

# Remuneration Disclosures

March 2013



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## ***Remuneration disclosures***

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2	Remuneration Governance
2	Letter from Chair of Group Performance and Remuneration Committee
7	Policy Report
14	Implementation Report
23	Other remuneration disclosures

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## Remuneration Governance

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### Letter from Penny Hughes Chair of the Group Performance and Remuneration Committee



Dear Shareholder

There is no doubt that 2012 has been another challenging year and events such as attempts to manipulate LIBOR and the IT incident have had a direct impact on the Group, both from a financial and a reputational point of view. The Board has acknowledged the serious shortcomings in systems and controls which were uncovered as part of the investigations into LIBOR and deeply regrets the lack of integrity shown by a small group of employees.

I would like to assure you that the Committee has spent a great deal of time challenging and taking action in response to past events and considering how remuneration can help to drive appropriate behaviours at RBS in future. Individuals found culpable in relation to LIBOR have left the Group with no annual incentive awards for 2012 and full clawback of outstanding awards. The Committee has also taken action across the Group, particularly in the Markets division, to account for the reputational damage of these events.

Against this backdrop, we should not lose sight of the fact that the vast majority of employees at RBS continue to do their jobs well and are not responsible for the events that have made headlines. Around one third of our employees joined after the financial crisis. During the IT incident, there was a very positive illustration of the loyalty and determination of staff to support customers during a difficult and regrettable period. It is vital that we retain and motivate good people as the foundation upon which we will generate a valuable business for shareholders and a bank that society can respect.

Considerable progress has been made over the past four years and the Committee remains focused on delivering remuneration structures that complement our goal of rebuilding a safer and more sustainable business, capable of serving customers and shareholders well in the long term. It is a difficult but important balance that we are trying to achieve, reducing overall spend on pay and increasing accountability whilst nurturing the business from which future profits can flow. We have sought to strike this balance fairly, whilst demonstrating our ongoing commitment to restraint, reflecting the nature of our ownership.

I have set out below a summary of how the Committee approached the year: how performance has been assessed; the decisions that have been reached on pay for 2012 and how past mistakes have been taken into account; and changes that we are making to ensure a fair and transparent remuneration policy.

### Review of Group Performance

A number of significant milestones were reached during the year as part of the Group's turnaround plan including:

- Repayment of the liquidity support to UK Government in May 2012;
- The successful flotation of more than one third of our stake in Direct Line Insurance Group plc in difficult market conditions; and
- The exit from the Asset Protection Scheme in October 2012.

Key financial achievements for 2012 were:

- Core Operating Profit of £6.3 billion, which represents a strong performance;
- Further significant progress in removing Non-Core assets, a key part in managing down legacy issues. Non-Core third party assets are down £36 billion in 2012 to £57 billion, representing 92% progress towards the 2013 target of c.£40 billion;
- Capital, funding and liquidity positions remain robust with key performance indicators (KPIs) on short-term wholesale funding, liquidity portfolio, leverage ratio, Core Tier 1 capital ratio and loan:deposit ratio all exceeding or in line with medium-term targets;
- Core Return on Equity (ROE) was 10%, with Retail & Commercial ROE at 10% or 14% excluding Ulster Bank. The ROE for Markets was 10% in challenging market conditions;
- Group expenses were 6% lower than in 2011 with staff costs down 6%; and
- Impairment losses totalled £5.3 billion, down 29% from 2011.

As well as financial achievements, the Committee takes into account performance against a broader range of objectives, including support to customers. For example, in 2012 the Group accounted for 36% of all Small and Medium Enterprises (SME) lending, compared with its overall customer market share of 24%. The Group advanced £16 billion of UK home loans, including £3 billion to first time buyers. Using the Bank of England's Funding for Lending Scheme the Group has offered lower interest rates and waived arrangement fees on certain SME loans, benefiting over 11,000 SMEs in the second half of 2012.

### Decisions made on pay

In addition to financial and non-financial measures, the Committee applies a rigorous accountability review process in determining pay outcomes. This framework enables us to claw back awards made in previous years where current or new information would change the decisions made in previous years. The review considers not only financial losses but also behavioural and reputational issues that have arisen.

Whilst the Group made significant progress across a range of measures in 2012, the Committee, in conjunction with the Board, agreed that the reduction to shareholder value and reputational damage caused by incidents such as the LIBOR settlement should result in a reduction of this year's variable pools and the application of clawback. Further details of the impact of these incidents on remuneration is set out on page 27. Some of the key outcomes on pay are as follows:

- Total variable compensation has been reduced from 2011 by 14% at a Group level and 20% for Markets (the reductions are 23% and 40% respectively after the application of clawback) as further evidence of the action that has been taken to bring down overall levels of pay;
- Variable compensation (pre clawback) as a percentage of operating profit before variable compensation decreased from 28% to 16% for 2012 for the Group and from 25% to 16% for Markets. Full details can be found on pages 26 and 27;
- Since 2010, total variable compensation for the Group has been reduced by over 50%;
- Within the context of reduced variable pools, incentive awards continue to be targeted towards high performers and, as a consequence, 40% of employees eligible for an award will receive zero for 2012;
- Of those employees who do receive an award for 2012, 68% will receive less than £2,000 in total and 81% will receive less than £5,000; and
- Average salary increases across the Group for 2013 will be less than 2%.

The CEO, Stephen Hester, will not receive any salary increase in 2013. In addition, he decided during the year that it would not be appropriate for him to be considered for any annual incentive award. Whilst respecting his decision, I would like to put on record that the Committee believes the CEO continues to demonstrate strong performance and leadership. The Committee receives regular encouragement from institutional shareholders to improve the delivery of market competitive remuneration to the CEO.

### Enhancements to remuneration policy

The Committee continues to recognise the importance of driving cultural change both in terms of pay and in a wider sense. As Chair, I am actively involved in a number of initiatives relating to diversity, graduate recruitment and management development and many of these initiatives have received award-winning recognition.

It is clear that challenges remain in rebuilding the reputation of banks but progress has been made in evolving the culture of RBS. Our remuneration policy underpins this work by encouraging appropriate behaviours and adjusting for risk. Examples of enhancements are as follows:

- Simplification of sales incentives with a broad move to a balanced scorecard type approach focused on customer service and risk;
- All executives and Code Staff have culture included as part of their 2013 objectives supported by quantitative and qualitative measures;
- Full review of balanced scorecard metrics, supported by independent control function review in advance of variable pools being agreed;
- This year, all our employees will be paid salaries at or above the Living Wage; and
- Shareholding requirements for the executive directors have been strengthened and new requirements introduced for senior executives to better align their interests with those of shareholders.

We will continue to monitor external developments and, where appropriate, refine our remuneration policy, for example, in light of the requirements of CRD IV.

### Enhancements to remuneration governance and reporting

In recognition that the Committee considers issues wider than just remuneration, the name of the Committee was changed to the Group Performance and Remuneration Committee. This reflects the Committee's broader oversight role to consider performance in the round in supporting the Group's purpose, vision and values aspirations. During 2012, the Committee has worked closely with the Board Risk Committee and Group Audit Committee, both of which have provided valuable input on key risk and control issues.

Changes have been made to this report in line with a number of anticipated government reforms on remuneration reporting. The Remuneration Governance section covers the activities and decision-making process of the Committee; the Policy Report covers future remuneration policy; and the Implementation Report demonstrates how pay arrangements have been implemented over the past year.

As in previous years, we have consulted with our major shareholders, including UKFI, on remuneration matters. I would like to thank those shareholders who continue to recognise and support our efforts to reform remuneration practices at RBS. In this turnaround period where it has not been possible to pay ordinary dividends to shareholders, this support on pay decisions has been an essential part of our restructuring programme.

Finally, I would also like to thank my fellow Committee members for their expertise and guidance and all those who have supported the Committee in its efforts to make fair and appropriate judgements.

Penny Hughes  
Chair of the Group Performance and Remuneration Committee  
27 February 2013

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## **Remuneration Governance** *continued*

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### **Report of the Group Performance and Remuneration Committee**

#### **The role and responsibilities of the Committee**

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

The Committee is also responsible for approving remuneration and severance arrangements for members of the Group's Executive and Management Committees, FSA 'Code Staff', as well as overseeing arrangements for employees who are 'In-Scope' under the Asset Protection Scheme (APS). Details of the FSA Remuneration Code can be found at [www.fsa.gov.uk](http://www.fsa.gov.uk) and a definition of Code Staff is provided on page 7.

The terms of reference of the Group Performance and Remuneration Committee are available on the Group's website [www.rbs.com](http://www.rbs.com) and these are reviewed at least annually by the Committee and approved by the Board.

#### **Summary of the principal activity of the Committee during 2012**

Set out below is a summary of the activity of the Committee on a quarterly basis:

##### **First quarter**

- Year end performance reviews and remuneration arrangements for members of the Group's Executive and Management Committees and objectives for 2012. The year end performance reviews included input from the Board Risk Committee on the risk management performance of Executive and Management Committee members;
- Year end performance reviews and remuneration arrangements for APS in scope employees, Code Staff, and High Earners;
- Approval of Group and Divisional variable pay pools;
- Approval of the Directors' remuneration report;
- Outcomes of the annual performance evaluation of the Committee;
- Remuneration arrangements for executive directors which included a reduction to the LTIP award level for executive directors;
- Introduction of a new accountability review process which informs clawback decisions; and
- Assessment of the performance to date of invested LTIP awards and award levels and performance targets for 2012 awards.

##### **Second quarter**

- Outcomes of the first quarter accountability reviews;
- Review of remuneration proposals for Direct Line Insurance Group plc on divestment;
- Presentation from the Wealth division on business and strategic priorities and people plan;
- Review of government proposals on Shareholder Voting Rights and remuneration aspects of CRD IV; and
- Update on LTIP performance conditions and vesting outcomes for executive directors 2009 long term incentive awards.

##### **Third quarter**

- Half year performance reviews for executive directors, Group Executive and Management Committee members;
- Outcomes of the second quarter accountability reviews;
- Formal remuneration strategy session to discuss and agree remuneration approach and priorities for the forthcoming year;
- Presentation from Markets and International Banking on business and strategic priorities and people plan; and
- Approval of remuneration arrangements for Direct Line Insurance Group plc on divestment.

##### **Fourth quarter**

- Approval of remuneration approach for the most senior and highest paid employees in the Group (including executive directors and Group Executive and Management Committee members);
- Outcomes of the third quarter accountability reviews;
- Assessed and affirmed accountability review decision making principles;
- 2012 preliminary variable pay pool discussions for Group and Divisions;
- Content for shareholder consultations undertaken in December 2012 and January 2013;
- Review of Committee remit and name;
- Review of incentive plans;
- Approval of revised shareholding requirements for executive directors and the introduction of new shareholding requirements for Group Executive Committee members; and
- Improved review of performance across key areas of customer; risk; people and financial.

### Performance evaluation process

An external review of the effectiveness of the Board and Senior Committees, including the Group Performance and Remuneration Committee, was conducted during 2012. 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 continued importance of the remuneration agenda and the commitment of the Committee members was recognised. The outcomes of the evaluation have been reported to the Board. As Board interest in remuneration matters remains intense and all directors understand the sensitivities involved, reporting on remuneration matters to the Board will be further enhanced during 2013.

### How risk is reflected in our remuneration process

Focus on risk is achieved through clear risk input into incentive plan design and target setting, as well as thorough risk review of performance, variable pools and clawback. The Committee is supported in this by the Group Audit Committee, the Board Risk Committee and the Group's risk management function.

A robust process is used to assess risk performance. A range of measures are considered, including funding, liquidity, credit, regulatory, operational and market risk. The steps we take to ensure appropriate and thorough risk adjustment continue to be refined and are fully disclosed and discussed with the FSA.

### Variable pay pool determination

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

Risk is taken into account in the performance assessment through a thorough risk analysis carried out by the Group's risk management function to a pre-agreed framework. Performance assessments may be adjusted in situations where risk performance is outside risk appetite or strategic plans. Non-financial factors such as progress on customer issues, turnover, succession planning, market environment and franchise development are then taken into account in developing a final variable pay proposal. Variable pay proposals are reviewed in the context of key compensation framework ratios including: compensation to revenues, compensation to pre-compensation profit and variable pay to pre-variable pay profit. These ratios help to ensure appropriate sharing of value between employees and shareholders. Finally, variable pay proposals are reviewed against our capital adequacy framework to ensure that regulatory requirements are met.

### Accountability review process

A summary of the accountability review process is as follows:

- Exists to enable RBS to respond in instances where current and/or new information would change the annual incentive and/or LTIP decisions made in previous years, and/or the decisions made in the current year.
- The process for review assessments (which consider material risk management, control and general policy breach failures, accountability for those events and appropriate action against individuals) is operated across divisions and functions. Divisional reviews are undertaken on a quarterly basis.
- A Group Accountability Review Panel ensures consistency of decision making across the Group.
- Decisions must take into account not only any financial losses but also behavioural issues and reputational or internal costs.
- Actions may include recommendations for compensation adjustments (e.g. current year variable pay reduction, clawback) disciplinary investigations and performance adjustments (e.g. a change to performance rating).
- Clawback may be up to 100% of unvested awards and can be applied regardless of whether or not disciplinary action has been undertaken.
- A key principle is that clawback quantum should not be formulaic.
- Collective responsibility may be considered where a committee or group of employees are deemed to have not appropriately discharged their duties.
- These principles apply to all of our people and any leavers with unvested awards.

### How have we applied this in practice?

The assessment undertaken by the risk function and Board Risk Committee confirmed that, for some divisions, a number of risk-related events needed to be taken account of when determining variable pay pools, including regulatory, compliance and credit and market risk issues. The Board Risk Committee has concluded that the accountability review assessments approach is robust and complete from a perspective of all known material events having been considered.

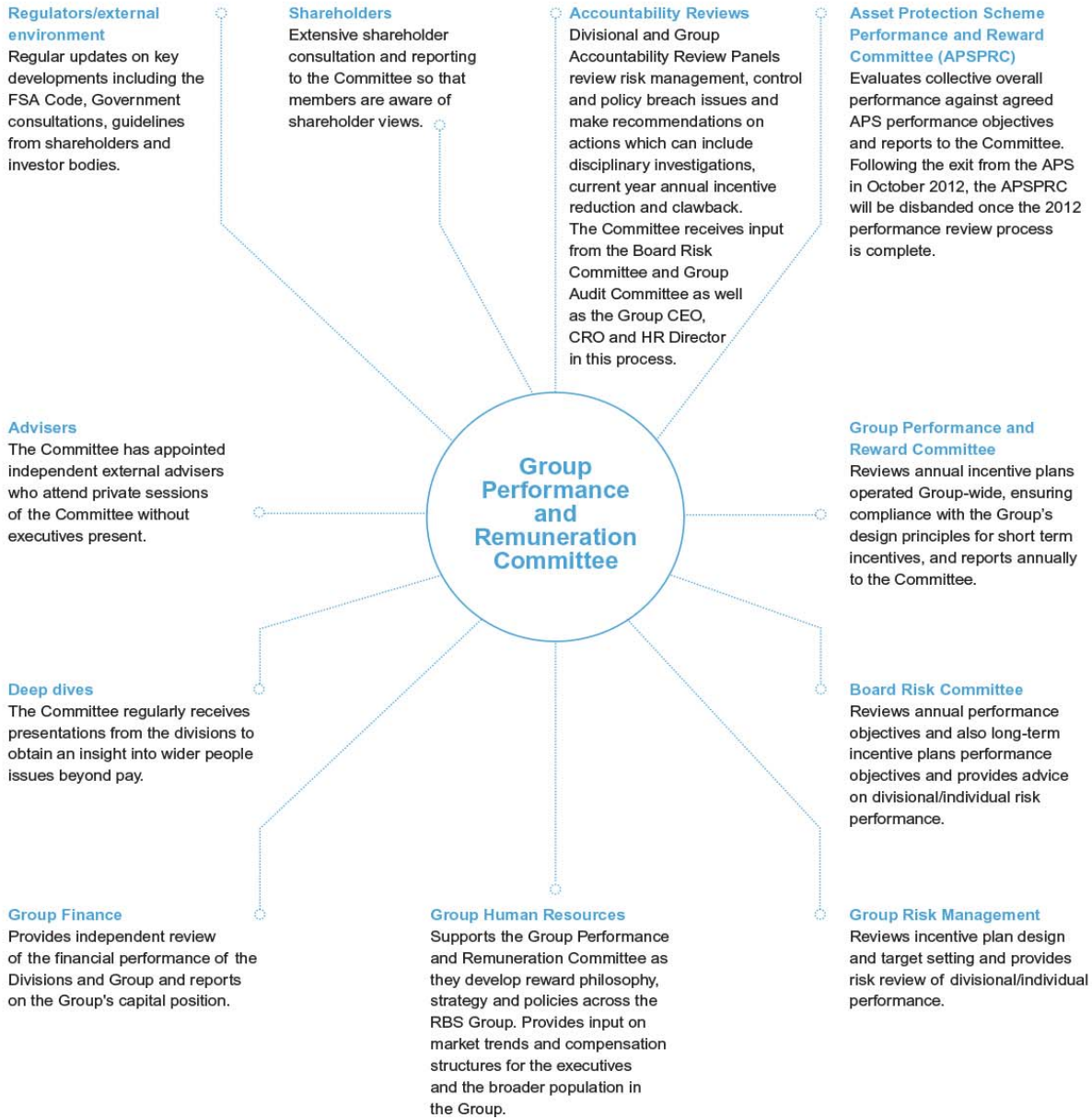
The accountability review process is now fully embedded and during 2012 a number of issues were considered under the framework.

The outcomes for the 2012 performance year cover a range of actions and have included: reduction of current year variable pay awards; dismissal; clawback of previously awarded deferred and LTIP awards; and suspended vesting pending further investigation.

## Remuneration Governance *continued*

### Key inputs to the Group Performance and Remuneration Committee to assist its decision-making

The Committee receives regular updates on regulatory developments and general remuneration issues, as well as market and benchmarking data to support its decisions. It also received information from a number of external and internal sources during 2012. The diagram below illustrates this:





# Policy Report

## Policy Report

### Our Group-wide Remuneration Policy

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

- attract, retain, motivate and reward high-calibre employees to deliver long term business performance within acceptable risk parameters; and
- provide clear alignment between annual and long-term targets for individuals and Group/divisional strategic plans.

Consultation on remuneration policy takes place with our social partners, including representatives from UNITE. The National Living Wage and London Living Wage are important benchmarks that we monitor each year as part of the annual pay review process. An annual Group-wide employee opinion survey takes place which includes a number of pay related questions.

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

Element of pay	Objective	Operation
Base salary	To attract and retain employees by being competitive in the specific market in which the individual works.	Base salaries are reviewed annually and should reflect the talents, skills and competencies that the individual brings to the Group. Salaries should be sufficient so that inappropriate risk-taking is not encouraged.
Annual incentives	To support a culture where employees recognise the importance of serving customers well and are rewarded for superior individual performance.	<p>The annual incentive pool is based on a balanced scorecard of measures including customer, financial, risk and people measures. Allocation from the pool depends on divisional, functional and individual performance. Individual performance assessment is supported by a structured performance management framework.</p> <p>Our policy is that awards are subject to individual performance. Guaranteed awards are only used in very limited circumstances in accordance with the FSA Remuneration Code. Immediate cash awards are limited to a maximum of £2,000.</p> <p>Under the Group-wide deferral arrangements a significant proportion of annual incentive awards for our more senior employees are deferred over a three year period. Deferred awards are subject to clawback. For Code Staff, 50% of any annual incentive is delivered in the form of Group shares and subject to an additional 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> <p>All incentive awards are subject to appropriate governance, including independent review by the risk management, finance and human resources functions, with oversight from the Group Performance and Reward Committee, which has delegated authority from the Committee over incentive schemes operating over a period of 12 months or less.</p>
Long-term Incentive Plan (LTIP)	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>The Group provides certain employees in senior roles with long-term incentive awards.</p> <p>Awards are structured as performance-vesting shares. Vesting after a three year period will be based partly on divisional or functional performance and partly on performance across the Group. All awards are subject to clawback.</p>
Other share plans	To offer employees in certain jurisdictions the opportunity to acquire Group shares.	Employees in certain countries are eligible to contribute to share plans which are not subject to performance conditions.
Benefits (including pension)	To give employees an opportunity to provide for their retirement.	In most jurisdictions, employee benefits or a cash equivalent are provided from a flexible benefits account.

Note:

- (1) 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 Committees;
  - 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 the RBS Group income statement;
  - Employees who are responsible for a business or businesses whose performance could have a material impact on the RBS Group income statement; and
  - Key control function roles.

## Policy Report *continued*

### Summary of remuneration policy for executive directors for 2013

The remuneration policy for executive directors follows the Group-wide policy applicable to other employees but with greater emphasis on variable performance-related pay. This is to ensure that delivery of total remuneration to executive directors is more dependent on performance and can only be achieved if specific strategic targets and other measures are met. The structure of remuneration for executive directors involves greater delivery in shares in order to align further their reward with the long-term interests of shareholders. A summary is set out below:

Element of pay	Operation	Maximum potential	Performance metrics and period	Changes to policy since last approved
Base salary	Reviewed annually and considered against annual market data and in the context of wider Group increases.	Rate at 1 January 2013: Stephen Hester: £1,200,000 Bruce Van Saun: £750,000	N/A	A 2% increase to the salary of Bruce Van Saun to £765,000 with effect from 1 April 2013.
Annual incentive	Any annual incentive to be awarded entirely in shares.  Shares vest in two equal tranches on the first and second anniversary of the date of grant.  Provision for clawback prior to vesting.  Additional six month holding period post vesting.	Normal maximum: 200% of base salary  Exceptional maximum: 250% of base salary	Balanced scorecard of KPIs measured over the financial year. KPIs are: <ul style="list-style-type: none"> <li>• Strategic progress;</li> <li>• Business delivery and financial performance;</li> <li>• Risk and control;</li> <li>• Stakeholder management; and</li> <li>• People management</li> </ul> See page 10 for further details	No change.
Long-term incentive	Awards granted over shares which vest at the end of a three year period subject to performance conditions being met.  Provision for clawback prior to vesting.  Additional six month holding period post vesting.	Maximum under plan rules is 400% of salary.  2013 LTIP awards will be granted subject to an overall cap of 300% of salary at grant.  Each of the four performance elements has the potential to deliver shares worth 100% of salary at grant.  However, there is an overall cap on vesting equivalent to 300% of salary at grant.  The notional value of these awards would be 45% of face value, which is 135% of salary.	Performance conditions measured over three financial years.  Performance measures and relative weightings are: <ul style="list-style-type: none"> <li>• Core Bank Economic Profit - 25%</li> <li>• Total Shareholder Return (TSR) relative to comparator group of international banks - 25%</li> <li>• Balance sheet and risk - 25%</li> <li>• Strategic scorecard - 25%</li> <li>• Financial and risk performance underpin.</li> </ul> The LTIP measures have been selected in consultation with shareholders. The objective is to have a balanced range of measures that encourage the building of a safer, stronger and more sustainable business. See page 11 for further details on the measures.	No change.
Benefits (including pension)	Flexible benefits opportunity as for all employees.  Pension allowance. Opportunity to sacrifice salary into defined contribution pension scheme.	Pension allowance of 35% of salary.	N/A	No change.

**Recruitment policy**

The policy on the recruitment of new executive directors aims to structure pay broadly in line with the framework and quantum applicable to current executive directors, taking into account that some variation may be necessary to secure the preferred candidate and to reflect the skills and experience required. Any awards granted to replace awards forfeited on leaving a previous employer will be on a comparable basis taking account of anticipated performance outcomes and the proportion of time elapsed. Full details will be disclosed in the next remuneration report following recruitment.

**The mix of executive directors' remuneration**

The charts below show the composition of remuneration opportunity for on-target annual performance, with the long-term incentive awards shown at median performance vesting. Annual incentive payments earned in relation to 2013 performance will be deferred and will vest, subject to satisfactory performance. The actual value of the long term incentive awards will depend on performance over the period 2013 to 2015 and the share price at the time the awards vest.

**Group Chief Executive - Stephen Hester**



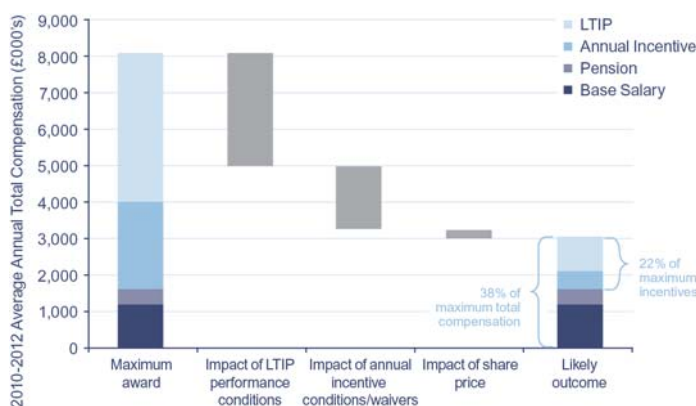
**Group Finance Director - Bruce Van Saun**



**2010-2012 average compensation outcome for Group Chief Executive**

The preceding charts are based on target/expected values of total compensation. Press commentary tends to focus either on these values, or on maximum values assuming all performance conditions are met. However, in practice over the period 2010 to 2012, the value received will be significantly less than the maximum or even target value of incentives, in light of waivers, performance conditions and share price changes over the period. The chart below shows the likely average pay-out to the Group Chief Executive over the 2010-2012 period.

The data shows that Stephen Hester is likely to receive just 22% of the maximum value of his incentives awarded over the last three years, and around 38% of his maximum total compensation. This is despite strong progress against a range of financial and non-financial targets measured over the three year period since 2010.



## Policy Report *continued*

### Annual incentive awards - performance criteria for 2013

The executive directors' annual performance objectives, as set out below, are approved by the Committee. The risk objectives are reviewed by the Board Risk Committee.

Core objectives	Stephen Hester	Bruce Van Saun
Strategic progress	Revise original Strategic Plan to respond to significant changes in the macro environment. Deliver execution of revised strategy including focus on brand values and fair outcomes for customers. Develop strategy for implementation of ring-fencing. Progress plans towards Government exit.	Monitor and improve the Group and divisional strategic plans. Drive effective design and implementation of revised plan.
Business delivery and financial performance	Lead delivery of overall performance, including measures relating to ROE, cost management, Core Tier 1 capital ratio, funding and risk profile, lending, and EU mandated disposals.	Ensure statutory, regulatory and management reporting is compliant with all external and internal standards. Continue to improve 'best in class' external reporting. Provide strong Group Finance Director role to the business through strategic planning, budgeting, forecasting and reporting. Monitor and control Group budget. Ensure a robust capital and funding planning framework. Drive efficiency. Successful further Direct Line Insurance Group plc 'selldown' and re-plan of EU mandated branch disposals.
Risk and control	Delivery of measures relating to wholesale funding reliance, liquidity reserves and leverage ratio. Further progress on risk appetite, risk frameworks and conduct risk, in support of the continued culture change across the Group.	Progress on key risk requirements. Implementation of effective regulatory changes impacting capital, funding, and liquidity. Improve quality of risk and financial data. Continue development of Group Internal Audit function.
Stakeholder management	Achievement of customer performance measures. Build/maintain strong and effective relationships with external stakeholders, including senior leaders in the new UK regulatory framework.	Continue to develop effective external relationships, including investors, rating agencies and regulators.
People management	Ensure each division/function has a people plan. Embed the Group's purpose, vision and values through high quality leadership teams. Build talent management and performance management. Maintain leadership and employee engagement as measured by the employee survey.	Lead upgraded team and build positive culture and sense of purpose. Contribute to overall Group management. Partner colleagues in leading the Group's purpose, vision and values to support culture change.

The Committee will determine the actual value of any award by reference to the extent to which executive directors have met the performance targets. Awards will be paid entirely in shares and will vest in two equal tranches on the first and second anniversaries of the date of grant. Clawback provisions will apply prior to the vesting of the shares. An additional six month holding period will apply post vesting.

#### LTIP awards - performance criteria for awards to be granted in 2013 and due to vest in 2016

Awards that will be granted to executive directors in 2013 will be subject to four performance categories, each with equal weighting. These are set out below.

##### Core bank economic profit (25%)

The Economic Profit measure is focused on the Core bank to ensure that performance reflects enduring earnings for the 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. Core bank Economic Profit is defined as Core bank Operating Profit after Tax less attributed equity multiplied by the cost of equity, where:

*Core bank Operating Profit after Tax* is Core Operating Profit taxed at a standard tax rate.

*Attributed Equity* is defined as equity allocated to the Core businesses, calculated as a function of the Core businesses risk-weighted asset base.

*Current Cost of Equity* is 11.5%, which is subject to review at least annually.

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

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

The relative TSR measure provides a direct connection between executive directors' awards and relative performance delivered to shareholders. The measure compares the Group's performance against a group of comparator banks from the UK and overseas, weighted towards those companies most similar to the Group. Performance is measured over a three year performance period.

##### Relative TSR Comparator Group

		Weighting
1	Barclays	200%
2	Lloyds Banking Group	
3	HSBC	150%
4	Standard Chartered	
5 to 20	Bank of America, BBVA, BNP Paribas, Citigroup, Credit Agricole, Credit Suisse Group, Deutsche Bank, JP Morgan Chase, National Australia Bank Limited, Royal Bank of Canada, Santander, Societe Generale, The Toronto-Dominion Bank Group, UBS, Unicredito, Wells Fargo & Company	50%

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

##### Balance Sheet & Risk (25%)

The Balance Sheet & Risk measures have a particular focus on risk reduction, the resolution of the Non-Core business and the building of a sustainable and responsible franchise for the Group.

##### Strategic Scorecard (25%)

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 engagement of employees.

##### Performance measures

Balance Sheet and Risk measures and targets	Non-Core Run-Down
	Core Tier 1 capital ratio
	Wholesale funding
	Liquidity reserves
	Leverage ratio
	Loan:deposit ratio
Strategic Scorecard measures and targets	Earnings volatility
	Customer franchise
	Cost:income ratio in Core bank
	Lending targets
	Sustainability performance
	Progress in people issues

Both quantitative and qualitative strategic measures are used, including measures relating to reputation, customer excellence, organisational capability and sustainability, given that these will support the long-term goals of the business. Targets for each measure are set at the start of the performance period and, where applicable, are aligned with the Group's Strategic Plan targets. Commentary will be provided on an annual basis in relation to progress against the targets, where these are not commercially sensitive.

Vesting point		Indicative performance
Does not meet	0%	Over half of objectives not met
Partially meets	25%	Half of objectives met
Significantly meets	62.5%	Two-thirds of objectives met
Fully meets	100%	Objectives met or exceeded in all material respects

Qualified by Group Performance and Remuneration Committee discretion taking into account changes in circumstances over the performance period, the relative importance of the measures, the margin by which individual targets have been missed or exceeded, and any other relevant factors.

##### Risk underpin and clawback

The Committee will also review financial and operational performance against the Strategic Plan and risk performance prior to agreeing vesting of awards. In assessing this, the Committee will be advised independently by the Board Risk Committee. If the Committee considers that the vesting outcome calibrated in line with the performance conditions outlined above does not reflect the Group's underlying financial results or if the 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.

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## Policy Report *continued*

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### Shareholders views and their impact on remuneration policy

In late 2012 and early 2013, an extensive consultation was undertaken with institutional shareholders and other stakeholders on the Group's remuneration approach.

The consultation process involved one-to-one meetings, a roundtable session hosted by the Association of British Insurers and National Association of Pension Funds and a number of follow-up letters and meetings. Meetings have taken place involving around 20 institutional shareholders and shareholder bodies representing a substantial proportion of the non-UKFI shareholding. Topics discussed included financial progress and building a sustainable business, our remuneration strategy to date and the future shape of pay. UKFI were also consulted and as with other shareholders, the Committee received their input.

Investors recognised the challenge faced by the Committee in balancing the need to pay competitively to support business goals but at the same time being mindful of the wider economic environment and the need to show restraint. Shareholders were supportive of the work being undertaken by the Committee and the Board, and recognised the progress the Group is making towards recovery.

There was widespread support for the Group Chief Executive and the efforts being made by the Committee to seek to reward him fairly for performance. There was discussion of the accountability review process and in particular the impact of major events such as LIBOR, together with questions around culture, turnover and the extent of people risk as a result of the Group's pay positioning. The possible use of alternative plan structures was raised by certain shareholders supporting a requirement to hold shares until retirement, although there was not widespread support for this approach. The importance of value sharing between investors and employees remains a key concern for shareholders.

The Committee and the Board have considered carefully their responsibilities and have applied judgement to achieve a balance whereby our remuneration policy supports business goals without causing unacceptably high people risks.

The support received from shareholders during the consultation period has been greatly encouraging. Shareholders have played a key role in developing remuneration practices that support the long-term goals of the business. Our remuneration approach of delivering a significant proportion of variable pay for senior executives in shares with deferral periods and clawback provisions provides strong alignment with the interests of shareholders.

### Service contracts and exit payment policy

The company's policy in relation to the duration of contracts with directors is that executive directors' contracts generally continue until termination by either party, subject to the required notice, or until retirement. The notice period under the service contracts of executive directors will not normally exceed twelve months.

In relation to newly recruited executive directors, subject to the prior approval of the Committee, the notice period may be extended beyond twelve months if there is a clear case for this. Where a longer period of notice is initially approved on appointment, it will normally be structured such that it will automatically reduce to twelve months in due course. All new service contracts for executive directors are subject to approval by the Committee.

Those contracts normally include standard clauses covering remuneration arrangements and discretionary incentive schemes, the performance review process, the company's normal disciplinary procedure, and terms for dismissal in the event of failure to perform or in situations involving actions in breach of the Group's policies and standards.

Any compensation payment made in connection with the departure of an executive director will be subject to approval by the Committee, having regard to the terms of the service contract and the reasons for termination.

Information regarding the executive directors' service contracts is shown below:

	Date of current contract	Notice period - from the company	Notice period - from executive
Stephen Hester	4 November 2008	12 months	12 months
Bruce Van Saun	8 September 2009	12 months	12 months

Except as noted below, in the event of severance where any contractual notice period is not worked, the employing company may pay a sum to the executive in lieu of the notice period. In the event of situations involving breach of the employing company's policies resulting in dismissal, reduced or no payments may be made to the executive. Depending on the circumstances of the termination of employment, the executive may be entitled, or the Committee may allow, outstanding awards under long-term incentive arrangements to vest, subject to the rules of the relevant plan.

### Stephen Hester

In the event of his personal underperformance, the company is entitled, after giving reasonable opportunity to remedy any failure, to terminate Stephen Hester's contract by giving written notice with immediate effect and without making any payment in lieu of notice and Stephen Hester will forfeit any unvested stock awards. In the event that Stephen Hester's employment is terminated by the company (other than by reason of his personal underperformance or in circumstances where the company is entitled to dismiss without notice), or if he resigns in response to a fundamental breach of contract by the company, he will be entitled to receive a payment in lieu of notice to the value of base salary, annual incentive and benefits (including pension contributions). If he resigns voluntarily and the company does not require him to work out his notice period, Stephen Hester may receive a payment in lieu of notice based on salary only (i.e. no annual incentive or benefits). In both cases the treatment of any other unvested stock awards will be determined by the Committee and the Board, having due regard to the circumstances of the departure.

### Bruce Van Saun

In the event of his personal underperformance, the company is entitled, after giving reasonable opportunity to remedy any failure, to terminate Bruce Van Saun's contract by giving written notice with immediate effect and without making any payment in lieu of notice and Bruce Van Saun will forfeit any unvested stock awards. Any payment in lieu of notice that may be made to Bruce Van Saun would be based on salary only (i.e. no annual incentive or benefits). The company has agreed that, provided certain conditions are met, on leaving employment, Bruce Van Saun will not forfeit awards under the rules of the Group's share plans.

### Chairman and non-executive directors

Information regarding the terms of appointment for the Chairman and non-executive directors is shown below.

#### Re-election

Under the Articles of Association of the company, directors must stand for re-election by shareholders at least once every three years. However, in accordance with the provisions of the UK Corporate Governance Code, all directors of the company stand for annual re-election by shareholders at the company's Annual General Meetings.

### Letter of engagement

The non-executive directors do not have service contracts or notice periods although they have letters of engagement reflecting their responsibilities and commitments.

### Time commitments

Letters of engagement make clear to non-executive directors the time commitment they are expected to give to their Board duties. Since 2010, non-executive directors letters of engagement specifically state that their time commitment should be in line with the Walker Review of corporate governance of banks and other financial institutions in respect of their general Board duties. Additional time will be spent as necessary in respect of committee duties, including in particular any committees which they chair.

### Termination

No compensation would be paid to any non-executive director in the event of termination of appointment.

### Arrangements for the Group Chairman

Philip Hampton is entitled to receive a cash payment in lieu of notice if his appointment is terminated as a result of the Group's majority shareholder seeking to effect the termination of his appointment. The applicable notice period is twelve months. In the event that the company terminates Philip Hampton's appointment without good reason, or his re-election is not approved by shareholders in General Meeting resulting in the termination of his appointment, he will be entitled to receive a cash payment in lieu of notice of twelve months' fees.

### Fees for non-executive directors

The table below sets out the remuneration structure for non-executive directors for the year ended 31 December 2012. The Senior Independent Director and Chairs of the Board committees receive a composite fee and therefore do not receive additional fees for membership of any other committees or the Board.

The level of remuneration for non-executive directors reflects their responsibility and time commitment and the level of fees paid to non-executive directors of comparable major UK companies. Non-executive directors do not participate in any incentive or performance plan. Non-executive directors' fees are reviewed regularly.

Chairman's fee	£750,000
Senior Independent Director (composite fee)	£150,000
Chairman of Group Audit Committee, Board Risk Committee or Group Performance and Remuneration Committee (composite fee)	£150,000
Non-executive Director Group Board fee	£72,500
Membership of Group Audit Committee, Board Risk Committee or Group Performance and Remuneration Committee fee	£25,000
Membership of Group Sustainability Committee fee	£12,500
Membership of Group Nominations Committee fee	£5,500

No director received any expense allowances chargeable to UK income tax or compensation for loss of office/termination payment. The non-executive directors did not receive any annual incentive payments or benefits.

## Implementation Report

### Implementation Report for 2012

The table below has been prepared in line with the anticipated reporting requirements proposed by the Department for Business, Innovation and Skills. The purpose is to reflect the fixed elements of pay that have been earned during the year and, as far as is possible, to value performance related pay where performance has been assessed.

#### Total remuneration for executive directors

	Salary £000	Benefits £000	Pension £000	Subtotal £000	Performance related pay			Total remuneration	
					Annual incentive (1) £000	LTIP (2) £000	Subtotal £000	2012 £000	2011 £000
Stephen Hester	1,200	26	420	1,646	—	—	—	1,646	1,646
Bruce Van Saun (3)	750	134	408	1,292	980	—	980	2,272	2,119

#### Notes

- (1) Stephen Hester waived any annual incentive entitlement for the 2012 performance year. Bruce Van Saun has been awarded an annual incentive of £980,000 which will be granted as an award entirely in shares in March 2013 and will vest in March 2014 and 2015. For subsequent reporting years, the shares awarded to Bruce Van Saun will be detailed in the Deferred Awards table (see page 22). Further details of the performance assessment of the executive directors in 2012 is outlined on pages 15 and 16.
- (2) The nil value under the LTIP column reflects awards granted under the Medium-term Performance Plan and Executive Share Option Plan in 2009. The awards did not vest in 2012 as a result of the performance conditions not being met.
- (3) Bruce Van Saun resigned as a non-executive director of ConvergeX Holdings LLC during 2012 and received a pro rated fee of US\$62,500 for 2012. Mr Van Saun was appointed as a non-executive director of Lloyd's of London Franchise Board during 2012 for which he received a pro rated fee of £19,450. He is also a non-executive director of Direct Line Insurance Group plc, the fees for which are paid direct to the Group and is a non-executive director of Worldpay (Ship Midco Limited) for which no fees are payable. Mr Van Saun makes contributions towards his pension through a salary sacrifice arrangement to an Unfunded Unapproved Retirement Benefit Scheme, which operates on a defined contribution basis. The total contribution to the defined contribution arrangements amounted to £408,000 in 2012 (£403,000 in 2011). The rate of return on his accrued contributions is determined annually by the Committee to reflect a long-term low risk investment return on an unsecured basis. For 2012 this rate was 6.2% reflecting December 2011 CPI plus 2%.

#### Other directors' remuneration

	Salary/ fees £000	Benefits £000	2012 Total £000	2011 Total £000
<b>Chairman</b>				
Philip Hampton	750	—	750	750

#### Non-executive directors

	Board fees £000	Board Committee fees £000	2012 Total £000	2011 Total £000
Sandy Crombie	150	—	150	150
Alison Davis	73	41	114	43
Tony Di Iorio	73	55	128	43
Penny Hughes	150	—	150	150
Joe MacHale (1)	73	60	133	133
Brendan Nelson	150	—	150	150
Baroness Noakes	73	51	124	43
Art Ryan (2)	73	20	93	95
Philip Scott	150	—	150	150

#### Former non-executive director

John McFarlane (3)	18	8	26	103
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#### Notes:

- (1) Board Committee fee includes membership of the Asset Protection Scheme Senior Oversight Committee.
- (2) Art Ryan is a non-executive director of RBS Citizens Financial Group, Inc. for which he received fees of US\$131,000 during 2012.
- (3) Retired from the Board with effect from 31 March 2012.

There have been no payments made for loss of office.



## Executive directors' annual incentive 2012 - assessment of performance outcome

## Stephen Hester

Stephen Hester's performance is measured against a number of strategic and business objectives. In the course of 2012, the Group's priority has been to deliver a revised Strategic Plan, given the continued challenges in the external environment. Re-balancing the Group towards the retail and commercial business, whilst continuing to strengthen the balance sheet and reduce risks remained key. Targets for capital, short-term wholesale funding, liquidity reserves, leverage and loan:deposit ratio were all met ahead of schedule. Stephen Hester gave strong leadership to the Group's focus on customers following a technology incident and to ongoing cultural change. Stephen Hester has waived any annual incentive entitlement for the 2012 performance year.

Core objectives	Targets for 2012	Progress in 2012
Strategic progress	Revise original Strategic Plan to respond to significant changes in the macro environment and outlook for wholesale banking. Deliver execution of revised strategy.	The continued challenges in the economic and regulatory environment prompted revision of the Group's strategy, including a restructured wholesale business. The revised strategy continues to deliver on safety and soundness, whilst rebalancing the Group towards retail and commercial business and delivering economic returns for the Core Bank by the end of plan period. The revised strategy for the investment banking business was implemented successfully, with restructuring targets for 2012 broadly met. The Asset Protection Scheme was successfully exited in October; this was at the earliest opportunity post payment of the minimum fee.
Business delivery and financial performance	Lead delivery of overall performance, including measures relating to ROE, cost management, Core Tier 1 capital ratio, funding and risk profile, lending, EU mandated disposals and restructuring of the wholesale business.	Core ROE was stable at 10%, Retail and Commercial (ex Ulster) remained strong at 14%, and Markets improved to 10%. Operating profit for Core (£6.3 billion) and Group (£3.5 billion) were both ahead of budget. Core cost:income ratio was 59%, with Core Tier 1 ratio at 10.3%. Core bank business lending and home loans increased by £3 billion despite weak customer confidence. More than £58 billion loans and facilities were offered to UK businesses, of which over £30 billion was to SMEs; £16 billion of UK home loans were advanced, including £3 billion to first time buyers. The new Funding for Lending Scheme allowed RBS to cut interest rates on loans to small businesses and the cost of borrowing for first time homebuyers. Branch disposal did not proceed due to unexpected withdrawal of Santander; in contrast, Direct Line Insurance Group plc divestment successfully executed on time and with positive market reception.
Risk and control	Continue culture change across the Group including delivery of measures relating to wholesale funding reliance and liquidity reserves and leverage ratio. Deliver against agreed APS objectives.	All risk reduction quantitative measures were met or exceeded. The liquidity portfolio is ahead of target at £147 billion, while short-term wholesale funding was cut to £42 billion. The Group loan:deposit ratio improved to 100%, with Core loan:deposit ratio ahead of target at 90%. Leverage was on target at 15x. The new conduct risk framework was launched. As part of the response to the LIBOR findings and industry-wide challenges on behaviour and ethics, led the development of the Group's purpose, vision and values to support cultural and behavioural change. Performance against agreed APS objectives secured exit from the Scheme.
Stakeholder management	Achievement of customer franchise measures, maintain strong and effective relationships with external stakeholders and continue progress on Treating Customers Fairly (TCF) actions.	Customer metrics were impacted by the technology incident in the second half of 2012 - although strong leadership and successful delivery of 'no customer out of pocket'. Constructive engagement with regulators overall and specifically on LIBOR, conduct risk/cultural change, and the technology incident. Early engagement with the new Financial Conduct Authority. Continued positive feedback from key shareholders. Increased engagement with external stakeholders on how banks should behave in society and cultural change. Continued good progress to address risks identified by UK/US regulators relating to TCF.
People management	Ensure each division/function has high quality leadership teams, build out performance management, talent management and succession planning across the Group. Maintain effective employee engagement.	The Group Chief Executive continues to be widely acknowledged internally and externally as having provided strong leadership to the Group in extraordinary circumstances. People Plans in place with continual improvement on talent bench strength. Key replacement appointments made to Management Committee. Female executive representation increased to 19%. The Group's 'Your Feedback 2012' survey results were stable on leadership and employee engagement in a challenging context. The Group's purpose, vision and values will support improvements in employee engagement.

## Implementation Report *continued*

### Bruce Van Saun

Bruce Van Saun's performance is also measured against a number of strategic and business objectives. He continues to perform as a world class Group Finance Director, providing both a strong strategic contribution for the Group together with the broader finance contribution to the Group's priority to strengthen the balance sheet and reduce risk. Group Treasury has facilitated a significant reduction in the Group's reliance on short-term funding. Bruce Van Saun has displayed strong leadership on a number of key strategic projects, notably the Group's successful divestment of Direct Line Group and exit from the Asset Protection Scheme at the earliest opportunity. He showed early commitment to taking forward the Group's cultural change within Finance. The Committee recommended, and the Board (excluding executive directors) approved, that the Group Finance Director receive an award of 65% of the maximum allocation for the 2012 performance year, which equates to £980,000. The award will be made entirely in shares, vesting in two equal tranches on the first and second anniversary of the date of grant and subject to clawback provisions prior to vesting.

Core objectives	Targets for 2012	Progress in 2012
Strategic progress	Monitor and improve the Group and divisional strategic plans. Drive effective design and implementation of revised plan. Work with CEO on Group Strategy/M&A/APS.	Revised strategy agreed by the Board, with rigour of process acknowledged by Board and regulators. Continued challenge and good progress made on 2012 costs, capital resource usage, and targets for 2013 budgets. Strong leadership displayed on key strategic projects; APS exit at the earliest opportunity and with minimum fee payment.
Business delivery and financial performance	Ensure statutory, regulatory and management reporting is compliant with all external and internal standards. Continue to improve 'best in class' external reporting. Provide strong Group Finance Director role to the business through strategic planning, budgeting, forecasting and reporting. Ensure a robust capital and funding planning framework. Drive efficiency. Successful completion of EU mandated disposals.	Continued achievement of 'best in class' for external reporting within the UK market, with risk disclosures seen as setting the standard; significant improvements with internal reporting processes. Led the 'safety and soundness' agenda across the Group, beating targets. Continued strong contribution to de-risking strategy with significant reduction in short term funding reliance; all liquidity requirements met, in compliance with FSA requirements. Actively driving out costs through the creation and embedding of a sizeable cost management programme, as well as making significant progress in the transformation of the Finance function through changes to operating model, ways of working and systems solutions.  Direct Line Insurance Group plc divestment well received by investors and the market, and is widely viewed as a "textbook" execution due to the uptake and price behaviour; branch disposal did not proceed due to unexpected withdrawal of Santander. The DLG IPO is a particular credit to the Group Finance Director's exceptional abilities and leadership.
Risk and control	Implementation of effective regulatory changes impacting capital, funding, liquidity. Improve quality of risk and financial data. Continue development of Internal Audit function. Deliver against agreed APS objectives.	More robust capital planning, recognising regulatory changes. Strong stewardship over the financial risk and control environment and good partnership working with risk function. Significant improvements in risk-weighted assets reporting and control, and in data quality through leadership of a number of key initiatives across the group. Effective response to the technology incident, giving strong leadership to the function. Internal Audit strategy and plan well received by Group Audit Committee. All APS objectives met.
Stakeholder management	Continue to develop effective external relationships, including investors, rating agencies and regulators.	Excellent contribution to external relations, articulating results with clarity and credibility. Successful engagement with equity and debt investors; good engagement with the new UK regulators, US regulators and ratings agencies. Significant success in achieving narrower funding and certificates of deposits spreads, and diversification of the debt investor base. Under the Group Finance Director's leadership, RBS has effectively withstood a ratings downgrade of 'one notch', whilst other peers were downgraded by 'two notches'. Effective working with the Group Audit Committee.
People management	Lead upgraded team and build positive culture. Contribute to overall Group management.	Key strategic hires for Group Internal Audit and Group Strategy positions working well; upgrades to their teams underway. Following LIBOR and other industry-wide challenges on ethical conduct behaviours, the Group's purpose, vision and values were given early consideration by the Finance function to bring to life. Improved engagement within the Finance function as measured through the 'Your Feedback 2012' survey. Robust programmes for internal talent in place across all levels, as well as strong focus on initiatives in recognition, diversity and training & development.

### Executive directors long-term incentive plan (LTIP) awards granted in 2009 and 2010 - assessment of performance outcome

Awards to executive directors under the Executive Share Option Plan and Medium-term Performance Plan in 2009 did not vest in 2012 as a result of the relative and absolute TSR measures not being met.

Awards to executive directors under the LTIP granted in 2010 are subject to improvements in economic profit, relative TSR and absolute TSR.

These awards are due to be formally assessed by the Committee in May 2013 to determine the final level of vesting.

### 2010 LTIP

Performance measure	Weighting	Rationale	Vesting	Current assessment of performance
Economic profit	50%	Ensures that performance reflects enduring earnings for the Bank.	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.	Analysis of economic profit outcome is currently under review and decision on vesting level will be taken before the awards vest in May 2013.
Relative TSR	25%	Ensure alignment with shareholders.	<p><b>Threshold:</b> 20% vesting if the Group's TSR is at the median of the companies in the comparator group.</p> <p><b>Maximum:</b> 100% vesting if the Group's TSR is at the upper quartile of the companies in the comparator group.</p> <p>Pro-rata vesting in between these points.</p>	Based on share price performance over the measurement period ending 31 December 2012, this element of the award will not vest.
Absolute TSR	25%	Ensure alignment with shareholders.	<p><b>Threshold:</b> 20% vesting if the Group's share price reaches £5.75.</p> <p><b>Maximum:</b> 100% vesting if the Group's share price reaches £7.75.</p> <p>Pro-rata vesting in between these points.</p>	Based on share price performance to date, the threshold targets have not yet been met.

## Implementation Report *continued*

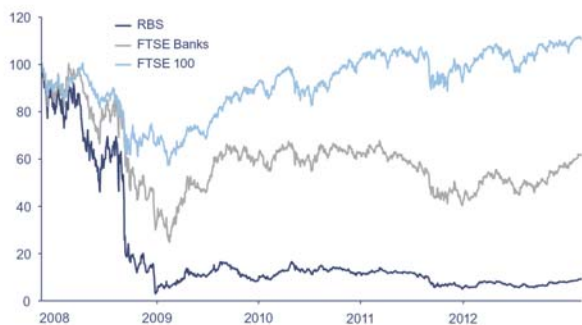
### Performance conditions for outstanding LTIP share awards granted in 2011 and 2012

The table below summarises the assessment of performance to date against the three year performance period. Each measure has the ability to deliver a number of shares worth up to 100% of salary. However, the number of shares that vest will be subject to an overall cap in value of 375% of salary for the 2011 awards and 300% of salary for the 2012 awards. Awards are due to vest in 2014 and 2015 respectively. An assessment of performance of each relevant element is provided by the control functions and an external firm assesses relative TSR performance. The Committee determines overall vesting based on these assessments including consideration of the drivers of performance and the context against which it was delivered. The assessment is analytical and if any discretion is used in the final assessment, it will be explained. The table below represents an early indication of potential vesting outcomes only.

Performance measure	Weighting	Rationale	Vesting	2011 LTIP Current assessment of performance	2012 LTIP Current assessment of performance
Core Bank economic profit	25%	Ensures that performance reflects risk adjusted enduring earnings for the Bank.	<p><b>Threshold:</b> 25% vesting for meeting minimum economic profit targets.</p> <p><b>Maximum:</b> 100% vesting for performance ahead of the Group's Strategic Plan.</p>	Continued difficult economic conditions have been experienced in a number of our key markets, however threshold targets could be met.	Performance broadly in line with expectations.
Relative TSR	25%	Ensure alignment with shareholders.	<p><b>Threshold:</b> 20% vesting if the Group's TSR is at the median of the companies in the comparator group.</p> <p><b>Maximum:</b> 100% vesting if the Group's TSR is at the upper quartile of the companies in the comparator group.</p> <p>Pro-rata vesting in between these points.</p>	Based on share price performance up to 31 December 2012, the threshold targets have not yet been met.	Based on share price performance up to 31 December 2012, the threshold targets have not yet been met.
Balance sheet & risk	25%	Ensure alignment with the advancement of the strategic position and capability of the organisation and the building of a sustainable business.	<p>Vesting will be qualified by Group Performance and Remuneration Committee discretion. Indicative vesting levels are:</p> <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>	Most targets have been met or exceeded. Strong performance on capital, leverage and funding measures, risk appetite embedded.	Majority of performance targets hit, particularly those around securing confidence in safety and soundness and being within risk appetite. On track to achieve other objectives by end of 2014.
Strategic scorecard	25%			Good progress on brand franchises (e.g. 'Helpful Banking' in UK), sustainability and employee engagement measures. Further work needed on cost:income ratio.	Despite some difficult reputational issues, progress being made against most customer, community and employee metrics. Core cost: income ratio remains challenging to achieve due to market-driven income pressures.

### Total Shareholder Return performance

The graph below shows the performance of the company over the past five years in terms of TSR compared with that of the companies comprising the FTSE 100 Index. This index has been selected because it represents a cross-section of leading UK companies. The TSR for FTSE banks for the same period has been added for comparison. The TSR for the company and the indices have been rebased to 100 for 1 January 2008. The second graph shows the same performance of the company during 2012.

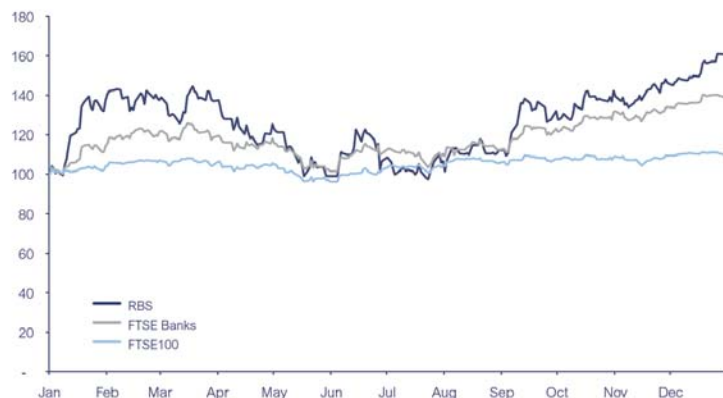


Implementation of the Group's recovery plan started in January 2009 with the publication of the preliminary 2008 losses. The share price reached a closing low point of 10.3p per share (103p per share on a post share consolidation basis) on the news.

From January 2009 to 27 February 2013, the day the Group's 2012 results announcement was approved, the Group's share price has risen 237% which compares to 104% and 55% respectively for the FTSE banks index and the FTSE 100 index as a whole.

### Total Shareholder Return – one year

RBS shares had a strong start and outperformed the market for the majority of the first half of the year partly due to a continuing reduction in size and de-risking of non-core helping to re-balance the balance sheet and the announced re-structuring of our investment bank. The Eurozone economies were in focus throughout the year in terms of concerns over their financial health and stability. Fiscal instability within peripheral Eurozone countries, particularly Spain and Greece, increased investor concerns on UK and European banks and their exposure to these countries. This impacted the RBS share price in line with other UK and European peers. Towards the end of the year sentiment on the Eurozone improved, with RBS shares outperforming the market.



## Implementation Report *continued*

### Membership of the Group Performance and Remuneration Committee

All members of the Committee are independent non-executive directors. The Committee held nine meetings in 2012. The Chair and members of the Committee, together with their attendance at meetings, are shown below:

	Attended / Scheduled
Penny Hughes (Chair)	9/9
Sandy Crombie	9/9
Alison Davis	9/9
John McFarlane (1)	2/2
Art Ryan (2)	4/5

Notes:

(1) Stepped down as a member of the Committee on 31 March 2012.

(2) Became a member of the Committee on 30 May 2012.

### Advisers to the Group Performance and Remuneration Committee

The advisers are appointed independently by the Committee, which reviews its selection of advisers annually. The advisers are instructed by and report directly to the Committee. The Committee Chair oversees the fees for the advisers.

PricewaterhouseCoopers LLP (PwC) were appointed as the Committee's remuneration advisers on 14 September 2010, and their appointment was reconfirmed by the Committee in June 2012 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 subsidiaries of the Group. The Committee Chair is notified of other work that is being undertaken by PwC and is satisfied that there are processes in place to ensure that the advice the Committee receives is independent.

As well as receiving advice from PwC during 2012, the Committee took account at meetings of the views of the Group Chairman, Group Chief Executive, Group Finance Director, Group Human Resources Director, Group Head of Reward, Group Secretary and the Group Chief Risk Officer.

### Statement of Shareholding Voting

The table below sets out the voting by the Group's shareholders on the resolutions to approve the report and accounts and remuneration policy at the AGM held in May 2012, including votes for / against / withheld.

#### Resolution 1

To approve the Report and Accounts for the year ended 31 December 2011

For	Against	Withheld *
48,023,557,759 (99.68% of votes cast)	152,277,626 (0.32% of votes cast)	42,971,201

#### Resolution 2

To approve the Remuneration Report for the year ended 31 December 2011

For	Against	Withheld *
47,690,076,126 (99.31% of votes cast)	332,996,089 (0.69% of votes cast)	195,464,478

\* A vote Withheld is not a vote in law and is not counted in the calculation of the proportion of votes "For" and "Against" a resolution.

### FSA Remuneration Code compliance

The Group has been fully compliant throughout 2012 with all aspects of the FSA Remuneration Code.

### Shareholder dilution

During the ten year period to 31 December 2012, awards made that could require new issue shares under the company's share plans represented 3.9% of the company's issued ordinary share capital (including the B share capital), leaving an available dilution headroom of 6.1%. The company meets its employee share plan obligations through a combination of new issue shares and market purchase shares.

### Directors' shareholding requirements

During 2012, the Committee agreed that it would be appropriate to strengthen the shareholding requirements for executive directors and to introduce new shareholding requirements for members of the Group's Executive Committee. The target shareholding level for the Group Chief Executive is 250% of salary and 125% of salary for other executive directors and members of the Group Executive Committee, in each case excluding any unvested share awards in the calculation. A period of five years is allowed in which to build up shareholdings to meet the required levels. To date, the executive directors have not sold any shares that they have received under the Group's share plans, other than to meet tax liabilities on vesting.

## Directors' shareholdings

### Directors' interests in shares

	1 January 2012	31 December 2012	
	Shares beneficially owned or at date of appointment, if later (1)	Shares beneficially owned	Value (2) £
<b>Chairman</b>			
Philip Hampton	27,630	27,630	89,659
<b>Executive director</b>			
Stephen Hester	541,135	651,177	2,113,069
Bruce Van Saun	—	118,680	385,117
<b>Non-executive directors</b>			
Sandy Crombie	20,000	20,000	64,900
Alison Davis	20,000	20,000	64,900
Tony Di Iorio (3)	30,000	30,000	97,350
Penny Hughes (1)	562	562	1,824
Joe MacHale	28,431	28,431	92,259
Brendan Nelson	12,001	12,001	38,943
Baroness Noakes	21,000	21,000	68,145
Art Ryan	5,000	5,000	16,225
Philip Scott	50,000	50,000	162,250

#### Notes:

- (1) Share interests held at 1 January 2012 in the table above have been restated to reflect the sub-division and consolidation of ordinary shares which took effect in June 2012. The share interests of Penny Hughes have also been restated to reflect the notification to the company on 16 January 2013 of a transaction by a connected person which took place in March 2011.
- (2) Value is based on the share price at 31 December 2012, which was 324.5p. During the year ended 31 December 2012, the share price ranged from 196.6p to 325.0p.
- (3) Tony Di Iorio's interests in the company's shares are held in the form of American Depository Receipts (ADRs). Each ADR represents 2 ordinary shares of £1.00 each in the company. Tony Di Iorio has interests in 15,000 ADRs representing 30,000 ordinary shares.

No other current director had an interest in the company's ordinary shares during the year or held a non-beneficial interest in the shares of the company at 31 December 2012, at 1 January 2012 or date of appointment if later. The interests shown above include connected persons of the directors. As at 27 February 2013, there were no changes to the directors' interests in shares shown in the table above.

## Directors' interests under the Group's share plans

### Long-Term Incentive Plan (LTIP)

No variation was made to any of the terms of the plan during the year. Awards to executive directors under the LTIP are subject to performance conditions and clawback provisions. The figures shown below have been adjusted to reflect the share sub-division and consolidation, which took effect in June 2012.

	Awards held at 1 January 2012	Awards granted in 2012	Market price on award £	Awards vested in 2012	Market price on vesting £	Awards held at 31 December 2012	End of period for qualifying conditions to be fulfilled
Stephen Hester	857,843 (1)		4.90			857,843	14.05.13
	1,011,417		4.45			1,011,417	07.03.14
		1,286,174	2.80			1,286,174	09.03.15
	1,869,260	1,286,174				3,155,434	
Bruce Van Saun	518,280 (2)		4.90			518,280	14.05.13
	632,136		4.45			632,136	07.03.14
		803,859	2.80			803,859	09.03.15
	1,150,416	803,859				1,954,275	

#### Notes:

- (1) Stephen Hester has agreed to a voluntary holding period of two further years beyond the vesting date for the net post-tax number of vested shares in respect of at least one third of the award.
- (2) Bruce Van Saun has agreed to a voluntary holding period of two further years beyond the vesting date for the net post-tax number of vested shares for the amount over 300% of his salary.

### Performance conditions for LTIP awards made in prior years

Summaries of the performance targets for each year and current assessment of performance can be found on pages 17 and 18. Full details of the performance conditions can also be found in the Report and Accounts for each year on [www.rbs.com/annualreport](http://www.rbs.com/annualreport).

## Implementation Report *continued*

### Deferred awards

Awards are structured as conditional rights to receive shares under the RBS 2010 Deferral Plan and are subject to clawback. No variation has been made to any of the terms of the plan during the year. The figures shown below have been adjusted to reflect the share sub-division and consolidation, which took effect in June 2012.

	Awards held at 1 January 2012	Awards granted in 2012	Market price on award £	Awards vested in 2012	Market price on vesting £	Value on vesting £	Awards held at 31 December 2012	End of period for qualifying conditions to be fulfilled
Stephen Hester (1)	458,509 (2)		4.45	229,255	2.62	600,648	229,254	07.03.12 - 07.03.13
Bruce Van Saun	95,707 (3) 303,088 (2)		3.79 4.45	95,707 151,544	2.35 2.62	224,911 397,045	— 151,544	— 07.03.12 - 07.03.13
		300,000 (4)	2.80	—			300,000	09.03.13 - 09.03.14
	398,795	300,000		247,251		621,956	451,544	

#### Notes:

- (1) Stephen Hester previously waived his deferred award entitlement in respect of the 2009 and 2011 performance years and during 2012 he also waived any entitlement that might have been awarded for the 2012 performance year.
- (2) The awards granted on 7 March 2011 relate to an allocation of shares under the Share Bank arrangements for annual incentives in respect of the 2010 performance year. The awards will vest in two tranches with the final tranche due to vest on 7 March 2013 and any vested shares are subject to a further six month retention post-vesting. Mr Hester has voluntarily agreed to a total retention period of 12 months post-vesting.
- (3) The award was granted in March 2010 and relates to an allocation of shares in respect of annual incentives for the 2009 performance year.
- (4) The award granted on 9 March 2012 relates to an allocation of shares under the Share Bank arrangements for annual incentives in respect of the 2011 performance year. The award is due to vest in two equal tranches in March 2013 and March 2014 and any vested shares are subject to a further six month retention post-vesting.

### Share options

The Executive Share Option Plan (ESOP) was approved by shareholders in April 2007. No further awards will be made under the ESOP as it has been replaced by the LTIP. The options below lapsed in 2012 as the performance conditions, based on a combination of relative and absolute TSR measures, were not met. The figures shown below have been adjusted to reflect the share sub-division and consolidation, which took effect in June 2012.

	Options held at 1 January 2012	Number of options lapsed in 2012	Option price £	Options held at 31 December 2012	
				Number	Exercise period
Stephen Hester	955,000	955,000	3.72	—	—
Bruce Van Saun	90,530	90,530	5.67	—	—

No options had their terms and conditions varied during the year ended 31 December 2012. No payment is required on the award of an option. The market price of the company's ordinary shares on 31 December 2012 was 324.5p and the range during the year ended 31 December 2012 was 196.6p to 325.0p.

### Medium-Term Performance Plan (MPP)

The MPP was approved by shareholders in April 2001. No further awards will be made under the MPP as it has been replaced by the LTIP. No variation was made to any of the terms of the plan during the year. The awards below lapsed during 2012 as a result of the relative and absolute TSR measures not being met. The figures shown below have been adjusted to reflect the share sub-division and consolidation, which took effect in June 2012.

	Scheme interests (share equivalents) at 1 January 2012	Market price on award £	Awards lapsed in 2012	Scheme interests (share equivalents) at 31 December 2012	End of period for qualifying conditions to be fulfilled
Stephen Hester	480,000	3.72	480,000	—	—
Bruce Van Saun	181,061	5.67	181,061	—	—

### Restricted Share Award

No variation was made to any of the terms of the plan during the year and no awards were granted under the Restricted Share Plan in 2012. The figures shown below have been adjusted to reflect the share sub-division and consolidation, which took effect in June 2012.

	Awards held at 1 January 2012	Market price on award £	Awards lapsed in 2012	Awards held at 31 December 2012	End of period for qualifying conditions to be fulfilled
Philip Hampton (1)	517,241	2.90	517,241	—	—

#### Note:

- (1) Philip Hampton waived his right to the above award which was made in 2009 and due to vest in 2012 and therefore the award was lapsed.

Penny Hughes  
Chair of the Group Performance and Remuneration Committee  
27 February 2013



## Other remuneration disclosures

### Remuneration of executive directors and eight highest paid senior executives\*

All figures shown below are in GBP. No sign-on or severance awards have been made during 2012 to any of the individuals detailed below.

	Stephen Hester £000	Bruce Van Saun £000	Executive 1 £000	Executive 2 £000	Executive 3 £000	Executive 4 £000	Executive 5 £000	Executive 6 £000	Executive 7 £000	Executive 8 £000
<b>Fixed remuneration</b>	1,200	750	1,735	775	700	421	311	775	394	650
Variable remuneration (cash)	—	—	2	2	2	2	2	—	2	—
Variable remuneration (shares subject to retention)	—	—	410	280	158	101	116	—	105	—
Deferred variable remuneration (bond)	—	—	1,023	698	393	252	289	—	173	—
Deferred variable remuneration (shares subject to retention)	—	980	615	420	237	152	174	—	70	—
<b>Total variable remuneration (1)</b>	—	980	2,050	1,400	790	507	581	—	350	—
<b>Total remuneration</b>	1,200	1,730	3,785	2,175	1,490	928	892	775	744	650
<b>Long Term Incentive Awards (subject to future performance) (2)</b>	1,620	1,013	994	1,125	675	—	969	—	270	—

\* Members of Group Executive Committee plus Group HR Director

#### Notes:

(1) Differs to 2011 disclosure with exclusion of prior year Long Term Incentive Awards which vested during 2012.

(2) The Long Term Incentive Award (subject to future performance) is made following the end of the 2012 financial year. The amounts shown reflect an approximate notional value, verified by external advisers. The actual value of the award which will vest in 2016 will be dependent on actual performance and share price.

## Other remuneration disclosures *continued*

### All staff total remuneration

Total remuneration comprises; fixed pay, pension and benefit funding, variable remuneration and Long Term Incentives.

- The average salary for all employees is c.£34,000.
- 21,500 employees earn total remuneration between £50,000 and £100,000.
- 9,275 employees earn total remuneration between £100,000 and £250,000.
- 1,950 employees earn total remuneration over £250,000.

### Total remuneration by band for all employees earning >£1 million

	Number of employees
£1,000,000 - £1,500,000	56
£1,500,001 - £2,000,000	14
£2,000,001 - £2,500,000	12
£2,500,001 - £3,000,000	2
£3,000,001 - £3,500,000	5
£3,500,001 - £4,000,000	1
£4,000,001 - £4,500,000	1
£4,500,001 - £5,000,000	1
£5,000,001 - £5,500,000	1

#### Notes:

(1) Total remuneration includes fixed pay, pension and benefit funding and variable pay (including actual value of LTIP vesting in respect of the performance period ending 2012) after the application of clawback.

(2) Excludes executive directors.

93 employees earn total remuneration of over £1million which represent just 0.08% of our employees. This number reduces to 79 employees if we exclude pension and benefit funding.

These employees carry responsibility for the strategic decision making of the Group. They also include employees who manage major businesses and functions with responsibility for significant assets, earnings or areas of strategic activity. Our highest earning employees can be grouped as follows:

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

## Other remuneration disclosures

### FSA Remuneration Disclosure

These disclosures are in accordance with the FSA's Handbook for banks, building societies and investment firms (BIPRU) 11.5.18 (6) and (7).

#### 1. Aggregate remuneration expenditure

During the year, there were 368 Code Staff. Aggregate remuneration expenditure was as follows:

Markets £m	Rest of RBS Group £m
97.0	161.0

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

##### Fixed Remuneration

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

Senior management £m	Others £m
60.3	51.9

##### Variable remuneration for 2012 performance

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

Form of remuneration	Senior management £m	Others £m
Variable remuneration (cash)	0.3	0.3
Variable remuneration (shares subject to retention)	11.3	17.4
Deferred remuneration (bonds)	23.6	38.4
Deferred remuneration (shares)	11.3	19.8

0% 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.

Senior management £m	Others £m
17.5	6.1

#### 3. Outstanding deferred remuneration through 2012

The table below includes deferred remuneration awarded or paid out in 2012. Deferred remuneration reduced during the year relates to long term incentives lapsing when performance conditions are not met, long term incentives and deferred awards forfeited on leaving, options lapsing and clawback of prior year deferred awards and long term incentives.

Category of deferred remuneration	Senior management £m	Others £m
Unvested from prior year	121.0	213.6
Awarded during the financial year	53.6	77.9
Paid out	41.0	111.8
Reduced from prior years	19.1	45.6
Unvested at year end	114.5	134.1

#### 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 relevant tables above, assumptions have been made for the notional value of long term incentives (verified by external advisors) and, forfeitures through resignation for deferred awards.

## Other remuneration disclosures *continued*

### Variable compensation awards

The following tables analyse the Group and Markets variable compensation awards for 2012 (1).

	Group			Markets		
	2012 £m	2011 £m	Change %	2012 £m	2011 £m	Change %
Non-deferred cash awards (2)	73	70	4	10	9	11
Non-deferred share awards	27	34	(21)	17	21	(19)
<b>Total non-deferred variable compensation</b>	<b>100</b>	<b>104</b>	<b>(4)</b>	<b>27</b>	<b>30</b>	<b>(10)</b>
Deferred bonds awards	497	589	(16)	212	264	(20)
Deferred share awards	82	96	(15)	48	66	(27)
<b>Total deferred variable compensation</b>	<b>579</b>	<b>685</b>	<b>(15)</b>	<b>260</b>	<b>330</b>	<b>(21)</b>
<b>Total variable compensation pre clawback (3)</b>	<b>679</b>	<b>789</b>	<b>(14)</b>	<b>287</b>	<b>360</b>	<b>(20)</b>
Clawback of prior year deferred awards (4)	(72)	—	—	(72)	—	—
<b>Total variable compensation (3)</b>	<b>607</b>	<b>789</b>	<b>(23)</b>	<b>215</b>	<b>360</b>	<b>(40)</b>
Increase in operating profit (5) in 2012	90%			68%		
Variable compensation (pre clawback) as a % of operating profit (5)	20%	43%		19%	40%	
Variable compensation (pre clawback) as a % of operating profit before variable compensation (6)	16%	28%		16%	25%	
Variable compensation (post clawback) as a % of operating profit before variable compensation (6)	15%	28%		12%	25%	
Proportion of variable compensation pre clawback that is deferred	85%	87%		91%	92%	

Operating profit for the Group increased by 90% and for Markets by 68% in 2012. Variable compensation as a proportion of operating profit before variable compensation decreased to 16% from 28% in 2011 for the Group and to 16% from 25% for Markets. At a constant proportion as for 2011 variable compensation for 2012 would have been c.£500 million and c.£160 million higher for the Group and Markets, respectively.

### Reconciliation of variable compensation awards to income statement charge

	2012 £m	2011 £m
Variable compensation awarded	679	789
Less: deferral of charge for amounts awarded for current year	(262)	(298)
Add: current year charge for amounts deferred from prior years	299	484
<b>Income statement charge for variable compensation (3)</b>	<b>716</b>	<b>975</b>

### Year in which income statement charge is expected to be taken for deferred variable compensation

	Actual		Expected	
	2011 £m	2012 £m	2013 £m	2014 and beyond £m
Variable compensation deferred from 2009 and earlier	155	75	—	—
Variable compensation deferred from 2010	329	93	78	4
Variable compensation deferred from 2011	—	190	49	21
Clawback of variable compensation	—	(59)	(10)	(3)
Variable compensation for 2012 deferred	—	—	199	63
	<b>484</b>	<b>299</b>	<b>316</b>	<b>85</b>

#### Notes:

- (1) The tables above relate to continuing businesses only. Discontinued businesses in 2012 amount to £24 million (2011 - £32 million). In addition 2011 has been restated to include sales incentive and long-term incentive plan expense of £12 million which has been reclassified in 2012, as well as £6 million for the UK branch-based businesses which was included in disposal groups in 2011.
- (2) Cash payments to all employees are limited to £2,000.
- (3) Excludes other performance related compensation.
- (4) Relates to the clawback of prior year variable compensation awards which forms part of the LIBOR actions taken by management detailed on page 27.
- (5) Reported operating profit before one-off and other items.
- (6) Reported operating profit pre variable compensation expense and before one-off and other items.

## LIBOR

On 6 February 2013, RBS made an announcement regarding the investigations conducted in relation to attempts to manipulate LIBOR and the settlements reached with the FSA and US authorities. The investigations uncovered wrongdoing on the part of 21 employees, predominantly in relation to the setting of the bank's Yen and Swiss Franc LIBOR submissions in the period October 2006 to November 2010.

The RBS Board has acknowledged that there were serious shortcomings in our risk and control systems, and also in the integrity of a small group of our employees, and has taken action to ensure full and proper accountability:

- All 21 wrongdoers referred to in the regulatory findings have left the organisation or been subject to disciplinary action.
- Individuals found culpable have left the bank with no 2012 variable compensation awards and full clawback of any outstanding past variable compensation applied.
- Supervisors with accountability for the business but no knowledge or involvement in the wrongdoing have received zero variable compensation awards for 2012 and a range of clawback from prior years depending on specific findings.
- Reduction of variable compensation awards and long-term incentive awards and prior year clawback has been made across RBS and particularly in the Markets division to account for the reputational damage of these events and the risk of additional outstanding legal and regulatory action.

The actions we have taken reinforce the messages we are sending on how seriously the Board takes integrity and risk and control issues. The impact of such issues on our shareholders and wider stakeholders extends beyond those directly involved in LIBOR, so it is appropriate that remuneration actions have a Group-wide impact.

The cumulative impact of the Board's actions is a deduction from employee incentive pay of over £300 million, with the Markets division bearing the greatest cost. A breakdown of how this figure has been reached is set out below:

	£m
Variable compensation award reduction	110
Long term incentive award reduction	30
Clawback of prior year awards (including LTIP)	112
Committed future reduction 2013/2014	50
<b>Total</b>	<b>302</b>