

FSA Remuneration Disclosures at 31 December 2010

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The undernoted disclosures are in accordance with the FSA's Handbook for banks, building societies and investment firms ("BIPRU") 11.5.18 (1) to (7).

Role of the Remuneration Committee

RBS has an established Remuneration Committee which is responsible for setting the Group's policy on remuneration, overseeing the remuneration governance framework and ensuring that remuneration arrangements are consistent with, and promote, effective risk management. The Remuneration Committee is also responsible for making recommendations to the Group Board in respect of the remuneration arrangements of the executive directors of the Group and setting the remuneration arrangements for members of the Group's Executive Committee and Management Committee, as well as higher-earning employees and any employees falling within the definition of "Code Staff" under the FSA Remuneration Code. Details of the FSA Remuneration Code can be found at www.fsa.gov.uk.

No individual is included in decisions regarding his or her own remuneration.

Decision-making process for determining remuneration policy

The Remuneration Committee undertakes a regular review of the adequacy and effectiveness of the remuneration policy to ensure it is fully aligned with the Group's long-term objectives. The Remuneration Committee receives a number of reports to assist it in its oversight of remuneration policy, for example, on risk and financial performance across the Group.

The Remuneration Committee considers remuneration in the context of the wider Group agenda such as talent development and the external market environment. The Remuneration Committee also receives regular updates on regulatory developments and general remuneration issues, as well as market and benchmarking data from its remuneration advisors to support its decisions. The Remuneration Committee also considers remuneration changes for senior roles in the context of salary increases for the wider employee population.

The Remuneration Committee held nine scheduled meetings and six additional meetings during 2010. The terms of reference of the Remuneration Committee are available on the Group's website (www.rbs.com).

More information on our remuneration principles can be found in the Directors' Remuneration Report in the 2010 Annual Report & Accounts also on the Group's website.

Composition of the Remuneration Committee

The current members of the Remuneration Committee are Penny Hughes (Chairman since 1 June 2010), Sandy Crombie, and John McFarlane. The members of the Remuneration Committee are all independent non-executive directors. Colin Buchan stepped down as Chairman and member of the Remuneration Committee on 1 June 2010.

Stakeholders

The Remuneration Committee's focus is to ensure that the remuneration policy continues to support delivery of the Group's Strategic Plan. To achieve the Group's strategic objectives and deliver a return to shareholders, including the UK taxpayer, talented and motivated management and employees are needed. This requires the Group to pay them fairly within the context of the markets in which they operate. In setting pay policy, the Remuneration Committee takes account of its duties to shareholders and the Group's strategic objectives and seeks to ensure that shareholder interests are not damaged as a result of staff

retention, recruitment or motivation issues. The Group's commitment is to reward success not failure, and RBS are also very conscious of the need to demonstrate restraint.

External Consultants

On 14 September 2010, the Remuneration Committee appointed PricewaterhouseCoopers LLP ("PwC") as its remuneration advisors, replacing Towers Watson. PwC were appointed after a formal selection process of panel interviews following the submission of detailed written proposals by a number of remuneration advisors. The advisors to the Remuneration Committee are appointed independently by the Committee, which reviews its selection of advisers annually. The Committee is notified of any work that is being undertaken by its advisors and is satisfied that there are processes in place to ensure that the advice it receives is independent.

Code Staff criteria

The following groups of employees have been identified as meeting the FSA's criteria for Code Staff:

- Members of the Group Board and Group Executive and Management Committee;
- Staff performing a Significant Influence Function within RBS Group;
- Employees who have approval authorities such that their decision-making could have a material impact on RBS Group's Income Statement;
- Employees who are responsible for businesses whose performance could have a material impact on RBS Group's Income Statement; and
- Key control function roles.

The categories above include all senior level management across the Group as well as those responsible for the management of the main businesses and control function heads.

Link between pay and performance

Remuneration at RBS is made up of fixed and performance-related pay. Performance related pay is designed to reflect success or failure against the range of targets which are set for our people, taking into account the context in which results were achieved. The Group operates a range of incentive structures which are designed to reinforce messages about what employees are being asked to achieve, and deliver pay for performance.

The key objective in determining bonus awards is to incentivise and motivate the desired achievements whilst ensuring pay is warranted given business performance. In this context performance includes financial and non financial measures, risk performance and any other relevant factors. There is clear focus on differentiation, so that, individually and by business, the best performers and the best performance will continue to be rewarded. There is strong central governance and oversight of both bonus pools and individual awards and each year a significant proportion of staff will receive zero bonus.

Under the Group-wide deferral arrangements a significant proportion of annual incentive awards for the more senior employees is deferred over a three year period. The purpose of deferred awards is to support a performance culture where employees recognise the importance of sustainable Group, business and individual performance.

The Group provides long-term incentives which are designed to link reward with the long-term success of the Group and recognise the responsibility participants have in driving its future success and delivering value for shareholders.

Long-term incentive awards are conditional on the satisfaction of a balanced scorecard of corporate performance measures.

Design and structure of remuneration

The individual elements of employees' remuneration packages at RBS comprise fixed pay (base salary, retirement and other benefits) and performance-related pay (consisting of annual incentives, deferred awards and long-term incentives). Taking into account the expected value of long-term incentives, the performance-related elements of the package make up a considerable proportion of the total remuneration of Code Staff, while maintaining an appropriate balance between fixed and variable elements.

Salary and fees

All Code Staff receive either a salary (employees) or fees (non-executive directors) to reflect their talent, skills, competencies and contribution to the Group relative to the market for comparable roles. RBS Group ensures that fixed remuneration is sufficient to cover employees' key financial needs. RBS also operates a fully flexible bonus policy which allows zero bonus payments to be made when appropriate.

Benefits

Code Staff are eligible to receive various employee benefits or a cash equivalent from a flexible benefits account, on a similar basis to other employees.

Annual incentives

Rationale and eligibility criteria

All executive Code Staff are eligible to receive an annual incentive. Annual incentives are designed to reward good financial and non-financial performance that supports the business strategy, taking into account the Group's risk appetite and personal contribution in the context that it was delivered.

Non-executive Code Staff are not eligible to receive annual incentives.

Performance measurement/assessment

Performance is central to the determination of annual incentive pools. Performance assessment is based on a balanced scorecard of measures including financial performance, risk, people and customer measures.

The approach to determining an appropriate annual incentive pool is based around technical workstreams led by the central control functions (Finance, Human Resources and Risk Management). The workstreams provide context around how much a market-competitive / on-target pool would be and on financial performance, risk performance and capital adequacy and the impact of incentive awards on the balance sheet.

Overall expenditure on annual incentives is reviewed by the Remuneration Committee at the end of each year taking into account the performance of the business on the basis described above. This is further scrutinised on a divisional and functional basis based on a range of different efficiency and risk adjusted profit measures including changes in Economic Profit for shareholders.

Allocation of any variable reward from the pool depends on divisional, functional and individual performance against the performance measures set at the beginning of the year. Individual performance assessment is supported by a structured performance management framework. Targets are specific, measurable, set at the beginning of the year and communicated to the employees.

Deferral and vesting

The Remuneration Committee is acutely aware of the external focus on the role of incentive payments in the financial sector and has radically

reformed the incentive plans operated across RBS Group to recognise this. For Code Staff roles, annual awards are deferred over three years and with a portion of the awards are paid in shares, increasing alignment with the interests of shareholders. There is a £2,000 cap on cash bonuses paid in March 2011, as was the case last year. Deferred awards are subject to clawback.

Following consultation with UKFI and other institutional shareholders, a Share Bank arrangement has been put in place for the executive directors' annual incentive awards for 2010 and 2011. For 2010 performance, the executive directors' annual incentive will be delivered entirely as an allocation into Share Bank. The allocated shares will vest in two equal tranches in March 2012 and 2013 and after any sale to cover employee tax liabilities arising on vesting the balance of the shares must then be held for a further six months. The Group Chief Executive has voluntarily agreed to a total holding period of twelve months after vesting on the same basis.

The maximum potential allocation of shares in respect of the 2011 financial year under Share Bank will be 6.0 million shares for the Group Chief Executive and 3.75 million shares for the Group Finance Director. These allocations were agreed following consultation with shareholders at the beginning of 2011. The potential allocations represent normal maximum incentive levels for executive directors based on the share price prevailing at the start of the consultation period and will be assessed for final allocation in 2012 on that basis. Depending on share price movement during the performance period, the value of the final allocation could further increase or decrease.

Between 0% and 100% of the maximum potential allocation will be formally allocated into Share Bank in March 2012 based on 2011 performance across five performance categories: strategic direction; business delivery and financial performance; stakeholders (including delivery against UK government lending commitments); risk and control; and capability and development. Fixing the number of shares in this way avoids unintended consequences arising from share price volatility around award dates and provides a clear alignment with shareholder interests through the year.

The Remuneration Committee will determine the actual allocation to Share Bank by reference to the extent to which executive directors have met the performance targets. Shares allocated in respect of 2011 performance will vest in two equal tranches in March 2013 and 2014 respectively. Clawback provisions will apply to shares allocated to Share Bank for the period prior to their vesting.

Long-term incentives

Rationale and eligibility criteria

To encourage the creation of value over the long term and to align the rewards of the participants with the returns to shareholders, the Group provides employees in senior roles (executive level and selected senior management) the opportunity to receive annual awards of long-term incentives. A new Long-Term Incentive Plan ("LTIP") was approved by shareholders on 28 April 2010, under which awards are structured as performance-vesting shares. Executives and selected senior management participate in the LTIP.

Performance measurement/assessment

Awards to executive directors under the LTIP in 2010 are subject to improvement in Economic Profit (50%) as well as relative TSR (25%) and absolute TSR (25%).

The relative TSR measure compares the Group's performance against a group of comparator banks from the UK and overseas, weighted towards those companies most similar to the Group. The absolute TSR measure is based on the achievement of share price targets by the end of the performance period. Maximum vesting of the Economic Profit

measure will be triggered by early delivery of core business profitability well ahead of the range implied by the published Strategic Plan targets and also in excess of the cost of capital.

Performance conditions for the 2011 LTIP awards have been chosen not only to align executive directors directly with outcomes for shareholders but also with those key actions required to deliver shareholder value over the long term and factor in the growing regulatory emphasis on risk-adjusted financial metrics. The four performance measurement areas set out below are equally weighted:

- Relative Total Shareholder Return (TSR) (25%);
- Core Bank Economic Profit (25%);
- Balance Sheet & Risk (25%);
- Strategic Scorecard (25%).

Relative TSR provides a direct link between the rewards received by executives and the returns achieved for shareholders. For this reason this metric has been retained unaltered from previous years.

At the end of the performance period for these awards, the value of the Group will be largely determined by the ability of the core bank to generate enduring value for shareholders. For this reason, for the 2011 LTIP awards the Economic Profit measure will focus on the core bank. Economic Profit, being a risk-adjusted financial measure, is consistent with the FSA Code, and also provides a balance between measuring growth and the cost of capital employed in delivering that growth.

Resolution of Non-Core and development of the Group's risk profile consistent with being a highly rated stand-alone bank are fundamental to our strategy. These are therefore measured under a separate Balance Sheet & Risk measure under the LTIP.

To ensure that the Group is positioned to deliver sustainable value for shareholders beyond the initial turnaround timeframe, the balanced Strategic Scorecard rewards management for delivering a robust basis for future growth in terms of the strength of our franchise, efficiency, reputation, and the strength and engagement of our employees.

Finally, there is an underpin whereby awards will only vest if the Committee is satisfied that risk management during the performance period has been effective and that financial and non-financial performance has been satisfactory, in line with the Strategic Plan. In assessing this, the Remuneration Committee will be advised independently by the Board Risk Committee.

Deferral and vesting

Performance is measured over a three year performance period and awards are forfeited to the extent that performance conditions are not met. Awards will not vest unless the Remuneration Committee is satisfied that risk management during the performance period has been effective at a Group and divisional/functional level. The Remuneration Committee's determination will be informed by input from the Group Chief Risk Officer and the Board Risk Committee. Specifically, prior to vesting, the Remuneration Committee will have regard to risk and compliance across the Group and divisions and make an assessment of future risks as appropriate.

If the Remuneration Committee consider that the vesting outcome determined under the performance conditions outlined above does not reflect the Group's underlying financial results or if the Remuneration Committee considers that the financial results have been achieved with excessive risk, then the terms of the awards allow for an underpin to be used to reduce vesting of an award, or to allow the award to lapse in its entirety.

All awards are subject to clawback.

Risk adjustment

As well as ensuring that the Board Risk Committee is aware of the implications of remuneration decisions for risk management, the following precautions are taken into account to manage the risk aspects of remuneration policy.

- For 2011 and future years, the balanced scorecard of performance metrics for both the annual incentive and the long-term incentive will incorporate risk measures.
- There is an underpin to the performance measures for the long-term incentives whereby awards will only vest if the Remuneration Committee is satisfied that the risk management during the performance period has been effective. In their assessment, the Remuneration Committee will be advised independently by the Board Risk Committee.
- The Remuneration Committee receives advice from the Head of Restructuring & Risk on risk-adjustment of measures for bonus pool funding and a risk review of individual performance evaluations for the Management Committee. The Chairman of the Board Risk Committee may attend Remuneration Committee meetings to advise on matters relating to risk adjustment.
- Both annual and long-term incentives are subject to clawback and, accordingly, the Remuneration Committee has discretion to reduce the number of shares under award or determine that no shares will vest. The Board Risk Committee reviewed clawback proposals made by Human Resources and assessed by the Risk Management function, and made recommendations to the Remuneration Committee in this respect.

Quantitative Remuneration Disclosure

The Company is required to disclose aggregate quantitative remuneration information for its Code Staff.

1. Aggregate Remuneration Expenditure

There were 93 Code Staff that have been classified as Senior Management and 230 other Code Staff. Aggregate remuneration expenditure was as follows:

Global Banking & Markets £m	Rest of RBS Group £m
256	119

2. Amounts and form of fixed and variable remuneration

Fixed Remuneration

Fixed remuneration paid in 2010 consisted of base salaries paid during the year plus fees for non-executive directors. There were no special discretionary pension benefits awarded during the year.

Senior Management £m	Others £m
31	48

Variable Remuneration for 2010 Performance

Variable remuneration payable in respect of 2010 performance consisted of cash bonuses, share or restricted share unit awards, and other awards primarily in the form of deferred bonds payable over three years. Cash bonuses were limited to a maximum of £2,000 per employee.

Form of Remuneration	Senior Management £m	Others £m
Variable remuneration (cash)	0.2	0.4
Variable remuneration (shares subject to retention)	13.1	42.5
Variable remuneration (bond award)	13.1	43.4
Deferred remuneration (bond award)	15.7	55.7
Deferred remuneration (shares)	19.0	55.7

6% of total variable remuneration was subject to a guaranteed commitment made on recruitment to secure the employment of key individuals.

Long-term incentives

Long term incentive awards made each year are paid three years after the date of award based on the extent to which performance conditions are met, and can result in zero payment if performance is not at the threshold level. Awards are contingent on future performance, and an average two-thirds achievement of performance conditions has been assumed. One-off long term incentive awards may also be made to compensate new recruits who forfeit deferred remuneration from their previous employer when they resign.

Senior Management £m	Others £m
25	13

3. Outstanding deferred remuneration through 2010

Deferred remuneration awarded and paid out during the year, and unvested on 31 December 2010, included deferred share and bond awards and long-term incentive plans contingent on multi-year performance. Deferred remuneration reduced during the year relates to long-term incentives lapsing when performance conditions are not met or deferred awards being reduced due to claw-back. There was no outstanding vested deferred remuneration at 31 December 2010.

Category of Deferred Remuneration	Senior Management £m	Others £m
Awarded in year	59	176
Paid out from prior years	9	28
Reduced from prior years	0.2	0
Unvested at year end	126	261

4. Sign-on and severance payments

No sign-on or severance payments were made to Code Staff during the year.

Notes on the presentation of remuneration

In the schedules above, forfeiture through resignation has been allowed for in line with the assumptions used for accounting purposes and where performance conditions apply an adjustment has been made to reflect this. In the schedule under 3, remuneration in shares is based on the share price at the grant date for amounts awarded in the year, on the share price at the vesting date for amounts paid out or reduced from prior years and on the 31 December 2010 share price for amounts unvested at the year-end.