	Attended/ scheduled
Penny Hughes (Chair)	9/9
Sandy Crombie	9/9
Alison Davis	9/9
Art Ryan (1)	7/7

Note:

(1) Art Ryan stepped down from the Committee on 30 September 2013

Annual report on remuneration

Advisers to the Group Performance and Remuneration Committee

The advisers are appointed independently by the Committee, which reviews its selection of advisers annually. The Committee Chair oversees the fees for the advisers. PricewaterhouseCoopers LLP (PwC) were appointed as the Committee's remuneration advisers on 14 September 2010 following a review of potential advisers, and their appointment was reconfirmed by the Committee in July 2013 after an annual review of the quality of the advice received and fees charged. PwC are signatories to the voluntary code of conduct in relation to remuneration consulting in the UK.

PwC also provide professional services in the ordinary course of business including assurance, advisory, tax and legal advice to RBS subsidiaries. The Committee Chair is notified of other work that is being undertaken by PwC and is satisfied that there are processes in place to ensure that the advice the Committee receives is independent. As well as receiving advice from PwC in 2013, the Committee took account at meetings of the views of the Chairman, Group Chief Executive, Group Finance Director, Human Resources Director, Head of Reward, the Group Secretary and the Chief Risk Officer. The fees paid to PwC for advising the Committee in relation to directors' remuneration are charged on a time/cost basis and in 2013 amounted to £190,465.

Statement of Shareholding Voting

The table below sets out the voting by shareholders on the advisory resolution to approve the Directors' 2012 Remuneration Report at the AGM held in May 2013.

For	Against	Total votes cast	Withheld
20,058,440,088 (99.32%)	138,246,040 (0.68%)	20,196,686,128	148,371,848

Shareholder dilution

During the ten year period to 31 December 2013, awards made that could require new issue shares under the company's share plans represented 4.2% of the company's issued ordinary share capital (including the B share capital), leaving an available dilution headroom of 5.8%. The company meets its employee share plan obligations through a combination of new issue shares and market purchase shares.

Penny Hughes
Chair of the Group Performance and Remuneration Committee
26 February 2014

Other Remuneration Disclosures

Remuneration of eight highest paid senior executives below Board (1)

All figures shown below are in GBP.

(£000s)	Executive 1	Executive 2	Executive 3	Executive 4	Executive 5	Executive 6	Executive 7	Executive 8
Fixed remuneration	639	1,352	700	199	463	415	189	350
Annual incentives	—	—	—	—	—	—	—	—
Long-term incentive awards (vested value)	983	978	407	—	—	56	—	114
Total remuneration (2)	1,622	2,330	1,107	199	463	471	189	464

Notes

(1) Remuneration earned for period worked in 2013 at RBS for members of Group Executive Committee plus Group HR Director.

(2) Disclosure includes prior year long-term incentive awards which vested during 2013. The amounts shown reflect the value of vested awards using the share price on the day the awards vested.

Other Remuneration Disclosures

Our Group-wide Remuneration Policy

The remuneration policy supports the business strategy and is designed to:

- Attract, retain, motivate and reward high-calibre employees to deliver long-term business performance within acceptable risk parameters; and
- Provide clear alignment between annual and long-term targets for individuals and strategic plans

The remuneration policy applies the same principles to all employees including Code Staff ⁽¹⁾. The current key principles underpinning the remuneration policy for all employees are set out below.

Element of pay	Objective	Operation
Base salary	To attract and retain employees by being competitive in the specific market in which the individual works.	Base salaries are reviewed annually and should reflect the talents, skills and competencies that the individual brings to the business.
Role-based allowance	To provide fixed pay that reflects the skills and experience required for, and the responsibilities of, the role.	From 2014 onwards, allowances will be provided to certain employees in key roles and reviewed at appropriate intervals, to reflect the skills, experience and competencies required for the role. They will be delivered in cash and/or shares depending on the level of the allowance and the seniority of the recipient. Shares will be subject to an appropriate retention period, not less than six months.
Benefits (including pension)	To provide a range of benefits and give employees an opportunity to provide for their retirement.	In most jurisdictions, employee benefits or a cash equivalent are provided from a flexible benefits account.
Annual incentives	To support a culture where employees recognise the importance of serving customers well and are rewarded for superior performance.	<p>The annual incentive pool is based on a balanced scorecard of measures including customer, financial, risk and people measures. Allocation from the pool depends on divisional, functional and individual performance. Individual performance assessment is supported by a structured performance management framework.</p> <p>Guaranteed awards are only used in very limited circumstances in accordance with the PRA Remuneration Code. Immediate cash awards are limited to a maximum of £2,000. Under the deferral arrangements a significant proportion of annual incentive awards for our more senior employees are deferred over a three year period. Deferred awards are subject to clawback. For Code Staff, a minimum 50% of any annual incentive is delivered in the form of RBS shares and subject to an additional six month retention period post vesting. Under the deferral arrangements for the 2013 performance year, the vast majority of any annual incentive award to Code Staff is delivered in shares.</p> <p>In certain circumstances, formulaic short-term incentive arrangements are used to align the objectives of employees with the strategy of the relevant division in which they work.</p>
Long-term incentive awards	To encourage the creation of value over the long term and to align further the rewards of the participants with the returns to shareholders.	<p>RBS provides certain employees in senior roles with long-term incentive awards. Awards are structured as performance-vesting shares. Vesting may occur after a three year period and will typically be based partly on divisional or functional performance and partly on performance across the business.</p> <p>The amount of the award that vests may vary between 0-100% depending on the performance achieved. All awards are subject to clawback and an additional six month retention period applies to Code Staff post vesting.</p>
Other share plans	To offer employees in certain jurisdictions the opportunity to acquire RBS shares.	Employees in certain countries are eligible to contribute to share plans which are not subject to performance conditions.

Note:

(1) The following groups of employees have been identified as meeting the PRA's criteria for Code Staff:

- Members of the Board and Executive and Management Committees
- Staff performing a Significant Influence Function within RBS
- Employees who have approval authorities such that their decision-making could have a material impact on the income statement
- Employees who are responsible for a business or businesses whose performance could have a material impact on the income statement; and
- Key control function roles

The RBS Staff Dealing Rules and the conditions attaching to discretionary share-based awards prohibit the use of any personal hedging strategies to lessen the impact of a reduction in value of such awards.

Other Remuneration Disclosures

How risk is reflected in our remuneration process

The RBS remuneration policy explicitly aligns remuneration with effective risk management. Focus on risk is achieved through clear risk input into objectives, performance reviews, the determination of variable pools and incentive plan design as well as the application of clawback. The Committee is supported in this by the Group Audit Committee, the Board Risk Committee and the Group's risk management function.

A robust process is used to assess risk performance. A range of measures are considered, specifically the overall Risk Profile, Credit, Regulatory Risk & Conduct Risk, Operational Risk, Enterprise Risk and Market Risk. The steps we take to ensure appropriate and thorough risk adjustment are also fully disclosed and discussed with the PRA and the FCA.

Variable pay pool determination

The process for determining variable pools is discretionary, to avoid the unintended consequences of formulaic systems. However, the Committee's discretion is applied within a structured framework which starts with an assessment of risk adjusted financial performance measured against budget, prior year capital position and long-term strategic plans. This analysis is used to adjust for performance and then consider outcomes in the context of competitive variable pay funding levels.

Risk is taken into account in the performance assessment through a thorough risk analysis carried out by the Group's risk management function to a pre-agreed framework. Performance assessments may be adjusted in situations where risk performance is outside risk appetite or strategic plans. Financial and non-financial performance factors (including risk) are taken into account in developing a final variable pay proposal. This decision also allows for considerations of market competitiveness and franchise protection.

Variable pay proposals are reviewed in the context of key compensation framework ratios including total compensation to revenue, total compensation to pre-compensation profit, variable pay to pre-variable pay profit and variable pool to pre-variable pool economic profit. These ratios help to ensure appropriate sharing of value between employees and shareholders and aim to provide transparency.

Finally, variable pay proposals are reviewed against our capital adequacy framework to ensure that regulatory requirements are met.

Accountability review process

Our Accountability Review process is an important tool in how we manage remuneration and manage adjustments to remuneration.

A summary of the accountability review process is as follows:

- Exists to enable RBS to respond in instances where current and/or new information would change the annual bonus and/or LTIP decisions made in previous years, and/or the decisions to be made in the current year.
- The process for review assessments (which consider material risk management, control and general policy breach failures, accountability for those events and appropriate action against individuals) is operated across divisions and functions.
- Divisional reviews are undertaken on a quarterly basis.
- Decisions must take into account not only any financial losses, but also behavioural issues and reputational or internal costs.
- Clawback may be up to 100% of unvested awards and can be applied regardless of whether or not disciplinary action has been undertaken.
- A key principle is that clawback quantum should not be formulaic.
- Collective responsibility may be considered where a committee or group of employees are deemed to have not appropriately discharged their duties.

How have we applied this in practice?

Variable pay is subject to deferral allowing the Committee scope to apply clawback. The accountability review process is fully embedded and is operated throughout the year. During 2013 a number of issues and events were considered under the accountability review framework.

The outcomes for the 2013 performance year cover a range of actions and have included: forfeiture of unvested awards through clawback; reduction of current year variable pay awards; dismissal; and suspended vesting pending further investigation. The Board Risk Committee concluded that all known key material events had been considered.

The RBS 2014 Employee Share Plan, subject to approval at the 2014 AGM, will allow RBS to apply post-vesting clawback to future awards. The policy for any post-vesting clawback will be considered in light of emerging regulatory requirements and shareholder best practice.

Remuneration Code

As part of the annual remuneration governance process we provide details of our approach to pay and how we comply with the Remuneration Code to the PRA and FCA. As in previous years we have received the required regulatory confirmation in order to conclude our year end remuneration process.

Other Remuneration Disclosures

Code Staff Remuneration Disclosure

These disclosures are in accordance with the Prudential sourcebook for banks, building societies and investment firms (BIPRU) 11.5.18 (6) and (7).

1. Aggregate remuneration expenditure

During the year, there were 342 Code Staff. Aggregate remuneration expenditure was as follows:

Markets £m	Rest of RBS Group £m
78.5	135.0

2. Amounts and form of fixed and variable remuneration

Fixed remuneration

Consisted of salaries, pensions and benefits paid during the year.

Senior management £m	Others £m
56.9	42.9

Variable remuneration for 2013 performance

Consisted of deferred awards payable over a three year period. Cash awards were limited to a maximum of £2,000 per employee.

Form of remuneration	Senior management £m	Others £m
Variable remuneration (cash)	0.2	0.2
Deferred remuneration (bonds)	2.4	2.6
Deferred remuneration (shares)	31.1	51.7

Long-term incentives

Long-term incentive awards made each year are paid three years after the date of award based on the extent to which performance conditions are met and can result in zero payment.

Senior management £m	Others £m
18.5	6.9

3. Outstanding deferred remuneration through 2013

The table below includes deferred remuneration awarded or paid out in 2013. Deferred remuneration reduced during the year relates to long-term incentives lapsing when performance conditions are not met, long-term incentives and deferred awards forfeited on leaving and clawback of prior year deferred awards and long-term incentives.

Category of deferred remuneration	Senior management £m	Others £m
Unvested from prior year	110.0	131.7
Awarded during the financial year	47.9	57.6
Paid out	33.0	59.4
Reduced from prior years	16.8	28.6
Unvested at year end	107.8	98.2

4. Sign-on and severance payments

Sign-on awards for guaranteed variable remuneration of £2.6 million are included in the tables above. These relate to commitments on recruitment made in respect of three new employees. No severance payments were made outside of contractual payments related to termination of employment such as pay in lieu of notice and benefits.

Notes on the presentation of remuneration

In the relevant tables above, assumptions have been made for the notional value of LTIP (verified by external advisors), forfeitures through resignation for deferred awards and the share price relevant to the date of the event or valuation point has been used.

All staff total remuneration

Total remuneration comprises; fixed pay, pension and benefit funding, variable remuneration and long-term incentives.

- The average salary for all employees is £34,000.
- 21,609 employees earn total remuneration between £50,000 and £100,000.
- 9,151 employees earn total remuneration between £100,000 and £250,000.
- 1,730 employees earn total remuneration over £250,000.

Total remuneration by band for all employees earning >£1 million	Number of employees
£1,000,000 - £1,500,000	46
£1,500,001 - £2,000,000	14
£2,000,001 - £2,500,000	4
£2,500,001 - £3,000,000	4
£3,000,001 - £3,500,000	—
£3,500,001 - £4,000,000	4
£4,000,001 - £4,500,000	1
£4,500,001 - £5,000,000	1
£5,000,001 - £5,500,000	—
£5,500,001 - £6,000,000	1

Notes:

- Total remuneration includes fixed pay, pension and benefit funding and variable pay (including actual value of LTIP vesting in respect of the performance period ending 2013) after the application of clawback.
- Excludes executive directors.

75 employees earn total remuneration of over £1 million which represent just 0.06% of our employees. This number reduces to 68 employees if we exclude pension and benefit funding.

These employees include those who manage major businesses and functions with responsibility for significant assets, earnings or areas of strategic activity and can be grouped as follows:

- The CEOs responsible for each division.
- Employees directly reporting to the CEO including those managing our functions and other activities of strategic importance.
- Employees managing large businesses within a division such as our Retail and Commercial Businesses in the US or our UK Corporate and Institutional Banking clients.
- Income generators responsible for high levels of income including those involved in managing trading activity and supporting clients with more complex financial transactions, including financial restructuring.
- Those responsible for managing our balance sheet and liquidity and funding positions across the business.
- Employees managing the successful disposal of Non-Core assets and reducing RBS's capital requirements.

Financial results

Strategic report

Important note

The Strategic report forms part of the 2013 Report and Accounts (the "R&A"). It does not contain sufficient information to allow for a full understanding of the results of the Group or of the state of affairs of the company. 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 2013 R&A, the auditor's report on those accounts and the Report of the directors should be consulted.

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

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 2013 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.

Revisions

The financial information on pages 66 to 68 has been restated to reflect the adoption of IAS 19 (revised) and IFRS 10 with effect from 1 January 2013.

IAS 19 'Employee Benefits' (revised) requires: the immediate recognition of all actuarial gains and losses; interest cost to be calculated on the net pension liability or asset at the long-term bond rate; and all past service costs to be recognised immediately when a scheme is curtailed or amended. Implementation of IAS 19 resulted in an increase in the loss after tax of £84 million for the year ended 31 December 2012 with a corresponding increase in other comprehensive income. This also resulted in an increase in the loss per ordinary and equivalent B share of 0.8p for the year ended 31 December 2012. The prior year has been restated.

IFRS 10 'Consolidated Financial Statements' replaces SIC-12 'Consolidation - Special Purpose Entities' and the consolidation elements of the existing IAS 27 'Consolidated and Separate Financial Statements'. IFRS 10 adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity so as to vary returns for the reporting entity. IFRS 10 requires retrospective application. Following implementation of IFRS 10, certain entities that have trust preferred securities in issue are no longer consolidated by the Group. As a result there was a reduction in Non-controlling interests of £0.5 billion with a corresponding increase in Owners' equity (Paid-in equity) as at 31 December 2012. This resulted in an increase in the loss attributable to non-controlling interests of £13 million for the year ended 31 December 2012, with a corresponding increase in the profit attributable to paid-in equity holders. There was no effect on the loss attributable to ordinary and B shareholders. The prior year has been restated accordingly.

Financial results *continued*

Summary consolidated income statement for the year ended 31 December 2013

	2013 £m	2012* £m
Net interest income	10,981	11,402
Non-interest income	8,776	6,539
Total income	19,757	17,941
Administrative expenses	(18,158)	(16,137)
Depreciation and amortisation	(1,410)	(1,802)
Operating expenses	(19,568)	(17,939)
Profit before impairment losses	189	2
Impairment losses	(8,432)	(5,279)
Operating loss before tax	(8,243)	(5,277)
Tax charge	(382)	(441)
Loss from continuing operations	(8,625)	(5,718)
Profit/(loss) from discontinued operations, net of tax	148	(172)
Loss for the year	(8,477)	(5,890)
Loss attributable to:		
Non-controlling interests	120	(136)
Preference shareholders	349	273
Paid-in equity holders	49	28
Ordinary and B shareholders	(8,995)	(6,055)
	(8,447)	(5,890)
Per ordinary and equivalent B share (1)		
Basic and diluted loss continuing operations	(81.3p)	(54.5p)
Basic and diluted loss from continuing and discontinued operations	(80.3p)	(55.0p)

*Restated

Note:

(1) Ten B shares rank pari-passu with one ordinary share.

Financial results *continued*

Summary consolidated statement of comprehensive income for the year ended 31 December 2013

	2013 £m	2012* £m
Loss for the year	(8,477)	(5,890)
Items that do not qualify for reclassification		
Actuarial gains/(losses) on defined benefit plans	446	(2,158)
Tax	(246)	352
	200	(1,806)
Items that do qualify for reclassification		
Available-for-sale financial assets	(406)	645
Cash flow hedges	(2,291)	1,006
Currency translation	(229)	(900)
Tax	1,014	(152)
	(1,912)	599
Other comprehensive loss after tax	(1,712)	(1,207)
Total comprehensive loss for the year	(10,189)	(7,097)
Total comprehensive loss is attributable to:		
Non-controlling interests	137	(129)
Preference shareholders	349	273
Paid-in equity holders	49	28
Ordinary and B shareholders	(10,724)	(7,269)
	(10,189)	(7,097)

*Restated

Financial results continued

Summary consolidated balance sheet as at 31 December 2013

	2013 £m	2012* £m
Assets		
Cash and balances at central banks	82,659	79,290
Loans and advances to banks	54,071	63,951
Loans and advances to customers	440,722	500,135
Debt securities	113,599	157,438
Equity shares	8,811	15,232
Settlement balances	5,591	5,741
Derivatives	288,039	441,903
Intangible assets	12,368	13,545
Property, plant and equipment	7,909	9,784
Deferred tax	3,478	3,443
Prepayments, accrued income and other assets	7,614	7,820
Assets of disposal groups	3,017	14,013
Total assets	1,027,878	1,312,295
Liabilities		
Deposits by banks	63,979	101,405
Customer accounts	470,880	521,279
Debt securities in issue	67,819	94,592
Settlement balances	5,313	5,878
Short positions	28,022	27,591
Derivatives	285,526	434,333
Accruals, deferred income and other liabilities	16,017	14,801
Retirement benefit liabilities	3,210	3,884
Deferred tax	507	1,141
Subordinated liabilities	24,012	26,773
Liabilities of disposal groups	3,378	10,170
Total liabilities	968,663	1,241,847
Non-controlling interests	473	1,770
Owners' equity	58,742	68,678
Total equity	59,215	70,448
Total liabilities and equity	1,027,878	1,312,295
Memorandum items		
Contingent liabilities and commitments	242,009	247,645

*Restated

Shareholder information

Analyses of ordinary shareholders

At 31 December 2013	Shareholdings	Number of shares - millions	%
Individuals	200,686	123.9	2.0
Banks and nominee companies	11,988	6,013.2	96.9
Investment trusts	105	3.8	0.1
Insurance companies	111	0.4	—
Other companies	1,014	18.0	0.3
Pension trusts	25	0.9	—
Other corporate bodies	89	42.8	0.7
	214,018	6,203.0	100.0
Range of shareholdings:			
1 - 1,000	184,830	46.6	0.8
1,001 - 10,000	27,384	62.5	1.0
10,001 - 100,000	1,152	31.2	0.5
100,001 - 1,000,000	437	150.4	2.4
1,000,001 - 10,000,000	172	544.7	8.8
10,000,001 and over	43	5,367.6	86.5
	214,018	6,203.0	100.0

Financial calendar

Annual General Meeting	25 June 2014 RBS Conference Centre RBS Gogarburn Edinburgh EH12 1HQ
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Interim results	1 August 2014
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Dividends

Payment dates

Cumulative preference shares	30 May and 31 December 2014
Non-cumulative preference shares	31 March, 30 June, 30 September and 31 December 2014

Ex-dividend date

Cumulative preference shares	30 April 2014
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Record date

Cumulative preference shares	2 May 2014
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Shareholder information continued

Shareholder enquiries

Shareholdings in the company may be checked by visiting the Shareholder centre section of our website, rbs.com. 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 registered 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)870 702 0135
Fax: +44 (0)870 703 6009
Website: www.investorcentre.co.uk/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)870 702 0135.

ShareGift

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

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
17 Carlton House Terrace, London SW1Y 5AH
Telephone: +44 (0)20 7930 3737
Website: www.sharegift.org

Share fraud warning

Fraudsters use persuasive and high-pressure tactics to lure investors into scams. They may offer to sell shares that turn out to be worthless or non-existent, or to buy shares at an inflated price in return for an upfront payment. While high profits are promised, if you buy or sell shares in this way you will probably lose your money.

- Keep in mind that firms authorised by the FCA are unlikely to contact you out of the blue with an offer to buy or sell shares.
- Do not get into a conversation, note the name of the person and firm contacting you and then end the call.
- Check the Financial Services Register at www.fca.org.uk to see if the person and firm contacting you is authorised by the FCA.
- Beware of fraudsters claiming to be from an authorised firm, copying its website or giving you false contact details.
- Use the firm's contact details listed on the Register if you want to call it back.
- Call the FCA on 0800 111 6768 if the firm does not have contact details on the Register or you are told they are out of date.
- Search the list of unauthorised firms to avoid at www.fca.org.uk/scams
- Consider that if you buy or sell shares from an unauthorised firm you will not have access to the Financial Ombudsman Service or Financial Services Compensation Scheme.
- Think about getting independent financial and professional advice before you hand over any money.
- Remember if it sounds too good to be true, it probably is.

Report a scam

If you are approached by fraudsters please tell the FCA using the share fraud reporting form at www.fca.gov.uk/scams, where you can find out more about investment scams. You can also call the FCA Consumer Helpline on 0800 111 6768. If you have already paid money to share fraudsters you should contact Action Fraud on 0300 123 2040.

Important addresses

Shareholder enquiries

Registrar

Computershare Investor Services PLC
The Pavilions
Bridgwater Road
Bristol BS99 6ZZ
Telephone: +44 (0)870 702 0135
Facsimile: +44 (0)870 703 6009
Website: www.investorcentre.co.uk/contactus

ADR Depositary Bank

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

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