



# RBS Remuneration Disclosures for year ended 31 December 2014

March 2015



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## Directors' Remuneration Report

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### Annual Statement from Sandy Crombie Chairman of the Group Performance and Remuneration Committee



Dear Shareholder,

I became Chairman of the Group Performance and Remuneration Committee with effect from the 2014 AGM having served as a member since 2009. I would like to thank my predecessor, Penny Hughes, for her leadership of the Committee over the past four years.

The Committee must balance the views of our stakeholders with our duty to reward our people fairly, and our responsibility to ensure that we are running a commercial business with the best available talent. We will do our utmost to make balanced decisions and to explain our approach to our many stakeholders.

I believe we are making genuine progress. RBS has been at the leading edge of reform in bringing down how much we pay and changing the structure of how pay is delivered. Over the last five years bonus pools have fallen by around two thirds across RBS and by nearly 90% within the investment bank. Last year we introduced a simplified pay structure for our executive directors with annual bonuses being discontinued. This means that their variable pay will be delivered entirely in long-term incentive awards, aligning executive directors' pay more than ever to shareholder value over the long term.

Our current Directors' Remuneration Policy was approved at the 2014 AGM with over 99% of shareholders voting in favour. No changes are being made to the policy at this time. This letter and the accompanying report aim to demonstrate the context in which decisions have been made, the decisions reached for the 2014 performance year and how the Committee intends to approach the year ahead.

#### Context for our decisions

Last year we set out a new strategy that stated our ambition to become the best bank in the UK for customer service, trust and advocacy by 2020. A remuneration policy that supports our business strategy is an essential part of rebuilding a successful and trusted RBS. We made good progress in 2014. Total pay costs and pay per employee have been reduced, while we have been establishing a platform to deliver good customer outcomes and sustainable returns to shareholders. There is a clear need for management to keep the franchise intact while moving the business towards a more normal and stable position. The Committee's decisions aim to support this process.

One of the main changes during 2014 is that RBS is now operating in a framework that limits variable pay to no more than the level of fixed pay. This change is in line with the views of our majority shareholder, UK Financial Investments (UKFI). Often referred to as the 'bonus cap', this limit applies to all employees who are considered to be Material Risk Takers (MRTs) under regulatory requirements, a population that has increased significantly in line with enhanced criteria from the European Banking Authority (EBA). For the majority of these employees, no changes have been required to their remuneration arrangements.

Role-based allowances have been introduced as an additional element of fixed pay for some MRTs in line with market practice. Allowances for members of the Executive Committee are delivered entirely in shares and are subject to a retention period. Increases in fixed pay have been balanced by longer vesting periods for long term incentives and an overall reduction in the maximum compensation available.

In accordance with Prudential Regulation Authority (PRA) requirements, we have updated our clawback policy. Any variable pay awarded to MRTs from 1 January 2015 will be subject to clawback for seven years from the date of award. Clawback is the recovery of awards that have vested and been paid to employees. Malus allows the Committee to reduce awards (if appropriate to zero) prior to payment taking place. RBS has operated malus for a number of years. The new clawback requirements, together with malus, provide greater scope for the Committee to recover remuneration where new information indicates we should change the pay decisions made in previous years and it is no longer appropriate to make payments at the level originally awarded.

Malus has been applied as part of our accountability review process in light of the fines imposed on RBS by regulators relating to misconduct in foreign exchange trading (FX) and the IT incident that occurred in 2012. The Committee fully appreciates the impact such events have on shareholders and customers. It is only right that this should be reflected in remuneration outcomes for those whose conduct fell short of our standards.

In addition to direct action against specific employees under the accountability review process, significant deductions to bonus pools have been made for material conduct events. This includes deductions for LIBOR, the IT incident and for the FX events. The Committee believes this process strikes an appropriate balance with a significant adjustment being made to bonus pools as a targeted measure to change behaviour, while not disproportionately penalising employees who are not responsible for these events.

It has taken much longer than anyone anticipated to turn the corner on past problems, practices and related fines but a significant amount of remedial action has already been undertaken. A clear message has been sent to employees that there is no place for any misconduct at RBS and wrongdoers will be dealt with. There is a determination to develop and maintain a culture that reflects our commitment to the customer and ethical market practices.

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## Directors' Remuneration Report

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### Performance considerations for 2014

2014 has been a year of achievement against a difficult agenda. We are delivering on our plan to make RBS a smaller, safer bank. Citizens Financial Group, Inc. (CFG) was successfully launched on the New York stock exchange in the biggest bank flotation in US history. Once the remaining stake in the CFG business is sold this will further strengthen our capital position. RBS Capital Resolution (RCR) has managed to accelerate the planned removal of assets from our balance sheet contributing c. 110 basis points to the improvement in the CET1 ratio.

Our financial results show that, underneath the conduct issues, litigation and restructuring charges, there are strong customer franchises that are geared towards delivering sustainable returns for investors. The signs of improvement are there in customer feedback, our capital strength and reduced costs. All of these factors have been considered by the Committee in seeking to make objective decisions. Some key messages for 2014 are as follows:

- Operating profit is up significantly to £3.5 billion from a £7.5 billion loss in 2013
- Attributable loss to ordinary and B shareholders of £3.5 billion which includes the loss provision of £4 billion associated with the decision to divest CFG
- Cost reduction of £1.1 billion, excluding the effect of currency movements, which has exceeded the target
- Staff compensation has reduced year on year at both the total and per employee levels
- CET1 ratio has improved over the year from 8.6% to 11.2%
- RCR run off - assets have been reduced by £14 billion and RWA equivalents have reduced by £38 billion
- RBS Total Shareholder Return (TSR) performance in 2014 has been ahead of other UK banks and the FTSE100 index
- In 2014, we have seen some positive Net Promoter Score movements in some of our franchises and there are early signs that customer trust in RBS is stabilising and starting to improve

### Pay decisions for our wider workforce

The pressures on people working at RBS are considerable. We need to recognise good results by those employees who serve our customers well and deliver excellent individual performance. Having engaged employees and improving RBS as a place to work is critical if we are to achieve our long-term ambitions.

The Committee has an important role in helping to create a compelling employee proposition. During 2014, RBS became a fully accredited Living Wage employer. RBS has been an accredited Living Wage employer in London since 2010 and we are pleased to be extending that commitment to our operations and suppliers in the rest of the UK. Some other key decisions are set out below:

- The average annual salary increase amongst our core population of employees in 2015 will be 2%, up from 2014, whereas it will be less than 1% across the most senior RBS employees.
- The bonus pool has fallen from a total of £576 million last year (£536 million excluding CFG) to £421 million excluding CFG in 2014, a reduction of 21% excluding CFG or a 27% overall reduction. Over 90% of this pool will be directed to those below the most senior RBS

employees. The Corporate & Institutional Banking (CIB) bonus pool is 53% lower than 2013.

- The bonus pool represents 6% of operating profit (excluding CFG and before variable compensation expense, conduct, litigation and restructuring charges and other one-off items).
- Where employees do receive a bonus, the average amounts remain relatively modest with 51% of employees receiving £2,000 or less and a further 22% receiving less than £5,000.
- Bonus awards above £2,000 are subject to deferral requirements and the Committee approved a 2014 deferral structure for higher earners and MRTs that exceeds current regulatory requirements.

These decisions aim to strike a difficult balance where pay is restrained in a market context but remains at sufficient levels to reward those employees who are building the future franchise. The intention is to demonstrate that good performance and a continuous focus on the right behaviours will be rewarded, while reflecting the impact on all stakeholders of conduct events in the reduction of specific bonus pools.

### Pay decisions for executive directors

- No changes to remuneration policy.
- Salary, pension and benefit funding unchanged in 2015.
- Performance measures for long-term incentive awards to be granted in 2015 follow the criteria that applied to awards made in 2014 but incorporating Trust in the Customers & People measure.
- Reflecting a desire from shareholders for longer timescales, the overall vesting period for future long-term incentive awards has been extended from three to five years.

### Considerations for the year ahead

The report sets out how pay arrangements will be implemented in the year ahead including the performance targets that will apply to the long-term incentive awards granted in 2015. An overview of our remuneration policy below Board level can be found in the 'Other Remuneration Disclosures' section that follows this report.

The regulatory environment continues to evolve. Further guidance is expected during 2015 from the EBA on the use of allowances as well as the outcome of the PRA's consultation on extending deferral periods. The Committee also intends to undertake a review of the broader aspects of employee remuneration at RBS during the course of the year.

I would like to conclude by thanking my fellow Committee members and those who support the Committee for their guidance and commitment over the year. I have no doubt we will be responding in 2015 to further developments in remuneration principles and practices. Shareholders continue to have a vital role in developing responsible pay practices and I look forward to working closely with all our stakeholders in the year ahead.

Sandy Crombie  
Chairman of the Group Performance and Remuneration Committee  
25 February 2015

## Directors' Remuneration Report

### Executive director outcomes for 2014 and implementation in 2015

#### Remuneration in 2014 (£000s)

	Ross McEwan	Ewen Stevenson (1)
Salary	1,000	497
Benefits (2)	143	16
Pension allowance	350	174
Fixed share allowance	—	497
Bonus	—	—
Long-term Incentive Plan vesting (3)	358	—
Other award (4)	—	1,911
<b>Total</b>	<b>1,851</b>	<b>3,095</b>

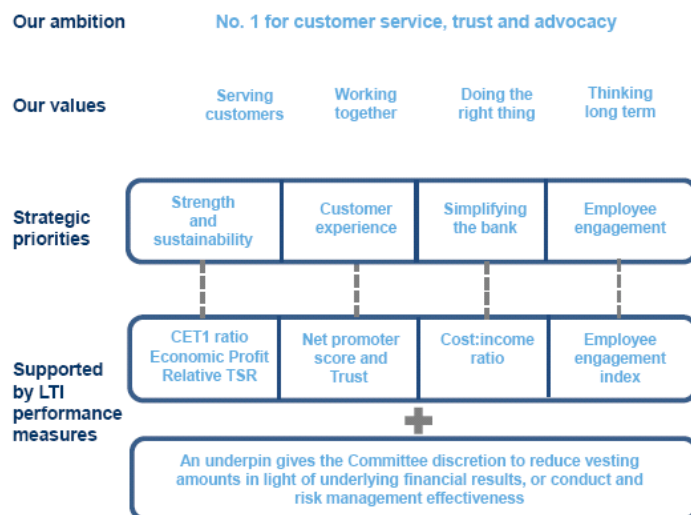
#### Notes:

- (1) Joined on 19 May 2014.  
 (2) Amount for Ross McEwan includes standard benefit funding and relocation benefits.  
 (3) Amount relates to a share award made to replace awards forfeited on leaving Commonwealth Bank of Australia, which was granted subject to RBS performance conditions.  
 (4) Amount relates to a share award made to replace awards forfeited on leaving Credit Suisse.

#### Implementation of policy for 2015

- Details of remuneration arrangements for 2015 are set out in the implementation of policy section on page 10.
- Variable pay will consist of a long-term incentive award (LTI) with performance conditions that are designed to be stretching and support delivery of the business strategy.
- LTI performance conditions will be assessed over three years with any vesting taking place in equal tranches in years four and five.
- Malus and clawback provisions will apply for an overall period of seven years from the date of grant.

### Linking remuneration to the business strategy



Full details of the LTI performance conditions are set out on page 11.

## Directors' Remuneration Policy

### Directors' Remuneration Policy

The full Directors' Remuneration Policy, as approved by shareholders at the AGM on 25 June 2014, is available at [rbs.tn/complianceandrem](http://rbs.tn/complianceandrem) and no changes are proposed that would require shareholder approval. An extract of the policy with certain updates to ensure it is relevant for the current year is set out below for ease of reference. In the event of any conflict, the approved policy on [rbs.com](http://rbs.com) takes precedence over the information set out in this section.

#### Fixed pay elements for executive directors (EDs)

Fixed pay elements are intended 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 2015 are as follows:            Chief Executive - £1,000,000            Chief Financial Officer - £800,000</p> <p>Further details on remuneration arrangements for the year ahead are set out in 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>	n/a
Fixed share allowance	To provide fixed pay that reflects the skills and experience required for the role. This will be delivered in shares which must be retained for the long term.	<p>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 from the retention period in equal tranches over a five year period. The fixed share allowance will broadly be paid in arrears, currently in two instalments per year. For 2015, the instalments will be paid in August and December.<sup>(1)</sup></p>	<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"> <li>• Company car</li> <li>• Private medical insurance</li> <li>• Life assurance</li> <li>• Ill health income protection</li> </ul> <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 practice.</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 percentage of salary. Opportunity to participate in a defined contribution pension scheme.</p>	<p>Pension allowance of 35% of salary.</p>	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 allowances being delivered in shares, or deem that such allowances will not qualify as fixed remuneration, then the company reserves the right to provide the value of the allowance in cash instead in order to comply with the requirements.

## Directors' Remuneration Policy

### Variable pay

Variable pay is intended to incentivise superior long-term performance and promote the success of RBS, 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 apply malus adjustments and 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 and performance-based vesting requirements.</p> <p>A minimum three year performance period will apply. The award will have an overall five year vest period, vesting in equal tranches in years four and five.</p> <p>As a minimum, shares will be subject to retention periods as required under the PRA and Financial Conduct Authority (FCA) Remuneration Code.</p> <p>Provisions for malus adjustment of unvested awards and clawback of vested awards.</p> <p>The long-term incentive award will be delivered under the RBS 2014 Employee Share Plan, as approved by shareholders 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. This currently limits variable pay to the level of fixed pay (i.e. base salary, fixed share allowance, benefits and pension). A higher ratio, up to 200% of fixed pay, is possible with shareholder approval. RBS is not seeking any such approval at the 2015 AGM.</p> <p>For these purposes awards will be valued in line with the EBA rules, including any available discount for long-term deferral.</p> <p>In addition to the regulatory ratio which currently limits variable pay to the level of fixed pay, awards for executive directors are subject to a maximum of 300% of base salary<sup>(1)</sup>.</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 performance conditions measured 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"> <li>• Economic Profit</li> <li>• Relative TSR</li> <li>• Safe and Secure Bank</li> <li>• Customers and People</li> </ul> <p>An underpin gives the Committee discretion to reduce vesting amounts in light of underlying financial results, or conduct and risk management effectiveness.</p> <p>These or similar measures and weightings will be applied to reflect the strategy going forward.</p> <p>Details of the performance measures for awards to be granted in 2015 are set out as part of the implementation of remuneration policy on page 11.</p>

Note:

(1) Adjustments will be made to award levels where necessary to ensure that executive directors remain within the variable to fixed limit.

### 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.	<p>A period of five years is allowed in which to build up shareholdings to meet the required levels.</p> <p>Any unvested share awards are excluded in the calculation.</p>	<p>Chief Executive – 250% of salary.</p> <p>Chief Financial Officer - 125% of salary.</p> <p>Requirements may be reviewed and increased in future.</p>	n/a



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## Directors' Remuneration Policy

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### Notes to policy table

- The Committee sets stretching performance targets taking into account the company's business strategy, 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 agrees the performance conditions each year after consultation with major shareholders.
- The Committee recognises the importance of alignment with shareholders through the use of shareholding requirements, a longer vesting period for long-term incentive awards and retention periods post vesting. Upon leaving, any outstanding share awards held by 'good leavers' will vest, normally on the original vesting dates, and shares from the fixed share allowance will continue to be released over the applicable five year retention period in order to ensure former EDs maintain an appropriate interest in RBS shares.
- Remuneration for EDs broadly follows the policy for all employees but with a significant element delivered in shares and an appropriate proportion delivered through 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.

### Malus and 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, malus can be applied to reduce (if appropriate to zero) the amount of any variable pay awards prior to payment taking place. Clawback provisions can also be applied to require repayment of any amounts already paid. Malus and clawback can be applied to current and former employees.

RBS has applied malus provisions to variable pay awards since 2009 and added clawback provisions to awards made in 2014 for a period of six months from the date of any vesting. Any variable pay awards granted to EDs and other MRTs after 1 January 2015 will be subject to clawback provisions for a period of seven years from the date of grant, in line with new requirements under the PRA/FCA Remuneration Code.

There are a number of trigger events under which malus and clawback will be considered including:

- the individual participating in or being responsible for conduct which results in significant losses for RBS;
- the individual failing to meet appropriate standards of fitness and propriety;
- reasonable evidence of an individual's misbehaviour or material error; and
- RBS or the individual's relevant business unit suffering a material failure of risk management.

Further details can be found on page 20.

### 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. The broader policy uses deferral, malus and clawback to promote effective risk management and alignment with shareholders. Further details of our remuneration policy for all employees are set out on page 19.

Any salary increases for EDs will not normally be greater than the average increase for RBS employees. While employees are not directly consulted on setting directors' remuneration, consultation on remuneration generally takes place with our social partners, including representatives from UNITE. In November 2014, RBS became a fully accredited Living Wage employer. RBS has been an accredited Living Wage employer in London since 2010 and this commitment has been extended to our operations and suppliers in the rest of the UK.

An annual employee opinion survey takes place which includes a number of questions on pay and culture. This includes questions on how pay is determined and evaluated, including the need to consider both 'what' and 'how' outcomes have been achieved, and whether employees believe they are paid fairly for the work they do.

Around 30,000 of our employees are shareholders through our incentive and all-employee share plans and have the ability to express their views through voting on the Directors' Remuneration Report.

### Discretion

The Committee has certain discretions that allow it, in appropriate circumstances, to vary the remuneration provided to EDs and other employees. For example, under the rules of the RBS 2014 Employee Share Plan, the Committee can: determine that awards should vest even where this treatment would not apply as standard under the rules; decide to vest earlier than the normal vesting date; and 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 relevant individual and for shareholders, taking into account the circumstances of departure, the performance of the individual and the need to ensure an orderly transition.

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 malus and clawback to awards and also to adjust the vesting outcome in relation to certain long-term incentive awards through the application of an underpin.



## Directors' Remuneration Policy

### Remuneration policy for the Chairman and 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 the Chairman and 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 reflects their responsibility and time commitment and the level of fees paid to directors of comparable major UK companies.</p> <p>The Chairman and non-executive directors do not participate in any incentive or performance plan. Fees are reviewed regularly.</p>	<p>The rates for the year ahead are set out in the annual report on remuneration on page 10.</p> <p>Any future increases to fees will be considered against 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>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

### 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, 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.
- 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. The Chairman and non-executive directors do not receive variable pay.

### Recruitment of Ewen Stevenson during 2014

Ewen Stevenson was appointed to the Board as Chief Financial Officer on 19 May 2014. His annual remuneration arrangements on appointment were as follows:

Salary	£800,000
Fixed share allowance	£800,000
Pension allowance	£280,000
Benefit funding	£26,250
Total fixed remuneration	<u>£1,906,250</u>

Maximum variable pay (long-term incentive award) is calculated in line with the ratio limiting variable to fixed remuneration, including the EBA discount for long-term deferral, with the first award due to be made in March 2015. Further details are set out in the implementation of policy section on page 10.

An award over 584,506 shares was made on Ewen's appointment to replace awards he forfeited on leaving Credit Suisse. The award is eligible to vest between March 2015 and March 2017 on terms that are no more generous than the terms of the awards they have replaced.

## 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 based on salary only (with no payment in respect of any other benefits, pension or fixed share allowances) 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 malus, clawback, competitive activity and detrimental activity as appropriate.</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. Malus and clawback provisions may also apply in accordance with policy.</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. The fixed share allowance will continue to accrue for the period up to cessation of employment.
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 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><a href="#">Arrangements for the Chairman</a></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 at a 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 election or re-election annually by shareholders at the company's Annual General Meetings. Neither of the current executive directors hold a non-executive director role at another company.

## Annual report on remuneration

### Annual report on remuneration

#### Total remuneration paid to directors for 2014

The sections audited by the company's auditors, Deloitte LLP, are as indicated.

#### Total remuneration for executive directors (audited)

	Current directors				Former director	
	Ross McEwan (1)		Ewen Stevenson (2)		Nathan Bostock (3)	
	2014 £000s	2013 £000s	2014 £000s	2013 £000s	2014 £000s	2013 £000s
Salary	1,000	250	497	—	313	191
Fixed share allowance	—	—	497	—	—	—
Benefits (4)	143	40	16	—	11	7
Pension	350	88	174	—	109	67
Annual bonus	—	—	—	—	—	—
Long-term Incentive Plan (LTIP) (5)	358	—	—	—	—	—
Other awards (6)	—	—	1,911	—	—	—
<b>Total remuneration</b>	<b>1,851</b>	<b>378</b>	<b>3,095</b>	<b>—</b>	<b>433</b>	<b>265</b>

#### Notes:

- (1) Ross McEwan's remuneration for 2013 reflected his service from appointment to the Board on 1 October to 31 December 2013.
- (2) Ewen Stevenson was appointed to the Board on 19 May 2014 and the table reflects his remuneration for the period since appointment.
- (3) Nathan Bostock joined the Board on 1 October 2013 and stepped down from the Board on 28 May 2014. See page 12 for details of termination arrangements.
- (4) Benefits figure includes standard benefit funding of £26,250 per annum with the remainder being relocation expenses provided to Ross McEwan.
- (5) The value for Ross McEwan relates to an award made on appointment to his previous role as CEO UK Retail to replace awards forfeited on leaving Commonwealth Bank of Australia. This element of the award was subject to RBS performance conditions which ended on 31 December 2014 and have been assessed as set out below.
- (6) The amount shown for Ewen Stevenson relates to an award made on appointment to replace the value of awards forfeited on leaving Credit Suisse. The award was delivered entirely in shares and subject to deferral, on terms that are no more generous than the terms of the awards replaced.

#### LTIP vesting amount included in the total remuneration table above (audited)

Ross McEwan was granted an award on joining RBS in 2012 to replace part of the awards forfeited on leaving Commonwealth Bank of Australia. This element was subject to RBS performance conditions over a three year period. Given his change in role over the period, this has resulted in a weighting of 50% being based on the performance of the Retail franchise and 50% based on RBS-wide measures. As the award does not vest until August 2015, an indicative share price has been used to estimate the vesting value.

Number of shares under award	Vesting outcome for RBS measures (1)	Vesting outcome for Retail measures (2)	Final vesting outcome (weighted 50:50)	Number of shares to vest in August 2015	Average share price October – December 2014	Value for total remuneration table above
130,841	61.5%	84.2%	72.85%	95,318	£3.76	£358,396

#### Notes:

- (1) This element follows the performance conditions applicable to the overall RBS-wide measures for the 2012 LTIP awards and the assessment is detailed on page 13.
- (2) The performance measures applicable for UK Retail were based on: Financial targets (weighted 50%) covering risk weighted assets, nominal assets, loan:deposit ratio, notional return on equity, operating profit, cost:income ratio; Customer measures (weighted 10%); People measures (weighted 10%); and Risk measures (weighted 30%). All financial targets were deemed to have been met in full with the customer, people and risk measures ranked as partially met. The Committee also considered recommendations from the Board Risk Committee in determining the final outcome.

#### Share plan interests awarded under the LTIP during 2014 (audited)

	Grant date	Face value of award (£000)	Number of shares awarded	% that would vest at threshold and maximum	Performance requirements
Ross McEwan (1)	7 March 2014	3,000	915,193	Vesting between 0% - 100% with 20% vesting at threshold for the TSR measure and 25% vesting at threshold for the Economic Profit measure.	Conditional share awards subject to stretching performance conditions covering Economic Profit, Relative Total Shareholder Return, Safe & Secure Bank and Customers & People. Performance measured over a three year period. See page 13 for further details.
Ewen Stevenson (2)	19 May 2014	1,911	584,506	Award made on appointment to replace the value of awards forfeited on leaving Credit Suisse. The shares are deferred over a similar time period as the awards replaced and subject to employment, malus and clawback provisions. No threshold vesting applies.	

#### Notes:

- (1) The number of shares awarded is based on a multiple of salary and an award price of £3.278 calculated based on the average share price over five business days prior to the grant date.
- (2) The number of shares is based on the value of awards replaced and an award price of £3.270 calculated based on the average share price over five business days prior to the grant date.

## Annual report on remuneration

### Chairman and non-executive directors' remuneration for 2014 (audited)

Remuneration of non-executive directors, excluding the Chairman, was reviewed in 2014. In light of the increased activity of the Nominations Committee, and after consideration of comparable fees paid to directors of other major UK banks, it was agreed that fees for membership of the Nominations Committee should be increased from £5,500 to £10,000 per annum with effect from 1 April 2014. An additional Board Committee was also established to oversee RBS Capital Resolution and the implementation of its strategy. The fees paid during 2014 are set out below.

	Board and Committee fees £000s	Benefits and other fees £000s	2014 Total £000s	2013 Total £000s
Philip Hampton (1)	750	1	751	751
Sandy Crombie	213	—	213	186
Alison Davis	141	—	141	132
Morten Friis (2)	112	—	112	—
Robert Gillespie (3)	149	35	184	7
Penny Hughes	178	—	178	154
Brendan Nelson	183	—	183	164
Baroness Noakes	186	—	186	136

### Former non-executive directors

Tony Di Iorio (4)	34	11	45	136
Philip Scott (5)	125	—	125	164

#### Notes

- (1) Philip Hampton is entitled to private medical cover and the value is shown in the benefits column.  
 (2) Morten Friis was appointed to the Board with effect from 10 April 2014.  
 (3) Robert Gillespie is the RBS nominated director of Citizens Financial Group, Inc. (CFG) and is entitled to fees for the period from 1 August 2014 to 31 December 2014. As part of the compensation plan for directors agreed on the IPO of the business in September 2014, Mr Gillespie is also entitled to restricted stock units in CFG which will vest on the date of the CFG AGM in 2015. The value of the fees and restricted stock is shown in the Benefits and other fees column, converted using an average exchange rate during 2014 of \$1.647:£1.  
 (4) Tony Di Iorio became a non-executive director of CFG on 15 January 2014 and the value of fees received for the period to 26 March 2014, the date he retired from the RBS Board, is shown in the Benefits and other fees column, converted using an average exchange rate during 2014 of \$1.647:£1.  
 (5) Philip Scott stepped down from the Board on 31 October 2014.

### Implementation of remuneration policy in 2015

The information below sets out how RBS intends to implement the policy in 2015. No changes have been made to the underlying policy.

### Executive directors

	Salary	Benefits	Pension 35% of salary	Fixed Share Allowance 100% of salary (1)	Long-term incentive award (LTI) calculated in line with regulatory cap (2)
Chief Executive	£1,000,000	£26,250 (3)	£350,000	£1,000,000	£1,559,810
Chief Financial Officer	£800,000	£26,250	£280,000	£800,000	£2,160,000

#### Notes:

- (1) Fixed Share Allowance will be payable broadly in arrears and the shares will be released in equal tranches over a five year period.  
 (2) The LTI that can be awarded in 2015 is limited to the level of fixed remuneration, on an annualised basis where appropriate. The value at grant incorporates the discount factor for long-term deferral calculated in line with European Banking Authority rules and results in a maximum LTI value of approximately 113% of fixed remuneration.  
 (3) Also receives relocation benefits include housing and flight allowances, the value of which is 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 (SID)	£30,000
Membership of: Group Audit Committee (GAC), Board Risk Committee (BRC), Group Performance and Remuneration Committee (RemCo) and Sustainable Banking Committee (SBC)	£30,000
Additional fee for Chairman of the GAC, BRC, RemCo or SBC	£30,000
Membership of the RCR Board Oversight Committee (RCR BOC)	£15,000
Additional fee for Chairman of the RCR BOC	£15,000
Membership of Group Nominations Committee (NomsCo)	£10,000

Morten Friis is the RBS Board nominated member of the Steering Group to oversee compliance remediation activities in respect of RBS's US businesses for which he receives fees of £15,000 per annum.

### Board Committee membership as at 31 December 2014

Sandy Crombie	Alison Davis	Morten Friis	Robert Gillespie	Penny Hughes	Brendan Nelson	Baroness Noakes
SID	RemCo	GAC	BRC	SBC Chairman	GAC Chairman	BRC Chairman
RemCo Chairman	SBC	BRC	RemCo	BRC	BRC	RCR BOC Chairman
GAC	NomsCo	NomsCo	SBC	NomsCo	RCR BOC	GAC
RCR BOC			NomsCo		NomsCo	NomsCo
NomsCo						

## Annual report on remuneration

### LTI awards to be granted to executive directors in 2015

#### Performance criteria

The performance measures are designed to be stretching and to support delivery of the business strategy. The measures are discussed each year with major shareholders. A three year performance period will apply which will end, in normal circumstances, on 31 December 2017. Subject to the achievement of the performance conditions, shares will then vest in equal tranches in years four and five.

In line with previous practice, awards granted to executive directors in March 2015 will be subject to four equally weighted performance categories. For Ewen Stevenson's award, each performance category can vest up to 100% of base salary, subject to the maximum award under the approved policy. Ross McEwan's award will be structured in a similar manner but at a lower level in line with the regulatory cap limiting the amount of variable remuneration. Details of the performance measures and the Committee's rationale for selecting them are set out below.

#### Economic profit (25%)

**Reason:** Economic Profit, being a risk-adjusted financial measure, is consistent with the PRA/FCA Remuneration Code and also provides a balance between measuring growth and the cost of capital employed in delivering that growth.

**Measure:** Economic Profit is defined as Operating Profit after Tax and preference share charges less Tangible Net Asset Value multiplied by the Cost of Equity. The measure will be based on the 'go-forward' business.

#### Performance target and weightings

Weighting	Performance target	Vesting range
25%	The economic profit target will be consistent with the achievement of RBS's strategic long term return on equity target of 12%+.	25 - 100%

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

#### Relative Total Shareholder Return (25%)

**Reason:** Relative TSR provides a direct connection between executive directors' awards and relative returns delivered to shareholders.

**Measure:** The measure compares performance against a group of comparator banks. The group and respective weightings were changed in 2014 to be more in line with the new strategy and the same comparator group will apply to awards made in 2015.

#### 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%

#### Performance target and weightings

Weighting	Performance target	Vesting range
25%	TSR between median and upper quartile	20 - 100%

### Safe & Secure Bank (25%)

**Reason:** The Safe & Secure Bank measures have a particular focus on risk reduction and the building of a safer, sustainable franchise.

**Measure:** The key measures in this category are the achievement of pre-determined Common Equity Tier 1 (CET1) and Cost:income (C:I) ratios.

### Customers & People (25%)

**Reason:** These measures reward management for building a customer-focussed franchise with strength in terms of reputation and the engagement of employees. In February 2014, RBS committed to targeting both trust and advocacy which is reflected in this category.

**Measure:** Net Promoter Scores (NPS) and Net Trust Scores (NTS) will be used, measured against a defined peer group. Employee engagement will be measured against the Global Financial Services (GFS) norm.

#### Performance target and weightings

Category	Metrics	Performance target
Safe & Secure Bank	CET1 ratio (12.5%)	target consistent with the achievement of RBS's target to operate at 13% for the period of international network restructuring
	C:I ratio (12.5%)	target consistent with the achievement of RBS's strategic long term C:I target of <50%
Customers & People	Advocacy (6.25%)	NPS gap to #1 of 6.0 <sup>(1)</sup>
	Trust (6.25%)	NTS: NatWest 55, RBS 42
	Engagement (12.5%)	Employee Engagement Index within 2% of GFS norm

Note:

(1) The NPS metric adopted is a bank-wide measure of the gap to #1 bank, which RBS plans to close to zero by 2020. It is calculated using the gap to #1 leading competitor in each customer segment, weighted by the revenue contribution of each segment.

The overall vesting under the above categories will be qualified by the Committee's 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. Details of performance against targets will be disclosed once the awards vest.

### Risk underpin and clawback

The Committee will also review financial and operational performance against the business strategy and the risk environment prior to agreeing vesting of awards. In assessing this, the Committee will be advised independently by the BRC. 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 or lapse the award.

All awards are subject to malus provisions which allow for awards to be reduced, if appropriate to zero, prior to vesting. In addition, awards granted in 2015 will be subject to clawback provisions for a period of seven years from the grant date, in line with the requirements of the PRA/FCA Remuneration Code. Any awards that vest will be subject to a minimum six month retention period.

## Annual report on remuneration

### Payments for loss of office (audited)

Nathan Bostock ceased to be Group Finance Director on 19 May 2014 and stepped down from the Board on 28 May 2014. He continued to receive payment of salary, pension and benefit funding until his employment ended on 18 August 2014 (a total of £234,952 for the period from 28 May to 18 August 2014). No payment was made for loss of office and all outstanding share awards were lapsed. There have been no payments made to departing non-executive directors for loss of office.

### Payments to past directors (audited)

Stephen Hester and Bruce Van Saun received shares on 7 March 2014 following the assessment of performance conditions for the LTIP award granted in 2011. The award for Stephen Hester was reduced to reflect time served during the period. The underlying award structure consisted of four performance categories each of which could give rise to shares worth 100% of salary at grant but with the overall maximum capped at 375% of salary. The performance assessment is set out below. The current executive directors did not participate in this award.

### Executive directors' LTIP awards granted in 2011 – final assessment of performance outcome (audited)

Performance Measure	Weighting	Threshold performance	Vesting at threshold	Performance for maximum vesting	Vesting at maximum	Actual performance	Vesting % of maximum
Economic Profit	25%	Meet minimum economic profit targets	25%	Performance ahead of the Strategic Plan	100%	The minimum target was not met	0%
Relative TSR	25%	TSR at median	20%	TSR at upper quartile	100%	TSR was below median	0%
Balance Sheet & Risk	25%	Half objectives met	25%	Objectives met or exceeded in all material respects	100%	9/10 targets met or exceeded <sup>(1)</sup>	100%
Strategic Scorecard	25%		25%		100%	targets not met <sup>(2)</sup>	0%
Overall vesting outcome							25%

#### Notes:

- (1) Targets relating to non-core assets, cumulative non-core loss, Core Tier 1 capital, wholesale funding, liquidity, leverage ratio, loan to deposit ratio, risk appetite and funded assets were met or exceeded. While the credit rating condition was not met, given the over-achievement on other measures, the Committee determined that the Balance Sheet & Risk element should vest in full.
- (2) The cost:income ratio target was not achieved within the Strategic Scorecard and taking into account the extent of the shortfall, the Committee determined that this element should not vest.

### Value of payments on vesting (audited)

Performance category	% vesting	Number of shares and value per category					
		Stephen Hester			Bruce Van Saun		
		Maximum shares (2)	Vested shares	Value (3)	Maximum shares (2)	Vested shares	Value (3)
Economic Profit	0%	257,912	—	—	170,677	—	—
Relative TSR	0%	257,912	—	—	170,677	—	—
Balance Sheet & Risk	100%	257,912	257,912	£858,847	170,677	170,677	£568,354
Strategic Scorecard	0%	257,912	—	—	170,677	—	—
Overall shares vesting (1)	25%		257,912	£858,847		170,677	£568,354
Check within maximum shares available to vest			955,228		632,136		

#### Notes:

- (1) The Committee also considered recommendations from the Board Risk Committee in determining the outcome above.
- (2) The maximum number of shares is calculated in line with the underlying award structure where each of the four performance categories could give rise to shares worth 100% of salary at grant but with the overall maximum capped at 375% of salary.
- (3) Based on share price of £3.33 on date of vesting.

### Total Pension Entitlements – Bruce Van Saun (audited)

Bruce Van Saun's Unfunded Unapproved Retirement Benefit Scheme operates as a cash balance plan. The rate of return on the accrued fund is determined annually to reflect a long-term low risk investment return on an unsecured basis. For 2014 this rate was 4%. His accrued entitlement at the year end is shown below. There is no provision for any additional benefit on early retirement.

	2014 £000s	2013 £000s
Balance at 1 January 2014	1,030	682
Aggregate contributions that would have been made if funded	—	306
Investment return	41	42
Total value of fund at 31 December 2014	1,071	1,030



## Annual report on remuneration

### Performance conditions for LTIP awards granted in 2012, 2013 and 2014

Awards are due to vest in 2015 to 2017. 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. Each of the four performance categories could give rise to shares worth 100% of salary at grant, but with the overall maximum capped at 300% of salary. The assessment is analytical and if any discretion is used in the final assessment, it will be explained.

### 2012 LTIP – final assessment of RBS-wide performance measures (audited)

Performance Measure	Weighting	Threshold performance	Vesting at threshold	Performance for maximum vesting	Vesting at maximum	Actual Performance	Vesting % of maximum
Economic Profit	25%	(£3.5 billion)	25%	£1 billion	100%	(£1.8 billion)	53%
Relative TSR	25%	TSR at median	20%	TSR at upper quartile	100%	65 <sup>th</sup> percentile ranking	68%
Balance Sheet & Risk	25%	Half objectives met	25%	Objectives met or exceeded in all material respects	100%	8/8 targets met <sup>(1)</sup>	100%
Strategic Scorecard	25%		25%		100%	4/7 targets met <sup>(2)</sup>	25%
Overall vesting outcome <sup>(3)</sup>							61.5%

Notes:

- (1) Targets relating to non-core assets (<£40 billion), cumulative non-core loss (<£6.8 billion), Core Tier 1 capital (>10%), leverage ratio (<18x), wholesale funding (<10%), liquidity reserves (>1.5x short-term wholesale funding), loan to deposit ratio (<100%) and earnings volatility (<100%) were uniformly met or exceeded resulting in 100% vesting for this element of the award.
- (2) Targets relating to customer franchise, cost:income ratio, lending targets, sustainability performance, employee engagement, leadership index and succession. The cost:income ratio and employee engagement index were both behind target and overall it was determined that half of the Strategic Scorecard measures had been met satisfactorily resulting in a 25% vesting outcome.
- (3) The Committee also considered recommendations from the Board Risk Committee in determining the outcome above.

### 2013 and 2014 LTIP – current assessment

The table below shows performance assessment in respect of the 2013 and 2014 LTIP awards which are due to vest in March 2016 and March 2017 respectively. The table below represents an early indication of potential vesting outcomes only based on the position at 31 December 2014.

Performance measure	Weighting	Vesting	2013 Current Assessment	2014 Current Assessment
Economic Profit	25%	Threshold: 25% vesting for meeting minimum economic profit targets  Maximum: 100% vesting for performance ahead of the Strategic Plan.	Performance consistent with some level of vesting based on current assessment.	A strong start has been made in 2014. The Committee notes that strategic decisions have been taken in 2014 and will monitor the impact of these in the remaining performance period.
Relative TSR	25%	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.	Latest assessment shows percentile ranking of 53.7% which would result in 32% vesting for this element.	Latest assessment shows percentile ranking of 100% which would result in 100% vesting for this element.
Balance Sheet & Risk (for 2013 LTIP)  Safe & Secure Bank (for 2014 LTIP)	25%	For 2013, vesting will be qualified by Committee discretion. Indicative vesting levels are:  <ul style="list-style-type: none"> <li>Over half of objectives not met: 0%;</li> <li>Half of objectives met: 25%;</li> <li>Two-thirds of objectives met: 62.5%; and</li> <li>Objectives met or exceeded in all material respects: 100%.</li> </ul>	All measures currently expected to be on track or ahead of targets by end of 2015.	A strong start has been made in 2014. The Committee notes that strategic decisions have been taken in 2014 and will monitor the impact of these in the remaining performance period.
Strategic Scorecard (for 2013 award)  Customers & People (for 2014 award)	25%	For 2014 awards, target ranges have been set for each measure and vesting will be qualified by Committee discretion taking into account the margin by which targets have been missed or exceeded.	The cost:income ratio target remains challenging and is unlikely to be met. Engagement index is behind target. Customer and leadership metrics would result in some level of vesting on current assessment.	Engagement Index currently behind target. Improvement in Net Promoter Score over 2014 would lead to some level of vesting if continued.



## Annual report on remuneration

### Directors' interests in shares and shareholding requirements (audited)

The target shareholding level is 250% of salary for the Chief Executive and 125% of salary for the Chief Financial Officer, 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. Shareholding requirements will be considered when relevant individuals request permission to sell shares, recognising the timeframe allowed to achieve the target level. The Committee receives annual updates on progress towards meeting these requirements.

	Shares beneficially owned	As at 31 December 2014 (or date of cessation if earlier)			
		Value (1) (£)	% of shareholding requirement met	Unvested LTIP awards	Unvested Deferral Plan awards
Ross McEwan	754,987	2,974,649	119%	1,742,186	37,596
Ewen Stevenson	70,978	279,653	28%	584,506	—
Nathan Bostock <sup>(2)</sup>	375,969	1,289,574	135%	—	—
Philip Hampton	27,630				
Sandy Crombie	20,000				
Alison Davis	20,000				
Morten Friis <sup>(3)</sup>	20,000				
Robert Gillespie	25,000				
Penny Hughes	562				
Brendan Nelson	12,001				
Baroness Noakes	21,000				
Tony Di Iorio <sup>(4)</sup>	30,000				
Philip Scott <sup>(5)</sup>	50,000				

Notes:

- (1) Value is based on the share price on 31 December 2014, which was £3.94; for Nathan Bostock the value is based on the share price of £3.43 on 28 May 2014, the date he stepped down from the Board. During the year ended 31 December 2014, the share price ranged from £2.96 to £4.04.
- (2) Stepped down from the Board on 28 May 2014.
- (3) Interest is 10,000 American Depository Receipts representing 20,000 ordinary shares.
- (4) Interest is 15,000 American Depository Receipts representing 30,000 ordinary shares. Stepped down from the Board on 26 March 2014.
- (5) Stepped down from the Board on 31 October 2014.

No other 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 2014, at 1 January 2014 or date of appointment if later. The interests shown above include connected persons of the directors. As at 25 February 2015, there were no changes to the directors' interests in shares shown in the table above.

Members of the Executive Committee are also subject to shareholding requirements with a target shareholding level of 125% of salary. In line with the requirements of the PRA/FCA Remuneration Code and the RBS Staff Dealing Rules, employees 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.

### Directors' interests under the Group's share plans (audited)

#### Long-Term Incentive Plan (LTIP) awards

	Awards held at 1 January 2014 (or date of appointment if later)	Awards granted in 2014	Award price £	Awards vested in 2014	Market price on vesting £	Value on vesting £	Awards held at 31 December 2014	End of period for qualifying conditions to be fulfilled
Ross McEwan	562,929 <sup>(1)</sup>		2.14	432,088	3.40	1,469,099	130,841	07.08.15
	696,152		3.09				696,152	08.03.16
		915,193	3.28				915,193	07.03.17
	1,259,081	915,193		432,088			1,742,186	
Ewen Stevenson <sup>(2)</sup>	584,506		3.27				584,506	09.03.15 – 07.03.17

#### Deferred awards

	Awards held at 1 January 2014	Awards granted in 2014	Award price £	Awards vested in 2014	Market price on vesting £	Value on Vesting £	Awards held at 31 December 2014	End of period for qualifying conditions to be fulfilled
Ross McEwan	56,395		3.09	18,799	3.33	62,601	37,596	08.03.15 – 08.03.16

Notes:

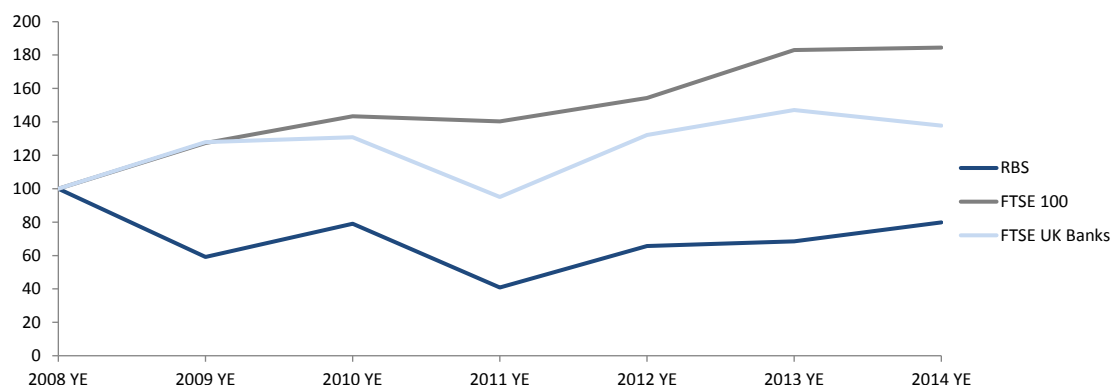
- (1) Relates to an award made to Ross McEwan on joining RBS as CEO UK Retail in September 2012 to replace awards forfeited on leaving Commonwealth Bank of Australia.
- (2) Ewen Stevenson was appointed to the Board on 19 May 2014. Award granted on appointment to replace awards forfeited on leaving Credit Suisse.

Nathan Bostock stepped down from the Board on 28 May 2014. Outstanding share awards under the LTIP (2,151,234 shares), Deferred awards (289,536 shares), the Executive Share Option Plan (option over 207,467 shares at £4.62) and the Medium-term Performance Plan (117,809 scheme interests) all lapsed as a result of his departure.

## Annual report on remuneration

### Total Shareholder Return (TSR) performance

The graph below shows the performance of RBS over the past six 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



### Historical Chief Executive pay over same period

	2009	2010	2011	2012	2013 (1)	2014
Total remuneration (£000s)	1,647	3,687	1,646	1,646	1,235 (SH) 378 (RM)	1,851
Annual bonus against maximum opportunity	0%	85%	0%	0%	0%	n/a
LTIP vesting rates against maximum opportunity (2)	0%	0%	0%	0%	0%	72.85%

Note:

- (1) 2013 remuneration includes Stephen Hester (SH) as CEO for the period to 30 September and Ross McEwan (RM) for the period from 1 October to 31 December 2013.  
(2) The LTIP vesting for Ross McEwan relates to an award made on appointment to his previous role as CEO UK Retail to replace awards forfeited on leaving Commonwealth Bank of Australia.

### Change in Chief Executive pay compared to employees

The table below shows the percentage change in remuneration for the Chief Executive between 2014 and 2013 compared with the percentage change in the average remuneration of RBS employees based in the UK. In each case, remuneration is based on salary, benefits and annual bonus.

	Salary 2014 to 2013 change	Benefits 2014 to 2013 change	Annual Bonus 2014 to 2013 change
Chief Executive (1)	0%	0%	n/a
UK employees (2)	3%	3%	(4%)

Notes:

- (1) Executive directors are not eligible for an annual bonus. Standard benefit funding for executive directors remained unchanged between 2013 and 2014. The benefits for the Chief Executive excludes the relocation expenses provided to Ross McEwan as part of his recruitment as CEO UK Retail in 2012. The value of relocation benefits is disclosed each year in the total remuneration table.  
(2) Data represents full year salary costs of the UK based employee population, which covers the majority of RBS employees and is considered to be the most representative comparator group.

### Relative importance of spend on pay

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

	2014 (1) £m	2013 (1) £m	change
Remuneration paid to all employees (2)	5,225	5,554	(6%)
Distributions to holders of ordinary shares	—	—	—
Distributions to holders of preference shares (3)	699	398	76%
Taxation and other charges recognised in the income statement:			
- Social security and other payments	379	422	(10%)
- Bank levy	250	200	25%
- Corporation tax	1,909	186	£1,723m
Other payments made by RBS			
- Irrecoverable VAT and other indirect taxes incurred by RBS (4)	665	703	(5%)

Notes:

- (1) Numbers exclude discontinued operations, principally CFG.  
(2) Remuneration paid to all employees represents total staff expenses per Note 3 to the Financial Statements, exclusive of social security and other staff costs.  
(3) Includes initial payment relating to the initial dividend on the Dividend Access Share in 2014.  
(4) Input VAT and other indirect taxes not recoverable by RBS due to it being partially exempt.

The items above have been included as they reflect the key stakeholders for RBS and the major categories of disbursements made by RBS to its key stakeholders, including its ordinary and preference shareholders and Governments in the RBS's operational territories. The amounts included above have been calculated in accordance with applicable accounting standards and reflect the amounts included in RBS's Income statement.

## Annual report on remuneration

### Consideration of matters relating to directors' remuneration

#### 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 2014 and a further seven ad hoc meetings.

	Attended/ scheduled
Penny Hughes (1)	5/5
Sandy Crombie (2)	9/9
Alison Davis	9/9
Robert Gillespie (3)	6/6

Notes:

(1) Chair until 25 June 2014

(2) Chairman from 25 June 2014

(3) Robert Gillespie was appointed to the Committee on 1 April 2014.

#### The role and responsibilities of the Committee

The Committee is responsible for approving the remuneration policy for all employees and overseeing its implementation. It reviews performance and makes recommendations to the Board in respect of the remuneration arrangements of the executive directors. The Committee is also responsible for approving remuneration arrangements for members and formal attendees of the Executive Committee and employees with total annual compensation which exceeds £1 million. It is also responsible for setting the remuneration framework and principles for MRTs falling within the scope of the PRA/FCA Remuneration Code. A definition of employees deemed to be MRTs along with details of how risk is taken into account in the remuneration process is provided on pages 19 and 20.

In mitigating potential conflicts of interest, directors are not involved in decisions regarding their own remuneration and remuneration advisers are appointed by the Committee rather than management. The terms of reference of the Committee are available on [www.rbs.com](http://www.rbs.com) and these are reviewed at least annually and approved by the Board.

#### Summary of the principal activity of the Committee during 2014

The Committee considered issues under the accountability review process at every meeting and CRD IV implementation at the majority of meetings. Consideration was also given to various remuneration issues for CFG in the run up to its IPO. Set out below is a summary of other key activities considered by the Committee.

##### First quarter

- 2013 performance reviews and remuneration arrangements for members of the Executive Committee, Code Staff and high earners.
- Approval of 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 2014 awards.
- Appointment and departure terms for various senior positions.
- Presentation from Compliance and Risk on business and strategic priorities and people plans.

##### Second quarter

- Executive Committee members 2014 objectives.
- Proposals for specific areas including CIB and RCR.
- Compensation funding model including 2014 risk adjustment process.
- Response to FCA letter in relation to Malus Performance Adjustment.
- Group Sales and Service Incentives Committee 2013 annual incentive report and FCA Incentives Thematic Review Report.

##### Third quarter

- Review of the implementation of the remuneration policy.
- Executive Committee members and attendees half year performance reviews and objectives update.
- Organisation design and executive grading framework update.
- External environment including PRA consultation on further changes to the Remuneration Code.
- The Committee undertook a 'Masterclass' in July 2014 where in-depth consideration was given to pay construct and people proposition; the role & scope of the Committee; and stakeholder engagement.

##### Fourth quarter

- 2014 preliminary pay elements including bonus pool, deferral, LTIP and clawback policy.
- Remuneration Policy Statement for the PRA.
- Update on external environment and regulatory developments.
- RCR remuneration proposals.
- Consideration of governance issues including delegated authorities and the Accountability Review framework.

#### Performance evaluation process

A thorough internal review of the effectiveness of the Committee was conducted during 2014 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 and the Masterclass was viewed as a positive development in building the future agenda. Themes emerging from the evaluation included using the time of the Committee more effectively and the need to focus on higher level strategic performance and remuneration priorities. The importance of concise papers highlighting key issues was also raised and a roll out of board paper training is already underway in Q1 2015 to address some of these concerns. Other priorities that were identified for 2015 included: alignment of remuneration strategy to the business strategy; creating a compelling employee proposition; and considering performance trajectory and the pay construct for the future business.

## Annual report on remuneration

### Advisers to the Group Performance and Remuneration Committee

The Committee reviews its selection of advisers annually. 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 2014 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 Chairman of the Committee is notified of other remuneration work that is being undertaken by PwC. In addition, there are processes in place to ensure the advice received by the Committee is independent of any support provided to management. As well as receiving advice from PwC in 2014, the Committee took account at meetings of the views of the Chairman, Chief Executive, Chief Financial Officer, Chief HR Officer, the Director, Organisation & Performance, the Chief Governance Officer and Board Counsel, the Chief Risk Officer and the Chief Conduct and Regulatory Affairs Officer. The fees paid to PwC for advising the Committee in relation to directors' remuneration are charged on a time/cost basis and in 2014 amounted to £137,749 excluding VAT (2013 - £190,465).

### Statement of Shareholding Voting

The table below sets out the voting by shareholders on the resolutions to approve the Directors' Remuneration Policy and the 2013 Remuneration Report at the AGM held in June 2014.

#### 1. Directors' Remuneration Policy

For	Against	Total votes cast	Withheld
20,893,215,888 (99.66%)	70,382,756 (0.34%)	20,963,598,644	170,307,216

#### 2. Annual Report on Remuneration for 2013

For	Against	Total votes cast	Withheld
21,034,273,904 (99.81%)	40,636,912 (0.19%)	21,074,910,816	58,993,972

### 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, led by the Chairman of the Committee, typically involves inviting our largest shareholders to attend either one-to-one meetings or roundtable sessions with relevant shareholder bodies. 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.

In late 2014 and early 2015, meetings took place with a number of institutional shareholders and shareholder bodies representing a substantial portion of the non-UKFI shareholding. The topics discussed during the latest consultation included strategic direction and financial performance, determination of pay outcomes for the 2014 performance year, and developments that may impact pay arrangements going forward.

Shareholders asked a number of questions including how conduct issues and the FX fines would be reflected in the bonus pool. The evolving regulatory environment and EBA guidance on role-based allowances were also discussed. Some shareholders were interested to know whether operating within the 1:1 ratio of variable to fixed remuneration was causing any particular concerns for RBS. The potential impact on recruitment and the importance of employee engagement were also discussed. Another theme was explaining progress on performance measures and it was noted that additional detail on LTIP performance targets would be helpful.

The Chairman of the Committee responded to the questions by explaining how adjustments for risk and conduct events were incorporated into the bonus pool and also confirmed that operating within the 1:1 cap had proved to be manageable to date. Overall, recruitment into specialist roles had not been as difficult as had been anticipated although certain 'hotspots' remained. The future pay construct was also discussed and the Chairman acknowledged the need for a fair sharing ratio between rewards to employees and returns to shareholders over the long-term.

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. 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.

### Shareholder dilution

During the ten year period to 31 December 2014, awards made that could require new issue shares under the company's share plans represented 4.7% of the company's issued ordinary share capital (including the B share capital), leaving an available dilution headroom of 5.3%. The company meets its employee share plan obligations through a combination of new issue shares and market purchase shares.

Sandy Crombie  
Chairman of the Group Performance and Remuneration Committee  
25 February 2015

## Other Remuneration Disclosures

### Remuneration of eight highest paid senior executives below Board <sup>(1)</sup>

(£000s)	Executive 1	Executive 2	Executive 3	Executive 4	Executive 5	Executive 6	Executive 7	Executive 8
Fixed pay (cash)	800	594	550	600	575	492	536	575
Fixed share allowance	800	600	550	600	600	500	288	300
Annual bonus	—	—	—	—	—	—	—	—
Long term incentive awards (vested value)	449	211	193	—	—	144	196	—
Total remuneration <sup>(2)</sup>	2,049	1,405	1,293	1,200	1,175	1,136	1,020	875

Notes:

- (1) Remuneration earned in 2014 at RBS for eight members of the Executive Committee. Reported remuneration was lower in 2013 due to:
- i) pro-rated earnings and no long term incentive award vesting for new hires; and
  - ii) split year earnings of newly promoted Executive Committee members.
- (2) Disclosure includes prior year long term incentive awards which vested during 2014. The amounts shown reflect the value of vested awards using the share price on the day the awards vested.

## Other Remuneration Disclosures

### Our remuneration policy for all employees

The remuneration policy supports the business strategy and is designed to promote the long-term success of RBS. It aims to reward employees for delivering good performance against targets provided this is achieved in a manner consistent with our values and within acceptable risk parameters. The remuneration policy applies the same principles to all employees including Material Risk Takers (MRTs) subject to the PRA/FCA Remuneration Code (1). The current key elements underpinning the remuneration policy are set out below.

Element of pay	Objective	Operation
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.	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 the role.	Allowances are provided to certain employees in key roles in line with market practice, structured to qualify as fixed remuneration for regulatory requirements. They are delivered in cash and/or shares depending on the level of the allowance and the seniority of the recipient. Shares are subject to an appropriate retention period, not less than six months.
Benefits (including pension)	To provide a range of flexible and market competitive benefits. To encourage planning for retirement and long-term savings.	In most jurisdictions, employee benefits or a cash equivalent are provided from a flexible benefits account.
Annual bonus	To support a culture where employees recognise the importance of serving customers well and are rewarded for superior performance.	<p>The annual bonus 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/FCA Remuneration Code. Immediate cash awards are limited to a maximum of £2,000. Under the deferral arrangements a significant proportion of annual bonus awards for our more senior employees are deferred over a three year period. Deferred awards are subject to malus and clawback provisions. For MRTs, a minimum of 50% of any annual bonus is delivered in RBS shares and subject to a minimum six month retention period post vesting.</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 support a culture where good performance against a full range of measures will be rewarded. 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. Performance is typically measured over a three year period.</p> <p>The amount of the award that vests may vary between 0-100% depending on the performance achieved. Awards are subject to malus and clawback provisions and a minimum six month retention period applies to MRTs 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 EBA has issued criteria for identifying MRT roles i.e. staff whose professional activities have a material influence over RBS's performance or risk profile. The criteria for identifying MRTs are both Qualitative (based on the nature of the role) and Quantitative (i.e. those who exceed the stipulated total remuneration threshold based on the previous year's total remuneration). The Qualitative criteria can be summarised as: staff within the management body; senior management; other staff with key functional or managerial responsibilities; and staff, individually or as part of a Committee, with authority to approve new business products or to commit to credit risk exposures and market risk transactions above certain levels. The Quantitative Remuneration criteria are: individuals earning €500,000 or more in the previous year; or individuals in the top 0.3% of earners in the previous year; or individuals who earned more than the lowest paid identified staff per the Qualitative criteria, subject to specific exceptions in the criteria.

In accordance with the PRA/FCA Remuneration Code and the RBS Staff Dealing Rules, 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.

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## Other Remuneration Disclosures

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### 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 malus and clawback. The Committee is supported in this by the Board Risk Committee (BRC) and the RBS 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

For the 2014 performance year, RBS has adopted a multi-step process which is a control function led assessment to determine performance and therefore the appropriate bonus pool by franchise and function.

The process considers a balanced scorecard of performance assessments at the level of each franchise or support function. The assessments are made across financial, customer and people measures. Risk and conduct assessments at the same franchise or functional level are then conducted to ensure that performance that is achieved without appropriate risk and conduct controls or culture is not inappropriately rewarded.

BRC will then review any material risk and conduct events and if appropriate an underpin may be applied to the individual business and function bonus pools and where appropriate to the overall RBS bonus pool. BRC may recommend reduction of a bonus pool if it considers that risk and conduct performance is unacceptable or that the impact of poor risk management has yet to be fully reflected in the respective inputs.

Following further review against overall performance and conduct, the Chief Executive will make a final recommendation to the Committee informed by all the previous steps in the process and his strategic view of the business. The Committee will then make an independent decision on the final bonus pool taking all of these earlier steps into account.

### Accountability review process and malus/clawback

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 variable pay 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 RBS.

- Decisions must take into account not only any financial losses, but also behavioural issues and reputational or internal costs.
- Collective responsibility may be considered where a committee or group of employees are deemed to have not appropriately discharged their duties.
- Malus provisions apply to any unvested variable pay awards and can be applied to reduce awards (if appropriate to zero) regardless of whether or not disciplinary action has been undertaken.
- In addition to malus provisions that RBS has operated for a number of years, any variable pay awarded from 1 January 2014 was subject to clawback and this policy was updated for MRTs from 1 January 2015 to extend clawback to seven years from the date of grant. Clawback allows for the recovery of awards that have vested and our policy is in line with the requirement under the PRA/FCA Remuneration Code.

### How have we applied this in practice?

The Accountability Review process is fully embedded and is operated throughout the year. There are certain trigger events under which malus and clawback will be considered including:

- the individual participating in or being responsible for conduct which results in significant losses for RBS;
- the individual failing to meet appropriate standards of fitness and propriety;
- reasonable evidence of an individual's misbehaviour or material error; and
- RBS or the individual's relevant business unit suffering a material failure of risk management.

During 2014 a number of issues and events were considered under the Accountability Review framework. The outcomes covered a range of actions including: forfeiture of unvested awards through malus, reduction of current year variable pay awards; dismissal with forfeiture of unvested awards; and suspension of awards pending further investigation.

### 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

### Remuneration of MRTs

The quantitative disclosures below are made in accordance with Article 450 of the EU Capital Requirements Regulation in relation to employees who have been identified as MRTs. During the year, there were 904 employees identified as MRTs excluding CFG (954 employees including CFG). The tables below show remuneration details for the population excluding CFG.

#### 1. Aggregate remuneration expenditure

Aggregate remuneration expenditure in respect of 2014 performance was as follows:

CIB £m	Rest of RBS £m
202.2	239.9

#### 2. Amounts and form of fixed and variable remuneration

##### Fixed remuneration for 2014

Consisted of salaries, allowances, pensions and benefits.

Senior management £m	Others £m
15.6	279.8

##### Variable remuneration for 2014 performance

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

	Senior management £m	Others £m
Form of remuneration		
Variable remuneration (cash)	—	1.4
Deferred remuneration (bonds)	—	14.2
Deferred remuneration (shares)	—	99.2

##### Long-term incentives awarded for 2014 performance

Long-term incentive awards vest subject to the extent to which performance conditions are met and can result in zero payment.

Senior management £m	Others £m
14.4	17.5

In accordance with Article 94(1)(g) of the fourth Capital Requirements Directive, the variable component of total remuneration for MRTs at RBS shall not exceed 100% of the fixed component. Based on the information disclosed above, the average ratio between fixed and variable remuneration for 2014 is approximately 1:0.5.

#### 3. Outstanding deferred remuneration through 2014

The table below includes deferred remuneration awarded or paid out in 2014 in respect of prior performance years. Deferred remuneration reduced during the year relates to long-term incentives lapsed when performance conditions are not met, long-term incentives and deferred awards forfeited on leaving and malus of prior year deferred awards and long-term incentives.

	Senior management £m	Others £m
Category of deferred remuneration		
Unvested from prior year	34.5	357.3
Awarded during the financial year	16.2	242.4
Paid out	8.7	189.6
Reduced from prior years	11.3	48.1
Unvested at year end	32.3	366.2

#### 4. Sign-on and severance payments

A sign-on award for guaranteed variable remuneration of £190,000 is included in the tables above. This relates to a commitment on recruitment made in respect of one new employee. 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) and forfeitures through resignation for deferred awards. In addition, the share price relevant to the date of the event or valuation point has been used.

#### All staff total remuneration

- The average salary for all employees is £35,000.
- 15,500 employees earn between £50,000 and £100,000.
- 6,700 employees earn between £100,000 and £250,000.
- 1,200 employees earn total remuneration over £250,000.

Total remuneration by band for all employees earning >€1 million	Number of employees 2014	Number of employees 2013
€1.0m - €1.5m	59	88
€1.5m - €2.0m	29	22
€2.0m - €2.5m	8	6
€2.5m - €3.0m	5	4
€3.0m - €3.5m	3	3
€3.5m - €4.0m	0	1
€4.0m - €4.5m	1	2
€4.5m - €5.0m	2	2
€5.0m - €6.0m	3	2
€6.0m - €7.0m	0	0
€7.0m - €8.0m	0	1
Total	110	131

#### Notes:

- (1) Total remuneration in the table above includes fixed pay, pension and benefit funding and variable pay (including actual value of LTIP vesting in 2014) after the application of clawback.
- (2) Executive directors and 16 employees of CFG are not included in the table.
- (3) An illustration of a comparable population from 2013 is shown for ease of reference. The table is based on an exchange rate where applicable of €1.241 to £1

Employees that earned total remuneration of over €1 million in 2014 represent just 0.1% of our employees. This number reduces to 98 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 area and their direct reports.
- Employees managing large businesses within a franchise.
- 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 assets in RCR and reducing RBS's capital requirements.