ROYAL BANK OF SCOTLAND GROUP PLC
Form 20-F
March 31, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2014

OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-10306

THE ROYAL BANK OF SCOTLAND GROUP plc
(Exact name of Registrant as specified in its charter)

United Kingdom
(Jurisdiction of incorporation)

RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, United Kingdom
(Address of principal executive offices)

Aileen Taylor, Chief Governance Officer and Board Counsel, Tel: +44 (0) 131 626 4099, Fax: +44 (0) 131 626 3081

PO Box 1000, Gogarburn, Edinburgh EH12 1HQ
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 2 ordinary shares, nominal value £1 per share	New York Stock Exchange
Ordinary shares, nominal value £1 per share	
American Depositary Shares Series F, H, L, M, N, P, Q, R, S, T and U each representing one Non-Cumulative Dollar Preference Share, Series F, H, L, M, N, P, Q, R, S, T and U respectively	New York Stock Exchange*
Dollar Perpetual Regulatory Tier 1 Securities	New York Stock Exchange
3.950% Senior Notes due 2015	New York Stock Exchange
2.550% Senior Notes due 2015	New York Stock Exchange
4.375% Senior Notes due 2016	New York Stock Exchange
Floating Rate Senior Notes due 2017	New York Stock Exchange
1.875% Senior Notes due 2017	New York Stock Exchange
4.70% Subordinated Notes due 2018	New York Stock Exchange
5.625% Senior Notes due 2020	New York Stock Exchange
6.125% Senior Notes due 2021	New York Stock Exchange
6.125% Subordinated Tier 2 Notes due 2022	New York Stock Exchange
6.000% Subordinated Tier 2 Notes due 2023	New York Stock Exchange
6.100% Subordinated Tier 2 Notes due 2023	New York Stock Exchange
5.125% Subordinated Tier 2 Notes due 2024	New York Stock Exchange
Structured HybrId Equity Linked Securities (SHIELDS) due January 16 2014 linked to the S&P 500 Index	NYSE MKT
Leveraged CPI Linked Securities due January 13, 2020	NYSE MKT
RBS US Large Cap TrendpilotTM Exchange Traded Notes due December 7, 2040	NYSE Arca
RBS US Mid Cap TrendpilotTM Exchange Traded Notes due January 25, 2041	NYSE Arca
RBS Gold TrendpilotTM Exchange Traded Notes due February 15, 2041	NYSE Arca
RBS Oil TrendpilotTM Exchange Traded Notes due September 13, 2041	NYSE Arca
RBS Global Big Pharma Exchange Traded Notes due October 25, 2041	NYSE Arca
RBS NASDAQ-100® TrendpilotTM Exchange Traded Notes due December 13, 2041	NYSE Arca
RBS China TrendpilotTM Exchange Traded Notes due April 18, 2042	NYSE Arca
RBS US Large Cap Alternator Exchange Traded NotesTM due September 5, 2042	NYSE Arca
RBS Rogers Enhanced Commodity Index Exchange Traded Notes due October 29, 2042	NYSE Arca
RBS Rogers Enhanced Agriculture Exchange Traded Notes due October 29, 2042	NYSE Arca
RBS Rogers Enhanced Energy Exchange Traded Notes due October 29, 2042	NYSE Arca
RBS Rogers Enhanced Precious Metals Exchange Traded Notes due October 29, 2042	NYSE Arca
RBS Rogers Enhanced Industrial Metals Exchange Traded Notes due October 29, 2042	NYSE Arca

* Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2014, the close of the period covered by the annual report:

(Title of each class)	(Number of outstanding shares)
Ordinary shares of £1 each	6,365,895,896
B Shares	51,000,000,000
Dividend Access Share	1
11% cumulative preference shares	500,000
5½% cumulative preference shares	400,000
Non-cumulative dollar preference shares, Series F, H and L to U	209,609,154
Non-cumulative convertible dollar preference shares, Series 1	64,772
Non-cumulative euro preference shares, Series 1 to 3	2,044,418
Non-cumulative convertible sterling preference shares, Series 1	14,866
Non-cumulative sterling preference shares, Series 1	54,442

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-Accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

oU.S. GAAP
x International Financial Reporting Standards as issued by the International Accounting Standards Board
oOther

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

SEC Form 20-F cross reference guide

Forward-looking statements

Certain sections in this document contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘believe’, ‘should’, ‘intend’, ‘plan’, ‘could’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘objective ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on these expressions.

In particular, this document includes forward-looking statements relating, but not limited to: The Royal Bank of Scotland Group’s (RBS) Transformation Plan (which includes RBS’s 2013/2014 strategic plan relating to the implementation of its new divisional and functional structure and the continuation of its balance sheet reduction programme including its proposed divestments of Williams & Glyn and CFG, RBS’s information technology and operational investment plan, the proposed restructuring of RBS’s CIB business and the restructuring of the Group as a result of the implementation of the regulatory ring-fencing regime), as well as restructuring, capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAe), Pillar 2A, Maximum Distributable Amount (MDA), total loss absorbing capital (TLAC), minimum requirements for eligible liabilities (MREL) return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, funding and risk profile; litigation, government and regulatory investigations including investigations relating to the setting of interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by RBS arising out of the origination or sale of mortgages or mortgage-backed securities in the US; RBS’s future financial performance; the level and extent of future impairments and write-downs; and RBS’s exposure to political risks, credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates, targets and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could adversely affect our results and the accuracy of forward looking statements in this document include the risk factors and other uncertainties discussed in the risk factors on pages 110 to 112 and 466 to 484. These include the significant risks for the Group presented by the execution of the Transformation Plan; RBS’s ability to successfully implement the various initiatives that are comprised in the Transformation Plan, particularly the balance sheet reduction programme including the divestment of Williams & Glyn and its remaining stake in CFG, the proposed restructuring of its CIB business and the significant restructuring undertaken by the Group as a result of the implementation of the ring fence; whether RBS will emerge from implementing the Transformation Plan as a viable, competitive, customer focussed and profitable bank; RBS’ ability to achieve its capital targets which depend on RBS’ success in reducing the size of its business; the cost and complexity of the implementation of the ring-fence and the extent to which it will have a material adverse effect on RBS; the risk of failure to realise the benefit of RBS’s substantial investments in its information technology and operational infrastructure and systems, the significant changes, complexity and costs relating to the implementation of the Transformation Plan, the risks of lower revenues resulting from lower customer retention and revenue generation as the Group refocuses on the UK as well as increasing competition. In addition, there are other risks and uncertainties. These include RBS’s ability to attract and retain qualified personnel; uncertainties regarding the outcomes of legal, regulatory and governmental actions and investigations that the Group is subject to and any resulting material adverse effect on the Group of unfavourable outcomes;; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which the Group operates; uncertainty relating to how policies of the new government elected in the May 2015 UK election may impact RBS including a possible referendum on the UK’s membership of the EU; operational risks that are inherent in RBS’s business and that could increase as RBS implements its Transformation Plan; the potential negative impact on

RBS's business of actual or perceived global economic and financial market conditions and other global risks; how RBS will be increasingly impacted by UK developments as its operations become gradually more focussed on the UK; uncertainties regarding RBS exposure to any weakening of economies within the EU and renewed threat of default by certain counties in the Eurozone; the risks resulting from RBS implementing the State Aid restructuring plan including with respect to the disposal of certain assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by RBS; the impact of unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; changes in the credit ratings of RBS; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; regulatory or legal changes (including those requiring any restructuring of RBS's operations); changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes; impairments of goodwill; the high dependence of RBS' operations on its information technology systems and its increasing exposure to cyber security threats; the reputational risks inherent in RBS' operations; the risk that RBS may suffer losses due to employee misconduct; pension fund shortfalls; the recoverability of deferred tax assets by the Group; HM Treasury exercising influence over the operations of RBS; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; and the success of RBS in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this announcement, and RBS does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

Presentation of information

In this document, and unless specified otherwise, the term 'company' or 'RBSG' means The Royal Bank of Scotland Group plc, 'RBS', 'RBS Group' or the 'Group' means the company and its subsidiaries, 'the Royal Bank' or 'RBS plc' means The Royal Bank of Scotland plc and 'NatWest' means National Westminster Bank Plc.

The company publishes its financial statements in pounds sterling ('£' or 'sterling'). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling, respectively, and references to 'pence' represent pence in the United Kingdom ('UK'). Reference to 'dollars' or '$' are to United States of America ('US') dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively, and references to 'cents' represent cents in the US. The abbreviation '€' represents the 'euro', the European single currency, and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively.

The geographic analysis in the Business Review, including the average balance sheet and interest rates, changes in net interest income and average interest rates, yields, spreads and margins in this report have generally been compiled on the basis of location of office - UK and overseas – unless indicated otherwise. 'UK' in this context includes transactions conducted through the offices in the UK which service international banking transactions.

The results, assets and liabilities of individual business units are classified as trading or non-trading based on their predominant activity. Although this method may result in some non-trading activity being classified as trading, and vice versa, any resulting misclassification is not expected to be material.

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Non-GAAP financial information

The directors manage RBS's performance by class of business, before certain reconciling items, as is presented in the segmental analysis in Note 38 (the "non-statutory basis"). In 2014, RBS made changes to the reconciling items and only the following will now be reported as reconciling items: own credit adjustments, gain/(loss) on redemption of own debt, write-down of goodwill, strategic disposals and RFS Holdings minority interest.

Further the results of Citizens are included in the appropriate caption in the financial results presented on a non-statutory basis and included in discontinued operations in the financial results presented on a statutory basis. Discussion of RBS's performance in this report presents RBS's results on a non-statutory basis as management believes that such measures allow a more meaningful analysis of RBS's financial condition and the results of its operations. These measures are non-GAAP financial measures. A body of generally accepted accounting principles such as IFRS is commonly referred to as 'GAAP'. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Reconciliations of these non-GAAP measures to the closest equivalent GAAP measure are presented throughout this document and in the segmental analysis in Note 38. These non-GAAP financial measures are not a substitute for GAAP measures.

Furthermore, RBS has divided its operations into "RBS excluding RBS Capital Resolution (RCR)" for all periods in 2014 and for prior periods "RBS excluding Non-Core". Certain measures disclosed in this document for RBS excluding RCR/Non-Core operations are non-GAAP financial measures used by management as they represent a combination of all reportable segments with the exception of RCR/Non-Core.

The presentation of the financial perforance of Personal & Business Banking ("PBB") which combines the reportable segments of UK Personal & Business Banking and Ulster Bank and the presentation of the financial performance of Commercial & Private Banking ("CPB") which combines the reportable segments of Commercial Banking and Private Banking are non GAAP financial measures. In addition the presentation of operating profit, operating expenses and other performance measures excluding the impact of restructuring costs and litigation and conduct costs is a non-GAAP financial measure and is not a substitute for the equivalent GAAP measure.

Lastly, the liquidity coverage ratio, stressed outflow coverage, net stable funding ratio and other capital and liquidity metrics included in the Capital and risk management section are non-GAAP financial measures and are being presented for informational purposes given they are metrics that are not yet required to be disclosed by a government, governmental authority or self-regulatory organisation.

International Financial Reporting Standards

As required by the Companies Act 2006 and Article 4 of the European Union IAS Regulation, the consolidated financial statements of RBS are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (together 'IFRS'). They also comply with IFRS as issued by the IASB.

Recent developments

Sale of a North American loan portfolio to Mizuho

On 26 February 2015, RBS announced that it has entered into a definitive agreement with Mizuho Bank, Ltd. ("Mizuho"), a wholly-owned subsidiary of the Mizuho Financial Group, for the sale of a portfolio of US and Canadian loan commitments. As part of the transaction, the parties also continue to explore the transfer of certain associated derivatives, and the transition from RBS to Mizuho of certain coverage banking, debt capital markets, syndicate, and associated capabilities related to these commitments.

The transaction is aligned with the strategic direction RBS has announced for its Corporate & Institutional Banking business, which will focus mainly on UK and Western European customers, built on existing product and service strengths. RBS will remain engaged in the US, serving a select group of North American clients with strong links into the UK.

The portfolio sold to Mizuho comprises $36.5 billion of loan commitments, including $3.2 billion of drawn assets, as of 31 December 2014. The risk-weighted assets associated with the portfolio business were approximately $8 billion as of 31 December 2014, and it generated profit after tax of $0.1 billion in the year ended on that date. The cash consideration on that basis would be approximately $3.0 billion, generating a loss on disposal of $0.2 billion. Actual cash consideration and loss will depend upon settlement date portfolio balances. Sale proceeds will be used for general corporate purposes.

The transaction is expected to complete before the end of Q2 2015. RBS will work closely with Mizuho and our existing clients associated with these loan commitments to ensure an orderly and seamless transition at completion.

Moody's

On 17 March 2015, Moody's announced multiple rating reviews following the publication of its new bank rating methodology on 16 March 2015. The new methodology affects banking entities globally and reflects, among other things, Moody's lowered expectations about the likelihood of government support for European banks in light of the introduction of the EU Bank Recovery and Resolution Directive ("BRRD"). Moody's provided a preliminary indication of the outcome of its review which is to be completed later in 2015. Moody's preliminary indication contemplates that RBS's long-term senior unsecured and issuer credit ratings would be downgraded by two notches to Ba1 and that the credit ratings of certain of the Group subsidiaries may also be downgraded. If these downgrades occur, the credit ratings of RBSG and of certain of its subsidiaries would, therefore, be considered to be below-investment grade by that credit rating agency.

Partial sale of Citizens Financial Group, Inc. stake

On 23 March 2015, RBS announced that it intended to sell part of its shareholding in Citizens Financial Group, Inc. (Citizens), and on 26 March 2015 announced the pricing of the offer.

The offer comprised 155.25 million shares, or 28.4%, of Citizens common stock at a public offering price per share of $23.75.

Gross proceeds realised by RBS will be $3.7 billion with the cash proceeds being used for general business purposes.

Following the offering, RBS will continue to hold up to 41.9% of Citizens shares of common stock which are subject to a 90-day lock-up. During this period, the lock-up agreement is subject to modification, waiver or cancellation. RBS will continue to consolidate Citizens in its financial statements.

The partial sale is part of RBS's strategy to fully exit its holding in Citizens by the end of 2016 as part of its European Commission state aid commitments.

Disposal internationally managed Private Banking and Wealth Management business

On 27 March 2015, RBS announced it had reached an agreement to sell its internationally managed Private Banking and Wealth Management business to Union Bancaire Privée UBP SA (UBP). The sale comprises client relationships outside the British Isles and associated staff. RBS will continue to service UK Private Banking and Wealth Management client needs, together with those of international clients with a strong connection to the UK, from the British Isles through its Coutts and Adam & Company brands. The transaction is subject to regulatory approvals.

The sale includes relationships managed from Switzerland, Monaco, UAE, Qatar, Singapore and Hong Kong. As at 31 December 2014 assets under management were approximately CHF32bn and total risk-weighted assets were CHF2bn.

The price paid will be determined in part by assets under management on closing. RBS anticipates receiving a premium. The resulting capital benefit to RBS is expected to be modest after writing off goodwill related to the business and taking into account anticipated exit and restructuring costs. Initial closing of the transaction is envisaged in Q4 2015, when a majority of the business is expected to transfer, with the remainder during the first part of 2016.

The transaction is subject to regulatory approvals.

Executive change

On 30 March 2015 RBS announced that Rory Cullinan, Executive Chairman of Corporate & Institutional Banking will be leaving the company. To ensure an effective transfer of responsibilities he will remain with the Bank until 30 April 2015.

Chris Marks, Chief Executive Officer of CIB, and Mark Bailie, Chief Executive Officer of Capital Resolution, will join the Bank's Executive Committee as Co-CEOs of Corporate & Institutional Banking.

The above appointments are subject to regulatory approval.

2014 performance

Loss attributable to ordinary and B shareholders	(£3,470m)	Operating profit on a non-statutory basis	£3,503m
Profit before tax	£2,643m	Common Equity Tier 1 ratio (1)	11.2%
RWAs	£356bn	Loan:deposit ratio (2)	95%
Short-term wholesale funding (3)	£28bn	Liquidity portfolio	£151bn
Leverage ratio (4)	4.2%	Return on tangible equity (5)	(8.0%)
Cost:income ratio	91%	Net interest margin	2.14%
Cost:income ratio adjusted - on a non-statutory basis (6)	68%	Net interest margin on a non-statutory basis (7)	2.23%

(1) End-point CRR basis
(2) Includes disposal groups and excludes repos see page 162
(3) Excludes derivative collateral
(4) Based on end-point CRR Tier 1 capital and revised 2014 Basel III leverage ratio framework
(5) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets
(6) Excludes restructuring costs of £1,257 million and litigation and conduct costs of £2,194 million
(7) Includes results of Citizens Financial Group, Inc.

Financial results
RBS reported a loss attributable to ordinary and B shareholders of £3.5 billion, following a £4.0 billion write-down on Citizens.

Operating profit on a non-statutory basis was £3.5 billion. Significant progress was made towards building a bank that is stronger, simpler and better for both customers and shareholders.

RBS reported a loss attributable to ordinary and B shareholders of £3,470 million in 2014, compared with a loss of £8,995 million in 2013. The result included a loss from discontinued operations of £3,445 million, which reflected a £3,994 million fair value write-down in relation to the reclassification of Citizens to disposal groups, and a tax charge of £1.9 billion which included a £1.5 billion write-off of deferred tax assets.
Operating profit before tax, which excludes results from discontinued operations, was £2,643 million compared with an operating loss of £8,849 million in 2013.

Operating profit on a non-statutory basis totalled £3,503 million for 2014, compared with an operating loss of £7,500 million in 2013. This reflected improved operating results from the core domestic businesses together with significant impairment releases in Ulster Bank and RBS Capital Resolution (RCR). These results include £1,257 million of restructuring costs compared with £656 million in 2013, and £2,194 million of litigation and conduct costs compared with £3,844 million in the prior year.

UK Personal & Business Banking (UK PBB) delivered a good performance built on strong growth from a reinvigorated mortgage business. Commercial Banking's efforts to stimulate demand resulted in a resumption of loan book growth; together with active management of cost and capital, this supported a significant improvement in profitability. Corporate & Institutional Banking (CIB) made good progress towards a lower risk model with a further £40 billion reduction in risk-weighted assets (RWAs) on an end- point CRR basis.

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2014 performance

Personal & Business Banking - Share of non-statutory operating profit, 59%

	2014			2013		
Performance highlights	UK PBB	Ulster Bank	PBB	UK PBB	Ulster Bank	PBB
Return on equity (%)	19.4	16.1	17.5	9.8	(33.2)	(5.7)
Net interest margin (%)	3.68	2.27	3.42	3.56	1.88	3.21
Cost:income ratio (%)	72	71	71	77	81	78
Loan:deposit ratio (%)	86	107	88	86	120	91
Risk-weighted assets (£bn)	42.8	23.8	66.6	51.2	30.7	81.9

Commercial & Private Banking - Share of non-statutory operating profit, 41%

	2014			2013		
Performance highlights	Commercial Banking	Private Banking	CPB	Commercial Banking	Private Banking	CPB
Return on equity (%)	12.6	7.8	11.9	4.9	(3.1)	3.7
Net interest margin (%)	2.74	3.71	2.93	2.64	3.74	2.81
Cost:income ratio (%)	57	87	65	63	122	73
Loan:deposit ratio (%)	98	46	83	92	45	78
Risk-weighted assets (£bn)	64	11.5	75.5	65.8	12	77.8

Corporate & Institutional Banking - Share of non-statutory operating profit, (25%)

Performance highlights	2014	2013
Return on equity (%)	(4.2)	(12.9)
Cost:income ratio (%)	123	144
Risk-weighted assets (£bn)	107.1	120.4

Note: RWAs at 31 December 2013 are on Basel 2.5 basis and on an end-point CRR basis at 31 December 2014.

2014 was a year of significant progress for the bank, in which we delivered against all our commitments. In line with the new strategy it set out in 2014, RBS has:

- Implemented a new organisational design for a more UK-centred bank with focused international capabilities, built around its strongest customer franchises.
- Exceeded its 2014 cost reduction targets with savings of £1.1 billion.
- Strengthened its Common Equity Tier 1 (CET1) ratio by 2.6 percentage points to 11.2% at the end of 2014, assisted by £4.8 billion of net capital release from RCR disposals and run-off.
- Successfully listed Citizens as a step towards full divestment by the end of 2016.
- Reached agreement with HM Treasury on the restructuring of the Dividend Access Share (DAS) and paid an initial dividend of £320 million.
- Completed much of the orderly run-down and closure of the US asset-backed product business, removing £15 billion of RWAs from the balance sheet.
- Completed a strategic review of Ulster Bank and the wealth businesses, launching a sales process for the international private banking activities(1).
- Continued to rationalise, simplify and strengthen operating systems and processes, with a more secure mobile banking platform, faster overnight batch processing and key services available to customers 99.96% of the time.
- Made our products simpler and fairer for customers, ending zero per cent balance transfers, halting teaser rates on savings accounts that penalise existing customers and explaining all charges for personal and business customers on

one side of A4 paper.

Within the overall strategic shape outlined for CIB in 2014, RBS is making further changes to improve its medium-term returns, building a stronger, safer and more sustainable business, focused mainly on UK and Western European customers, both corporates and financial institutions, supported by trading and distribution platforms in the UK, US and Singapore.

These changes will create a more focused corporate and institutional bank built on existing product and service strengths.

RBS will have a strong, client-focused product offering in sterling, US dollar and euro, including:

- Debt financing, with debt capital markets, structured finance and loans.
- Risk management in currency, rates and inflation.
- Transaction services, with UK-focused cash, payments and trade.

(1) Private banking and wealth management activities where the primary relationship management is conducted outside the British Isles.

2014 performance

CIB will reduce its geographical footprint to approximately 13 countries, compared with 38 at the end of 2014, though RBS will also retain its back office operations in Poland and India. In addition to its main distribution and trading hubs in the UK, US and Singapore, RBS will remain present in a number of Western European countries with coverage teams. A small sales team will be retained in Japan. US operations will shrink, while retaining the presence required to support the US dollar needs of RBS's UK and Western European customers. Priority client sectors will be targeted in infrastructure, transportation, financial institutions, energy and resources.

CIB will continue to reduce its balance sheet and risk profile. RWAs will be reduced by 60% from £107 billion at 31 December 2014 to £35-£40 billion in 2019, with a reduction of more than £25 billion targeted in 2015. Third party assets will be reduced from £241 billion at the end of 2014 to £75- £80 billion in 2019.

This CIB strategy leaves RBS well-placed to meet the ring-fencing requirements of the Banking Reform Act 2013. As previously indicated, RBS intends to place most banking services inside the ring fence. CIB's remaining "Markets" activities, the operations of RBS International and some corporate banking activity are expected to remain outside the ring-fenced bank in separate legal entities.

For 2015 RBS intends to:
- Move towards a capital target of 13% CET1(1), with risk-weighted assets below £300 billion and £2 billion Additional Tier 1 capital raised.
- Deconsolidate Citizens and substantially complete RCR exit.
- Improve customer net promoter scores in all UK franchises, in line with the long-term goal of becoming the number 1 bank for trust, service and advocacy.
- Reduce costs by a further £800 million(2), taking RBS towards a long term cost:income ratio of under 50%.
- Deliver lending growth in strategic segments equal to or higher than UK nominal GDP growth.
- Raise employee engagement index to within 8% of the global benchmark so that staff are fully motivated to contribute to RBS's long-term success.

2014 performance

- Loss attributable to ordinary and B shareholders was £3,470 million, compared with a loss of £8,995 million in 2013. The result included a loss from discontinued operations net of tax of £3,445 million, which reflected an accounting write-down of £3,994 million taken in relation to Citizens, which has been written down to fair value less costs to sell as a consequence of it being reclassified as 'held-for-sale' in the statutory results. This write-down does not affect RBS's capital position.
- The tax charge included a net write-off of deferred tax assets of £1.5 billion relating to the UK (£850 million) and the US (£775 million), reflecting the impact of the decision to scale back the CIB operations. This was partially offset by write-backs relating to Ulster Bank.
- Operating profit before tax was £2,643 million compared with an operating loss before tax of £8,849 million in 2013. Operating profit on a non-statutory basis improved to £3,503 million for 2014 compared with an operating loss of £7,500 million in 2013. Operating profit before tax benefitted from improved operating results in core businesses together with significant impairment releases in Ulster Bank and RCR.
- Restructuring costs of £1,257 million (2013 - £656 million) were up 92% but conduct and litigation costs were 43% lower at £2,194 million (2013 - £3,844 million) and included charges relating to foreign exchange trading, Payment Protection Insurance (PPI), customer redress associated with interest rate hedging products, IT incident in 2012 and other costs including packaged accounts and investment products. Excluding restructuring, conduct and litigation costs, operating profit on a non-statutory basis was 6,954 million, compared with a loss of £3,000 million in 2013.
-

Total income was £15,150 million compared with £16,737 million in 2013. On a non-statutory basis total income totalled £18,197 million, down 6% from 2013. Improvements in net interest income in PBB and CPB were offset by lower income from trading activities in CIB, in line with its smaller balance sheet and reduced risk profile. Net interest margin on a statutory basis was 2.14%, up from 1.90% in 2013, with improved liability margins partially offset by pressure on mortgage and corporate lending margins and by the continuing shift in mix towards lower margin secured lending.

- Operating expenses were £13,859 million compared with £17,466 million. On a non-statutory basis operating expenses of £15,849 million compared with £18,510 million, excluding restructuring, of £1,257 million (2013 - £656 million), conduct and litigation costs of £2,194 million (2013 - £3,844 million) , were down £1,612 million or 12%. Adjusting for currency movements of £0.3 billion and intangible assets write-offs of £0.2 billion, cost savings totalled £1.1 billion, in excess of the bank’s £1 billion target for the year.
- Impairment releases of £1,352 million were recorded in 2014 compared with impairment losses of £8,120 million in 2013. On a non-statutory basis net impairment releases of £1,155 million were recorded in 2014 compared with impairment losses of £8,432 million in 2013, which included £4,490 million of charges recognised in connection with the creation of RCR. Provision releases arose principally in Ulster Bank and in the Irish portfolios managed by RCR, which benefited from improving Irish economic and property market conditions nd proactive debt management.

Balance sheet and capital

- Funded assets which exclude derivatives of £354 billion (Q3 2014 - £314 billion, 2013 - £288 billion) totalled £697 billion at 31 December 2014, down £35 billion in the last quarter and £43 billion over the course of the year, principally reflecting continued risk and balance sheet reduction in CIB and disposals and run-off in RCR.
- Net loans and advances to customers totalled £334 billion, down £57 billions from the end of 2013 which included balances relating to Citizens of £60 billion transferred to assets of disposal groups. Underlying net loans and advances to customers were up £3.0 billion from the end of 2013, despite a significant reduction in RCR.
  - UK PBB lending rose by £2 billion, with net new mortgage lending of £3.9 billion partially offset by reduced unsecured balances.
  - Commercial Banking balances rose by £1 billion, with a planned reduction in real estate finance offset by good growth in lending to other sectors.
    - Gross new lending to SMEs totalled £10.3 billion, exceeding RBS’s £9.3 billion target by 10%.
  - Total net lending flows reported within the scope of the Funding for Lending Scheme were minus £2.28 billion in Q4 2014, of which net lending to SMEs was minus £567 million.
- Customer deposits totalled £354 billion at the end of 2014. Customer deposits including Citizens of £61 billion,, which has been reclassified to disposal groups, totalled £415 billion at the end of 2014, up £0.4 billion from the end of 2013.
- RWAs declined to £356 billion from £429 billion at the end of 2013, primarily driven by risk and balance sheet reduction in CIB coupled with disposals and run-off in RCR. This contributed to the strengthening of the bank’s capital ratios, with the CET1 ratio strengthening by 260 basis points to 11.2% at the end of 2014 compared with 8.6% at the end of 2013.

2014 performance

Our progress in 2014
We have a clear ambition to become No.1 for customer service, trust and advocacy. In 2014, our focus has been on Cost, Capital, Restructuring and Resilience. We have also begun the process of making RBS a simpler place to work and an easier bank to do business with.

Fairer banking
We've ended Credit Card teaser rates.

Account opening
We've reduced our current account opening times for RBS and NatWest customers from five days to one.

Launch of Citizens IPO
The biggest bank initial public offering in US history successfully delivered.

GPL system redesign
We simplified our Group Policy Learning system (GPL). As a result we've seen a 62% reduction in the total hours required to complete modules, letting us spend more time on customers.

SME funding
Gross new lending to SMEs totalled £10.3 billion, exceeding our 2014 target by 10%.

Simplified product range
Personal & Business Banking reduced the number of on sale products by 50%.

Project reduction
So far, we have reduced the number of change projects we are running from 550 to 182.

Transparency
RBS scored top for corporate transparency in a study conducted by Transparency International.

Small Business Fund
RBS and NatWest launch £1billion fund for both new and existing small business customers across the UK.

Online loans
We launched a new online loan application process for small businesses.

Faster processing
Our overnight batch processing is now twice as fast, processing 20 million transactions every day.

Resilience

We've created a mirror bank so customers still have access to our services during a system outage. Already we can process 90% of debit and credit card transactions if there is a system outage.

Mobile record

Our mobile app regularly supports around 4 million logins a day, with a record being set on 'Black Friday' 2014 of 4.86 million.

Living Our Values

We launched a recognition programme – Living Our Values, reducing over 200 local schemes into one and creating a bank-wide way of recognising a colleague.

Our 2015 targets

Capital target

Move towards a capital target of 13% CET1 ratio (1).

Improve NPS

Improve net promoter score in every UK franchise.

Reduce costs

Reduce costs by a further £800 million (2), taking RBS towards a long term cost:income ratio of under 50%.

Lending growth

Deliver lending growth in strategic segments equal to or higher than UK nominal GDP growth.

Our people

Raise employee engagement index to within 8% of GFS norm (3)

Notes:

(1) During the period of CIB restructuring.

(2) Excludes restructuring, conduct, litigation and intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn.

(3) Global Financial Services (GFS) norm currently stands at 83%.

Chairman's statement

2014 was a year of significant progress for RBS, with a much improved operating profit and major achievements in terms of business reorganisation, cost reduction, capital build and improved IT capability. As Ross McEwan has set out in his letter, the business continues to simplify and improve, focusing on putting its customers at the heart of its activities

The bank has delivered a good operating profit of £3.5 billion (1) for 2014, but the costs associated with completing the restructuring of RBS mean we are still reporting a bottom line attributable loss. Although the huge changes to the size, shape and risk profile of the business since the financial crisis are largely complete or in hand, the further substantial restructuring of our markets operations and international spread will require careful management in 2015.

Of course your Board is pleased to see the improved operating performance, which in our view reflects the underlying strength of the business. Looking back, however, we must acknowledge that we did not fully recognise the scale of the challenge that awaited us in 2009. At the time, we assumed that a Core Tier 1 capital ratio of more than 8% by 2013 would be sufficient to constitute undoubted financial strength in the minds of markets and regulators; today we have increased our capital target to 13%. We must also acknowledge that we did not anticipate the more than £9 billion of regulatory fines and customer redress we have borne so far as we paid, and will continue to pay, the price for our past conduct failings. These conduct issues have delayed the re-build of our capital and directly reduced shareholder value. They have also caused continuing reputational damage. I hope as we move beyond these issues we can fully rebuild the trust of our customers, and by doing so win more of their business.

The need to continue to rebuild capital strength means it has taken longer than we had expected to reach a point at which the Government could be in a position to start selling down its stake in RBS. The decision on timing rests with the Government, through UK Financial Investments, which manages its shareholding, but our task is to create the conditions in which it can do so. In working towards that end we are also furthering the interests of RBS's other shareholders, as we believe that the beginning of the sell-down will be welcomed by investors.

As announced previously I will be leaving RBS in 2015. The Board is pleased to announce that Howard Davies will succeed me as Chairman, and we welcome him to RBS. He will join the Board at the end of June and take over from me on 1 September. On the day I joined the Board in January 2009, the shares traded at 9p, equivalent to 90p today, and the implications of the bank's financial distress were unknowable. RBS has transformed itself over the last several years and continues to do so. The renewed focus on customer and customer service will make this a better organisation for all stakeholders, most especially customers, staff and shareholders.

I would like to thank my colleagues on the RBS Board for their support and dedication in dealing with the unusual challenges of being a majority government-owned listed company.

In particular, I would like to thank Nathan Bostock, Tony Di Iorio and Philip Scott, who all stepped down from the Board in 2014 after providing valuable service, and to welcome Morten Friis and Ewen Stevenson, who have joined the Board.

It has been a privilege to serve as Chairman of RBS and I am confident that the Board and the many outstanding people in the bank will continue to work with dedication to restore the bank's standing.

Philip Hampton
Chairman

Note:

(1) On a non-statutory basis

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Chief Executive's review

This is my first letter to you since we launched a new strategy for RBS last year. It is a strategy that sets out to deliver one very simple aim. To make this a great bank for our customers; a bank that will earn back their trust, and in turn win more of their business.

It's a strategy that provides the fundamental building blocks to make RBS an attractive investment, a great place to work for our people, and a UK focused bank that the country can be proud of.

Last year we identified the areas we needed to improve in order to deliver our strategy - cost, complexity, capital, and trust from our customers. The energy and resolve of our people has resulted in significant progress on these, and we have delivered on the goals we set for 2014.

- We said we would reduce waste and inefficiency and reorganise ourselves around the needs of our customers, moving from seven operating divisions to three customer businesses. This reorganisation is complete and we have removed £1.1 billion of cost from the business.
- We outlined a programme to rationalise, simplify and bolster our operating systems and processes to make them less complex, more resilient and easier to use. Significant progress has been made in this area with our key services available to customers 99.96% of the time during 2014.
- We set out a plan to place the bank on a sure capital footing targeting a CET1 ratio of 11% by the end of 2015, and 12% or greater by the end of 2016, so as to remove any doubts about our fundamental strength and stability. This capital plan is on track and we have reached our 2015 target one year ahead of schedule. This improvement was driven by a 52% reduction in risk- weighted assets in RCR.
- We said we would undertake the biggest bank initial public offering in US history. Citizens Financial Group was successfully floated on the New York Stock Exchange. At the same time we substantially completed the orderly run-down and closure of our US asset-backed product business, removing £15 billion of risk- weighted assets from our balance sheet.
- We made a commitment to fairness with our customers. We said that RBS would no longer compete with other banks in a number of areas and we would use less technical language that our customers find easier to understand. We stopped offering zero per cent balance transfers on credit cards that trap customers in spirals of ever increasing debt, we ended teaser rates that penalise existing customers, and we now explain all of our fees and charges on one side of A4 paper for both our personal and business customer

As well as being a stronger, simpler and fairer bank, I said that we would also be a very different bank. No longer chasing global market share, but instead focusing squarely on our core strength, namely our home market places in the UK and the Republic of Ireland (RoI).

Our 2014 performance shows a strategy that is working. It demonstrates the forensic approach we have taken to evaluate our businesses against the returns they provide to shareholders. The strong execution against the targets we set now gives us a platform to go further, faster.

As well as a review of our current performance I will set out exactly what this bank will become, what we will do and what we will not do as we seek to improve shareholder value and secure our market leading positions. It involves an acceleration of our strategy to build on our domestic strengths and a further reshaping of our CIB business as we seek to address its unacceptable returns.

We have five ambitious new goals for the second year of our plan and new financial targets so that you, our shareholders, can hold us to account for our performance.

2014 financial performance

The earning power of our key customer businesses lies at the heart of the strong financial progress RBS made during 2014. What you can see from these results is that underneath all the noise of conduct, litigation and restructuring charges, we have strong performing customer businesses that are geared towards delivering sustainable returns for investors.

We made an operating profit of £3.5 billion(1) in 2014, the highest since 2010 and a vast improvement on 2013. Great progress on cost reduction countered a fall in total income - which primarily reflected a smaller risk profile and lower income from trading activities in CIB - and led to an overall improvement in operating efficiency.

Our attributable loss of £3.5 billion(2), includes £1.3 billion of restructuring charges, £2.2 billion in litigation and conduct provisions, a £1.5 billion net deferred tax asset write-off, the initial £320 million dividend for the Dividend Access Share and a write-down of £4 billion anticipating the disposal of Citizens.

Notes:
(1) On a non-statutory basis
(2) Loss attributable to ordinary and B shareholders

Chief Executive's review

It is increasingly clear what is driving underlying performance at RBS - PBB and CPB. PBB and CPB are now more important to RBS's performance than at any time in the past decade. This year they generated 61% of our income, compared with c.37% for equivalent businesses in 2009. And they have been at the forefront of progress towards our goal of increased operating efficiency, reducing adjusted operating expense(3) by 2.6% over the year whilst income was up 2.3%. ROEs of 17.5% and 11.9% respectively demonstrate their value to RBS today.

These franchises are also the custodians of our core strengths - serving the everyday banking needs of over 18 million personal and business customers in the UK and RoI, and helping these customers meet their ambitions. We're investing in these franchises with a view to exceeding customers' expectations and generating sustainable returns.

The performance of CIB reflects the big changes this business is going through, and the tough macro-economic conditions and increasingly high costs of regulation it faces. Income decreased alongside lower adjusted operating expenses as we reduced CIB's risk profile in accordance with our strategy, with restructuring, litigation and conduct costs pushing the business to an operating loss. But CIB has a strong customer franchise serving our leading UK and Western European clients; increasingly it is these clients we intend to focus on. I will set out later in this letter the steps we will take to do this.

An overarching part of delivering sustainable returns is controlling operating costs. When I announced our cost target last year it was described by some as the most ambitious cost target in Europe. Well, through our drive across the bank for greater simplicity we have over-delivered, and surpassed our target of £1 billion of operating cost savings for the bank. With a cost:income ratio for the year of 68% on an adjusted basis(3) , we are still behind our peers on cost efficiency; and there is work to do to fulfil our desire to take it below 50%. But we have a strong track record on delivery, and there is resolve across this bank to get this done.

I am very pleased with the progress we have made in 2014 against our stated objectives. While that progress is evident in the operating profit line of the results announced we are still posting an attributable loss to our shareholders. This is an accounting consequence of one of our 2014 achievements - the successful flotation of Citizens on the New York Stock Exchange.

Now the deconsolidation of Citizens is finally within sight, accounting rules require us to write it down to its estimated disposal value. This write-down substantially represents the goodwill previously attached to Citizens. While I realise that the headlines this generates are disappointing it is important to emphasise that this particular accounting loss does not change our regulatory capital or tangible net asset value.

Safety remains a cornerstone of our strategy

A core question for any bank seeking the trust of its customers is whether it's safe and strong and focused and able to support customers and the economy. The progress we have made should mean that it is no longer in any doubt. The CET1 ratio has improved by 260 basis points to 11.2% over the course of the year, up from 8.6% as at 31 December 2013. We reached our full year 2015 CET1 target of 11% one year ahead of schedule, and we are on track to achieve a revised CET1 target of 13%, which we have set in place for the period of the CIB restructuring.

We now have considerably more high quality capital than we had when the financial crisis hit and this bank was bailed out by the taxpayer. But we need to meet and exceed the expectations of the Prudential Regulation Authority (PRA) and of our shareholders and bondholders. Stress test results show it's not just how much capital you have, but how your balance sheet behaves under extreme economic scenarios.

This year our team in RBS Capital Resolution has managed to accelerate the removal of some of our most capital intensive assets, and we are on track to complete our 2014- 2016 RCR run-down targets by the end of 2015, one year ahead of the original target we set for ourselves. Our capital strength will be bolstered further when Citizens Financial Group in the USA is deconsolidated from our balance sheet. This is also expected in 2015.

In 2015, we also plan to start a programme of issuing Basel III compliant Additional Tier 1 capital instruments.

Conduct

It has taken far longer than anyone realised to root out all the past problems, practices and related fines, and we still have challenges on the horizon. We are changing the culture of this bank; our aim is that shareholders are not exposed to this scale of conduct risk again.

What you will have seen from me over the last year is the way I will be open and honest with you and our customers when dealing with these issues; the way we continue to approach FX is a good example of this. I will not hide. I will talk openly about the hurt this wrongdoing causes me and the many thousands of people within this bank. I will detail the things we are doing to put things right for our customers, and the challenge and change we are driving through the culture and conduct of our staff.

We are determined to learn the lessons from the wrongdoings of the past and ensure that those responsible are held to account.

Notes:

(3) Excluding restructuring costs and litigation and conduct costs, see segmental analysis in Note 38

Chief Executive's review

Building on our strengths

I said this time last year that the days when global domination mattered more to RBS than great customer service are well and truly over. Well, we are not just talking about being a UK-centred bank; we are a UK-centred bank. 80% of our revenues are generated in the UK. At the time of the 2008 financial crisis this number was 48%. Seven years after the crisis we still have top 3 market positions in the following UK segments:

- large corporates and financial institutions (FIs);
- Sterling provider in wholesale banking;
- SME banking;
- Private banking;
- Financing for UK infrastructure projects; and
- Personal banking.

We are building on this strength to manage value for shareholders and deliver the most resilient future returns.

In last year's letter, I told you that where a business can't deliver value to our shareholders in a reasonable time period we will take decisive action. We have put international private banking activities(1) up for sale and we are now going further, faster in reshaping parts of our CIB business.

The investment bank was over-stretched both in range of product and geography. There was too much risk for too little return. Given the increasing regulatory requirements on this business, it was a strategy that now has little hope of delivering acceptable returns to shareholders.

To be a number 1 bank means providing a full service offering to UK and Western European corporate and financial institution clients. It means providing a first class platform to process payments in the UK and Europe. And it means having the expertise to help customers raise finance on the debt capital markets and manage the high level risks they face. Serving customers in these areas is an undisputed area of strength for us - they are our core capabilities, and are essential to us providing a first class service. In addition, trading and distribution hubs in Singapore and the US will ensure the corridors of commerce remain open to allow our customers access to investors in those regions.

We plan to fully exit our Markets businesses in Central and Eastern Europe, the Middle East and Africa, and substantially reduce our presence in Asia Pacific and the US. We will exit our cash management services outside the UK and RoI. These businesses are not essential to our go-forward client franchise, and their standalone returns are not sufficient to justify an exception.

In doing so we will be free to grow and improve the services our customers value most. And by serving customers better this franchise can reinforce its competitive position and deliver sustainable returns above the cost of equity for our shareholders.

This is a plan for a smaller, more focused, but ultimately more valuable bank with the vast majority of its assets in the UK, and for RBS marks the end of the standalone global investment bank model.

What I have just outlined will require an enormous amount of effort from our people. And I do not for one second take that for granted. We have a proven track record of delivering change in our business.

A better bank for customers

Much has been written and discussed about the root causes of the financial crisis. For me it came down to one big problem - a failure to put the customers' interest at the heart of our business and its culture. For too long market share mattered more than customer care.

It is why over the last year our people have worked hard to embed this 'customer first' mentality into everything we do as a bank.

There are some concrete achievements we can call out for 2014 including: faster account opening times, a simplified product range and a clearer pricing structure. And we went against the rest of the industry and took a calculated risk by ending teaser rates, and we now offer our best rates to new and existing customers across our product range. We may have lost customers and income as a result, but we still believe that this was the right thing to do and will deliver long term value for shareholders.

I want to assure our customers that the positive changes we made in 2014 are not one-off. We strive to do better for our customers every day, and when we spot an opportunity to serve customers better, we will act. For example, customers shouldn't be penalised because they lose track of the date and are hit with an unexpected overdraft charge for the first time. And if we can do more to help customers through both the ups and downs in their finances, it is absolutely our responsibility to do so.

But we recognise that these are chipping away at the edges, and more radical change is needed if we are to establish real upward momentum and achieve our targets. We have to be constantly asking ourselves what a really good bank for customers would look like, and to be constantly improving what we do to take us towards that goal. In our financial reporting we will include full details of the progress we have made as well as providing clear, independent measures of the bank's customer trust and advocacy scores.

We may have started from further back than some, but we are determined to reach our aspiration of being number 1 for customer service, trust and advocacy. It won't be easy, but I firmly believe it is doable.

A better bank for shareholders
Critical though it is that we build a bank that is safe, in capital strength, in structure and on behaviour, it must also be profitable.

There are good businesses within RBS that are capable of delivering real value to their customers. If we do that, our customers will be happy for us to make a fair and sustainable profit.

Without sustainable profitability we cannot ensure our future safety; profit is the best form of self-replenishing capital.

We remain acutely conscious of how much was invested to ensure our continued survival by our private shareholders and, critically, by the Government. As we reduce the tail risks our bank is exposed to, repair our overall profitability and reshape CIB we are creating the potential to build up excess capital, paving the way for distributions to the Government and other shareholders.

Notes:
(1) Private banking and wealth management activities where the primary relationship management is conducted outside the British Isles.

Chief Executive's review

Our strategy envisages a capital benefit net of restructuring costs from 2016. We intend to return all capital to shareholders above a CET1 ratio of 13%. This capital return, which remains subject to regulatory approval at the time, will only be made once the significant legacy conduct hurdles are behind us. We see this as another important step towards repaying the support of our shareholders, including the UK tax payer.

2015 Goals and revised targets

I have set out in the table below five new ambitious business goals for the second year of our strategic plan to simplify and restructure this bank, achieving them will stand us in good stead to reach our goals. We have also published a revised set of financial and business targets. These are consistent with the other changes set out in this letter, and will enable you, our shareholders, to continue to track our progress and hold us to account.

By 2019 RBS intends to be a low cost business focused on effective, efficient delivery for our customers. It will be a bank based in the UK and RoI, with a presence in Western Europe, the US and Singapore. It intends to be a bank with leading market positions in each of our chosen business areas, and a bank that can generate attractive returns for shareholders on a sustainable basis.

Conclusion

I would like to take this opportunity to thank our Chairman, Sir Philip Hampton, as he takes part in his final Annual Results with the bank. Philip joined in 2009 amid the global financial crisis and immediately brought a clear sense of purpose and direction for the bank at a time of incredible uncertainty, both for the UK and RBS. His dedication to making this a great bank for the country served him well through the tremendous, but positive, change that RBS has undergone during his tenure. I want to express my personal gratitude to Philip for guiding me during my first year as CEO, and playing a key role in implementing the strategy that will take us forward. There is still work to do, but Philip will leave on a positive note, with RBS firmly focussed on serving its customers, and shareholders.

What you see today is a bank on track and delivering on its plan. A bank that is determined to earn the trust of its customers every day. A bank that helps the smallest enterprises through to the largest companies grow and prosper. A bank that is determined to reward its shareholders for their support. And a bank that is able to deliver on our ambition to be number one for customer service and advocacy in the UK and RoI.

Ross McEwan
Chief Executive

	Our long-term targets	Our 2015 goals
Strength and sustainability	CET1 ratio = 13% during the period of CIB restructuring	Reduce RWAs to <£300bn
Customer experience	No.1 for service, trust and advocacy	Improve NPS in every UK franchise
Simplifying the bank	Cost:income ratio <50%	Reduce costs by £800m(1)
Supporting growth	Leading market positions in every franchise	Lending growth in strategic segments ^{3} nominal UK GDP growth
Employee engagement	Employee engagement index ^{3} GFS norm(2)	Raise employee engagement index to within 8% of GFS norm(2)

Note:
(1) Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn.
(2) Global Financial Services (GFS) norm currently stands at 83%.

Business model and strategy

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

Our Corporate & Institutional Banking business earns income from client driven trading activities particularly Rates, Currencies and Credit.

We do business in competitive markets but we have strong franchises and good growth opportunities, and we aim to target our investment to maximise these opportunities.

Our Personal & Business Banking and Commercial & Private Banking franchises provide services to over 17 million personal and business customers in the UK and to over 1 million personal and business customers in the Republic of Ireland. Our Corporate & Institutional Banking business serves our corporate and institutional clients primarily in the UK and Western Europe, as well as those US and Asian multinationals with substantial trade and investment links in the region. This business's strategy has been further refined in 2015 (see page 15 for Reshaping our CIB business).

Our Structure

We are organised to provide products and services to personal, commercial and large corporate and institutional customers. Our principal customer-facing businesses are supported by a central Services function and other Support and Control Functions.

Customer Businesses

Our three customer-facing businesses are primarily responsible for defining the strategy and financial plan of their business and ensuring it is aligned with the wider RBS strategy. Teams define and deliver the customer proposition and are accountable for end-to-end customer processes and products. The teams partner with functions to specify functional requirements that deliver on customer needs.

Services

Services, led by the Chief Administrative Officer, provides business aligned technology, operations and property services across the bank. It is also accountable for technology risk, payments, data, change and the bank's fraud and security functions.

Functions

These teams define functional strategy and the financial plan to support the Customer Businesses and other functions. Most functions are a mix of control, expertise, advisory and transaction services. All common activities across the organisation are included and nothing else.

Business model and strategy

Our Strategy

After five years spent restoring fundamental soundness to the bank, we have created a strategy and a structure that provides us with an exciting opportunity. Over the next few years, we are going to focus all of our energy on earning back the trust we lost in 2008. And in doing so, RBS is going to change the UK banking sector for the better.

Our Priorities

We have a long way to go to be the bank that our customers deserve. But we are in a period of very significant, positive change. We have millions of great customers, tens of thousands of outstanding employees, and a home economy that is getting stronger. By building on this foundation, we can achieve our ambition to be number one for customer service, trust and advocacy in all our chosen markets.

Our Plan

Our overarching ambition is to become the number one bank for customer service, trust and advocacy. We have set out how we track our progress towards this goal on page 16.

We also track a number of other performance measures and have set long-term targets for these to keep us on track.

Business model and strategy

Reshaping our CIB business

We have announced our plans to go further and faster in reshaping parts of our CIB business. The investment bank was overstretched both in range of product and geography. We are building a stronger, safer and more sustainable business, focused mainly on UK and Western European customers, both corporates and financial institutions, supported by trading and distribution platforms in the UK, US and Singapore.

Our go-forward business is focused predominantly on UK and EMEA. Based on 2014 numbers, around 74% of CIB's RWAs and 81% of income(4) is generated in these regions.

The following table illustrates the impact of the announced restructuring of the CIB business on certain key performance metrics by region based on the non-statutory 31 December 2014 results. The information presented below assumes that the product offering for the CIB business will reduce by over a half as will the number of products and desks in the Markets business and is based on certain assumptions relating to the implementation of this strategy within each region and the businesses and operations which we expect to maintain. This information is presented to illustrate the strategy and its impact on the CIB segment. The information presented in this table is non-GAAP, has not been prepared in accordance with Regulation S-X and should be read in conjunction with the notes below as well as the information included in the main announcement, including the section titled "Forward Looking Statements" on page 2 and "Summary Risk Factors" on pages 110 to 112 and "Risk Factors" on pages 466 to 484.

	2014					
Region	Current CIB		Go-forward		Non-strategic	
	RWAs (£bn)	Income (£m) (4)	RWAs (£bn)	Income (£m) (4)	RWAs (£bn)	Income (£m) (4)
UK / Europe (1)	71	2,488	34	1,630	37	858
US (2)	24	974	11	274	14	700
APAC	12	487	2	111	10	376
Total	107	3,949	46	2,015	61	1,934
Countries	38		13		25	

Our product offering will reduce by over a half as will the number of products and desks in our Markets business.

Notes:

(1) EMEA.

(2) North America.

(3) Based on 2014 financials rounded.

(4) On a non-statutory basis

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Business model and strategy

Building the number one bank for customer service, trust and advocacy in the UK
We use independent surveys to measure our customers' experience and track our progress against our goal in each of our markets.

Net Promoter Score (NPS)

Customers are asked how likely they would be to recommend their bank to a friend or colleague, and respond based on a 0-10 scale with 10 indicating 'extremely likely' and 0 indicating 'not at all likely'. Customers scoring 0 to 6 are termed detractors and customers scoring 9 to 10 are termed promoters. The Net Promoter Score (NPS) is established by subtracting the proportion detractors from the proportion of promoters.

In 2014, we have seen some positive NPS movements in some of our franchises and our plans for 2015 will help to gather momentum across the bank.

		Year end 2013	Year end 2014	Year end 2015 target
Personal Banking	NatWest (England & Wales)(1)	5	6	9
	RBS (Scotland)(1)	-16	-13	-10
	Ulster Bank (Northern Ireland)(2)	-31	-24	-21
	Ulster Bank (Republic of Ireland)(2)	-20	-18	-15
Business Banking	NatWest (England & Wales)(3)	-11	-11	-7
	RBS (Scotland)(3)	-38	-23	-21
	Ulster Bank (Northern Ireland)(4)	-47	-44	-34
	Ulster Bank (Republic of Ireland)(4)	-21	-17	-15
Commercial Banking(5)		-1	12	15

Suitable measures for Private Banking and Corporate & Institutional Banking are in development.

Notes:
The only NPS improvements in 2014 that are statistically significant are for Business Banking (RBS Scotland) and Commercial Banking.
(1) Source: GfK FRS 6 month rolling data. Latest base sizes: NatWest England & Wales (3,511) RBS Scotland (547). Based on the question: "How likely is it that you would recommend (brand) to a relative, friend or colleague in the next 12 months for current account banking? "
(2) Source: Coyne Research 12 month rolling data. Question: "Please indicate to what extent you would be likely to recommend (brand) to your friends or family using a scale of 0 to 10 where 0 is not at all likely and 10 is extremely likely".
(3) Source: Charterhouse Research Business Banking Survey, based on interviews with businesses with an annual turnover up to £2 million. 12 month rolling data. Latest base sizes: NatWest England & Wales (529), RBS Scotland (399). Weighted by region and turnover to be representative of businesses in England & Wales/ Scotland.
(4) Source: PwC Business Banking Tracker. Question: "I would like you to continue thinking about your main business bank and the service they provide. Can you tell me how likely or unlikely would you be to do the following? Again please use a scale of 1 to 10, where 1 is very unlikely and 10 is very likely. How likely are you to recommend them to another business? ".
(5) Source: Charterhouse Research Business Banking Survey, based on interviews with businesses with annual turnover between £2 million and £1 billion. Latest base size: RBSG Great Britain (972). Weighted by region and turnover to be representative of businesses in Great Britain.

Customer Trust

We also use independent experts to measure our customers' trust in the bank. Each quarter we ask customers to what extent they trust or distrust their bank to do the right thing. The score is a net measure of those customers that trust their bank (a lot or somewhat) minus those that distrust their bank (a lot or somewhat).

		Year end 2013	Year end 2014	Year end 2015 target
Customer Trust(6)	NatWest (England & Wales)	35%	41%	46%
	RBS (Scotland)	-16%	2%	11%

Notes:

(6) Source: Populus (2014) and PSB (2013). Latest quarter's data. Measured as a net of those that trust RBS/NatWest to do the right thing, less those that do not. Latest base sizes: NatWest England & Wales (927), RBS Scotland (206).

The year-on-year improvement in RBS customer trust is largely a reversion to its longer-term trend: there were issues in late 2013 that impacted the bank's reputation and customer trust. There are early signs that customer trust in RBS is stabilising and starting to improve. NatWest has consistently performed competitively, and has shown early signs of improvement.

We will continue to aim for improvement through a secure, consistent and reliable service, and an unrelenting focus on our customers.

Our transformation priorities
Cost

Note: (1) Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn.

Capital

Reshaping the bank

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Business model and strategy

Our Operating Model
We have a clear set of Organisation Design principles that underpin our operating model, structures and accountabilities.

	The organisation will...	Meaning
Customer orientation	...be easy and effective for customers.	• Primarily organised around customer segments • Delivers the whole bank, seamlessly, to our customers • Decision rights as close as possible to the customer • End-to-end approach to delivering great customer experience
One bank	...be easy and effective for staff.	• No customer units vs functions • Unified culture and leadership • Short simple chains of command • Clear individual accountabilities • Minimum committees to support individual accountabilities
Efficiency	...share all things that can be shared.	• No duplication • Centres of excellence located in primary business or function • Cross-bank sharing of platforms
Disciplined and rigorous	...manage activities end-to-end in one best way.	• Effective process design, ownership and management • Standardisation • Consistent customer experience • Sticking to a long term investment plan to address complex technology environment
Safety and soundness	...help ourselves to do the right thing.	• Strong control functions • Effective three lines of defence • Straightforward policies

Our Values
Our Values are universal and guide our actions every day, in every part of our business. The values are the foundation of how we work at RBS.

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

Working together
- We care for each other and work best as one team.
- We bring the best of ourselves to work and support one another to realise our potential.

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

Thinking long term

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

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Business model and strategy

Our Customers
Our purpose is to serve customers well and we have moved from seven divisions to three customer businesses, so we can better deliver on this. Each of our businesses share the RBS ambition: to be number one for customer service, trust and advocacy.

We have made a number of customer commitments marking our intent to deliver better service to our customers. RBS is making steady progress towards building a simpler, smaller and fairer bank, and remains focused on delivering the commitments for personal and business customers that we announced on 27 February 2014.

We will stop offering deals to new customers that we are not prepared to offer to our existing customers.

Progress:
We now offer our best rates to new and existing customers across our product range. There is now no Personal Banking or Business Banking deal that is not available to existing customers.

We will also ban teaser rates, including zero per cent balance transfers in our credit card business.

Progress:
We have banned teaser rates. We run a fair and transparent credit card business for our customers.

We will stop offering different rates to customers who apply online, in branch or by phoning our call centres.

Progress:
Across our RBS and NatWest brands, pricing is consistent.

We will use simple language in our customer letters, on our websites and in our branches.

Progress:
Customer letters and emails have been simplified for our personal and business customers so they are straightforward and transparent. We have reduced the number of pages on our personal banking website by over 60%. In branches we have fewer, shorter brochures making it easier for customers to find information.

By the end of 2014 we will cut in half the number of personal and SME products on offer.

Progress:
We have reduced the number of Personal and SME products on offer by 50%. We are becoming a smaller, simpler bank to do business with.

We will improve the clarity of our language to customers. By the end of 2014 we will be able to explain all of our personal and SME charges on one side of A4.

Progress:
Fees and charges are explained on one side of A4 for both our personal and business customers and will be communicated via our
internet sites by the end of February 2015.

We have a duty to our customers to provide a straightforward breakdown of all charges.
We will speed up our account opening process for personal customers. We will cut how long it takes to open a personal current account from five days to next day.

Progress:
All customers applying for a personal current account who have the required ID and pass our fraud and credit checks can now open their account the next working day.

We will also improve the process to open a personal current account online so customers can upload their identification, such as their passport, and open their entire account from home.

Progress:
All customers applying for a personal current account who have the required ID and pass our fraud and credit checks can complete their application online and where required, are able to upload key ID documents from home.

By the end of 2014, customers will have access to Mobile Banking and Online Banking within one day.

Progress:
All Personal and Business Banking customers now have access to online banking by the next working day. Existing customers with a debit card now have access to mobile banking the next working day.

We will put Business Bankers back on the high street. We will have hundreds of Business Bankers help small business people open accounts, apply for loans and get the help they need.

Progress:
82% of Business Banking frontline staff are immediately above/next to our branches. This equates to 1,335 Business Banking specialists in branch today. We are simplifying processes so that Business Bankers can spend more time with customers, providing help and advice in branch or via telephone.

We will start making small business lending decisions in five days.

Progress:
We are processing lending decisions quicker. In almost all cases, lending decisions are made and communicated to the customer in five days or less with two-thirds of business lending decisions made locally and/or by sector specialists.

Business model and strategy

Independent Lending Review actions

In 2013, RBS and NatWest launched an Independent Lending Review, led by Sir Andrew Large and management consultants Oliver Wyman. The aim of the review was to identify steps we could take to enhance our support for SMEs. We committed to act and report on the recommendations.

The bank will write to thousands more SMEs setting out clearly how much it is willing to lend to their business.

Progress:
By the end of December 2014, more than 350,000 pro-active ‘Statements of Appetite’ had been issued to SME customers, offering in excess of £12.4 billion of new or additional funding.

A dedicated website will be developed to show clearly what information RBS use to make a lending decision and set out simple, clear steps in its lending process.

Progress:
The website has been developed and can be found at www.businesslending.natwest. com. Guidance is provided to support you in making a successful application and the types of information used to make a decision.

The bank will begin work to enable bankers to make all but the most complex lending decisions in just five days of receipt of all necessary information.

Progress:
In almost all cases, lending decisions are made and communicated to the customer in five days or less.

RBS will ensure two thirds of its lending decisions are made locally and by sector specialists.

Progress:
Over two thirds of lending decisions are now made locally and by sector specialists.

RBS will continue to invest in building the capability of its people with at least 90% of Relationship Managers and Credit Managers professionally qualified.

Progress:
RBS has a milestone plan to achieve this by the end of 2016. We met our 2014 target with 20% of Relationship Managers and Credit Managers now professionally qualified.

RBS will start a programme to make all customers whose loan applications are declined aware of the appeals process, and will continue to work with the Independent Appeals Chair to improve the support it provides to customers going though this process.

Progress:
A website has been developed and can be found at www.businesslending.natwest.com. The section titled ‘Decision’ explains how to appeal and alternative financing options.

The bank will commit to pointing businesses to alternative sources of finance where it cannot support a loan application.

Progress:
In January 2015 RBS announced it is set to give SMEs greater access to finance by formally referring customers to both Funding Circle and Assetz Capital, two alternative finance providers.

RBS aims to become the number one bank for SME customer service in the UK.

Progress:
Our ambition is to be #1 for service, trust and advocacy. We made commitments to our customers in 2014 to help us on this products or services. road, resulting in faster lending decisions, declining complaints volumes and reshaping the objectives of our people.

Customer experience targets will be set for all staff.

Progress:
Staff objectives are focussed on providing a market leading customer experience. Objectives for 2015 have been shared with all staff and include measures to ensure we are providing good customer outcomes.

SME complaints are to be reduced by 50%

Progress:
We have a milestone plan to achieve these reductions by December 2016. We have achieved our reduction target in 2014 with final quarter complaint volumes 22% lower than average quarterly volumes in 2013 by starting to simplify our processes and empowering our staff to make more decisions at first point of contact with our customers.

None of the bank's services will be conditional on customers buying another product or service with the bank.

Progress:
As at February 2015, none of our SME products or services are conditional on customers buying another of the Bank's customers in 2014 to help us on this products or services.

The bank will publicly report on progress against these commitments annually.

Progress:
We have reported our progress on www.rbs. com. We will continue to report progress on actions which are on-going through 2015.

Key economic indicators

The key market in which RBS operates is the UK. Lending in the UK is closely linked to GDP and growth in the housing market is highly dependent on the level of interest rates. Falling unemployment may have a positive impact on lending as more people are able to afford loans. The profitability of the banking sector is adversely impacted by low interest rates as they squeeze the margin between borrowing and lending. The level of impairments is affected among other things by GDP growth, movements of unemployment rates and interest rates.

The other key economies in which RBS operates are the US and the Republic of Ireland (RoI).

Summary

The UK economy performed relatively well in 2014 with GDP expanding by 2.6% compared with the previous year. By contrast the eurozone's modest recovery struggled to gain traction as growth of just 0.9% was realised. In Q4 2014 UK GDP was estimated to be 3.4% higher than the pre-crisis peak of Q1 2008. Inflation fell over the course of 2014 on the back of falling food and oil prices. The Consumer Price Index rose just 0.5% in December 2014 compared with December 2013.

The UK labour market performed strongly. In October to December 2014, the number of unemployed people was 486,000 lower than a year earlier. The unemployment rate was 5.7% - the lowest level since the summer of 2008. Real wage growth turned positive in late 2014 after falling almost consistently for over six years. However, this was more a reflection of lower inflation rather than a significant uplift in wage settlements.

Nominal earnings in the three months to December 2014 were 2.1% higher than in the three months to December 2013, approximately twice the pace of a year earlier but still very low on a historical basis.

UK house prices continued to increase through most of 2014 and in December 2014 they were 11.5% higher than at the pre-crisis peak in January 2008. The strength of the UK recovery in 2014 prompted talk of when interest rates will begin to rise. Earlier in the year markets anticipated an increase as soon as in 2014, but at the end of 2014 market expectations were for the first increase to take place in early 2016, given below target UK inflation, exceptionally weak wage growth, a high household debt burden, daunting economic challenges in the eurozone and sluggish global growth.In addition to renewed concerns over the eurozone, other risks to the global economic and financial system continued to build over the course of 2014.

Customer Case Study
Perfect public sector payments

Public sector spending contributes a significant amount to the UK economy. So it's important that the Government and wider Public Sector have access to a simple, secure and straightforward way of paying for services.

This year we were awarded a place on the ePurchasing Card Solution Framework Agreement for the supply of Commercial card and Management Information solutions that can be used by organisations across the UK public sector including central government, local government, health, education, devolved administrations, emergency services, defence and not-for-profit organisations.

Being awarded a place on the ePurchasing Card Solution Framework Agreement was a true team effort and we're proud to play our part in helping the UK Government and wider Public Sector to deliver efficient, transparent payment services for making quick payments to a wide range of their suppliers, often including UK SMEs.

Mobile banking on the move

Investing in Technology our customers can rely on

In today's smartphone, tablet enabled, app driven world, customers are looking for even more choice and flexibility about how, when and where they do their banking.

But we know customers still want to speak to a person for those important life decisions, like buying a home or starting a new business.

We're responding to the changing needs of our customers by investing £1 billion over the next three years to improve our banking services. As part of this investment we're refurbishing our entire branch network to create open, bright spaces for customers to talk to us face to face about the things that matter most to them.

For customers who like to do their banking on the move we're continuing to develop our market-leading mobile banking app, which is used regularly by more than three million customers and supports around 3.5 million logons and half a million payments and transfers every day. We've also just become the first bank in the UK to introduce Touch ID fingerprint logons, offering even better security for our customers.

However, this is just one of the ways we're taking our service to where our customers want us to be. With the UK's second largest branch network, a 24/7 telephone banking service, the second largest free to use ATM network in the UK and an extended relationship with the Post Office which means customers can now access our basic services in 11,500 branches, customers have never had more choice about how they do their banking.

And for those customers in more remote communities we've invested in a further five mobile banking vans, taking our fleet of vans to 23. They join a long, proud tradition of mobile banking services – our first van was introduced in 1946.

Business review

RBS is now structured to deliver its ambition by organising itself around the needs of its customers, so as to combine customer groups with similar needs into franchises able to deliver co-ordinated services.

The reorganised bank will be a UK-focused retail and corporate bank with an international footprint to drive its corporate business. The previously reported operating divisions are now realigned into three franchises and seven operating segments.:

- Personal & Business Banking which includes UK Personal and Business Banking and Ulster Bank
- Commercial & Private Banking which includes Commercial Banking and Private Banking
- Corporate & Institutional Banking

In addition, RBS will continue to manage and report Citizens Financial Group and RBS Capital Resolution as separate operating segments until disposal or wind down.

Total revenue by region 2014(1)

Total income by franchise 2014(1)

(1) Non-statutory

Business review

Personal & Business Banking (includes UKPBB and Ulster Bank

Les Matheson
Chief Executive,
Personal & Business Banking

Personal & Business Banking (PBB) serves individual and mass affluent customers together with small businesses (generally up to £2 million turnover), with more business bankers moving back into branches. PBB comprises two segments, UK Personal & Business Banking, including Williams & Glyn, (UK PBB) and Ulster Bank.

Performance overview

- PBB recorded an operating profit of £2,056 million (UK PBB - £1,450 million, Ulster £606 million), up £2,846 million (UK PBB – up £631 million, Ulster up £2,215 million).
- Net interest income increased by £210 million or 4% (UK PBB - £193 million, 4%, Ulster £17 million, 3%) with strong improvements in deposit margins and volume growth. This was partly offset by lower asset margins linked to the continued change in the mix of loan book towards secured lending and lower mortgage margins.
- Operating expenses decreased by £279 million or 5% (UK PBB - £174million reduction, 4%, Ulster £105 million reduction, 15%), reflecting lower restructuring and litigation and conduct costs.
- Mortgage balances increased by £2.4 billion or 2% (UK PBB increase £3.9 billion, 4%, Ulster £1.5 billion decrease, 8%), to £121 billion driven by strong performance as advisor capacity increased.

Building a better bank that serves customers well
The strategic goal of PBB is to become the number one personal and business bank for customer service, trust and advocacy in the UK. Following completion of a strategic review, Ulster Bank was confirmed as a core part of RBS, offering a good strategic fit with RBS's retail and commercial strategy.

Throughout 2014, the business has made steady progress in making banking fairer and simpler for its customers through a number
of fair banking initiatives and technology investments.

These Included:

- extending services to the Post Office network.
- removing 0% teaser deals from its offering and introducing the new Clear Rate and cash-back credit cards in 2014. RBS became the first of the main high street banks to ensure all of its savers get the same or better deals as new customers.
- further developing online and mobile banking services to support the upward trend in digital transaction volumes.

At the end of December 2014 we had c.3 million active users of our Personal Mobile App in the UK

Simple transactions can be done in 11,500 Post Offices across the UK

	2014		Total	2013		Total
Performance highlights	UK PBB	Ulster Bank	PBB	UK PBB	Ulster Bank	PBB
Return on equity (%)	19.4	16.1	17.5	9.8	(33.2)	(5.7)
Net interest margin (%)	3.68	2.27	3.42	3.56	1.88	3.21

Cost:income ratio (%)	72	71	71	77	81	78
Net loans and advances to customers (£bn)	127.2	22	149.2	124.8	26	150.8
Customer deposits (£bn)	148.7	20.6	169.3	144.9	21.7	166.6
Loan:deposit ratio (%)	86	107	88	86	120	91
Risk-weighted assets (£bn)	42.8	23.8	66.6	51.2	30.7	81.9

Note:
(1) RWAs at 31 December 2013 are on Basel 2.5 basis and on the end-point CRR basis at 31 December 2014.

Customer Case Study

Fairer Banking

We've made a conscious decision to be different from other banks. In 2014, we made a series of customer commitments which aimed to make banking simpler, fairer and clearer for our customers.

In an industry leading move we stopped offering teaser rates to attract new customers and guaranteed customers the same rates, whether they chose to bank online, through a branch or over the phone. As part of this we became the first bank on the high street to commit to giving all our savers the same rates, no matter how they chose to bank with us. We've also simplified our products, so it's easy for our customers to find the right one for their needs – and with all our charges explained on just one page, it's easy to understand the terms and conditions too.

In March we stopped offering 0% balance transfer credit cards. This type of card was designed to make it easier for customers to repay existing credit card debt, but our research showed that debt tended to increase, rather than reduce over the term. Stopping these cards meant around 100,000 customers transferred to a low, ongoing rate with no chance of being caught out by a big jump in their interest rate down the line.

We're making changes for business customers too 95% of business lending decisions are now made within five days and gross business lending is up 30% from 2013. Plus, we've committed an extra £1 billion to support small businesses with fee-free, fixed rate loans.

Business review

Commercial & Private Banking (includes Commercial Banking and Private Banking)
Alison Rose
Chief Executive,
Commercial & Private Banking

Commercial & Private Banking (CPB) serves commercial and mid-corporate customers and high net worth individuals, deepening relationships with commercial clients, operating overseas through its market-leading trade and foreign exchange services, while connecting our private banking brands more effectively to successful business owners and entrepreneurs. CPB comprises two reportable segments, Commercial Banking and Private Banking.

Performance overview

- CPB recorded an operating profit of £1,440 million, (Commercial Banking - £1290 million, Private Banking - £150 million) compared with £469 million in the prior year (Commercial Banking - £530 million profit, Private Banking £150 million loss).
- Net interest income increased by £112 million or 4%, (Commercial Banking £79 million, 4%, Private Banking £33 million, 5%) largely reflecting re-pricing activity on deposits partly offset by the impact of reduced asset margins, a result of the net transfer in of lower margin legacy loans (after the cessation of Non-Core).
- Total expenses were down £304 million or 10%, (Commercial Banking - £131 million, 7%, Private Banking - £173 million, 16%) reflecting lower litigation and conduct costs, primarily relating to interest rate swap redress, and lower underlying direct costs.
- RWAs were £2.3 billion lower, (Commercial Banking - £1.8 billion lower, 3%, Private Banking - £0.5 billion lower, 4%) at £75.5 billion (Commercial Banking - £64 billion, Private Banking -£11.5 billion), primarily reflecting net transfers to RCR, effective 1 January 2014, and improving credit quality on the back of UK economic recovery, offset by loan growth.

Building a better bank that serves customers well

- Within Commercial Banking over 120 products were removed from sale and over 400 process improvements implemented.
- There has been an improvement in the Net Promoter Score and rating of overall service quality across the business, together with a continuing fall in complaints.
- The first out of eight accelerator hubs opened in February 2015, offering free space, support and advice to high growth business owners.
- Within Private Banking the business has progressed well against key priorities in 2014. Improvements are evidenced by several industry awards including: ‘Best private bank in the UK’ (PWM/ The Banker) and ’Most innovative digital offering’ (Private Banker International).Coutts continues to be recognised as a leader in philanthropy, with its ’$1 million donors’ report receiving significant media coverage, and its expertise as an adviser for family businesses and existing entrepreneurs remains a strong point of differentiation.

Within Commercial Banking over 120 products were removed from sale and over 400 process improvements implemented.

The first of eight accelerator hubs offering free space, support and advice to high growth business owners opened to as part of our plan to support UK entrepreneurs.

	2014	Total	2013	Total

Performance highlights	Commercial Banking	Private Banking	CPB	Commercial Banking	Private Banking	CPB
Return on equity (%)	12.6	7.8	11.9	49	(3.1)	3.7
Net interest margin (%)	2.74	3.71	2.93	2.64	3.74	2.81
Cost:income ratio (%)	57	87	65	63	122	73
Net loans and advances to customers (£bn)	85.1	16.5	101.6	83.5	16.7	100.2
Customer deposits (£bn)	86.8	36.1	122.9	90.7	37.2	127.9
Loan:deposit ratio (%)	98	46	83	92	45	78
Risk-weighted assets (£bn)	64	11.5	75.5	65.8	12	77.8

RWAs at 31 December 2013 are on Basel 2.5 basis and on the end-point CRR basis at 31 December 2014.

Customer Case Study
A helping Hertz
The summer season sees a surge in tourists visiting the UK, many of whom want to hire a car.

For leading car rental company Hertz this poses a unique challenge - how to efficiently fund the required increase in its fleet size to meet the demand of the summer months? A Lombard customer for 30 years, Hertz turned to us to help them find an answer.

Working with teams across the bank, we were able to provide a short-term seasonal increase to Hertz UK's core fleet financing facility giving them the flexibility they needed to manage their peak requirements in line with demand.

Chris Cooper, Director of Lombard Strategic Fleet Finance said, "This is an excellent example of us working together and thinking long term for the benefit of both the client and the bank. This deal cements our position as a strategic partner to Hertz and provides a platform for further seasonal support."

Business review

Corporate & Institutional Banking
Rory Cullinan
Executive Chairman,
Corporate & Institutional Banking and Capital Resolution

Corporate & Institutional Banking (CIB) serves our corporate and institutional clients primarily in the UK and Western Europe, as well as those US and Asian multinationals with substantial trade and investment links in the region, with debt financing, risk management and trade services, focusing on core product capabilities that are of most relevance to our clients. This business's strategy has been revised in 2015 (see page 15 for Reshaping our CIB business).

Performance overview

- CIB recorded an operating loss of £892 million compared with a loss of £2,882 million in 2013.
- Total income declined by 21%, reflecting reduced deployment of resources and difficult trading conditions, characterised by subdued levels of client activity and limited market volatility.
- Operating expenses fell by £2,360 million driven primarily by lower litigation and conduct costs. Operating expenses excluding litigation and conduct costs of £994 million (2013 - £2,441 million) and restructuring costs of £295 million (2013 - £202 million), decreased by £1,006 million, or 22%, reflecting the continued focus on cost savings across both business and support areas.
- Net impairment releases totalled £9 million compared with a net impairment charge of £680 million in 2013, reflecting a reduction in latent loss provisions and a low level of new impairments.
- Funded assets fell by 10% reflecting the focus on core product areas including the wind-down of Credit Trading and the US ABP businesses.
- RWAs were managed down by £40.0 billion from £147.1 billion on 1 January 2014 to £107.1 billion on 31 December 2014.

Building a better bank that serves customers well

CIB focused on its strengths in core product areas during 2014, reducing the scale of the business and simplifying the operating model. This allowed CIB to better serve customers while deploying fewer resources.

The commitment to customers was demonstrated by the award of The Banker's Most Innovative Bank in Risk Management in Q3 2014 and by winning IFR magazine's Sterling Bond House of the year award in Q4 2014.

The drive to concentrate on core products is evidenced by the 27% fall in RWAs (compared with 1 January 2014 on an end-point CRR basis) and the 22% year on year fall in expenses (excluding litigation and conduct costs of £994 million (2013 - £2,441 million) and restructuring costs of £295 million (2013 - £202 million).

Performance highlights	2014	2013
Return on equity (%)	(4.2)	(12.9)
Cost:income ratio (%)	123	144
Net loans and advances to customers excluding reverse repos (£bn)	72.8	68.2
Customer deposits excluding repos (£bn)	59.4	64.8

Risk-weighted assets (£bn)	107.1	120.4

Note: RWAs at 31 December 2013 are on Basel 2.5 basis and on the end-point CRR basis at 31 December 2014.

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Customer Case Study
Manchester takes off
Manchester Airports Group (MAG) owns and operates four UK airports including Manchester, the UK's third largest airport, and London Stansted, the fastest growing airport in London. They serve over 45 million passengers and handle more than 600,000 tonnes of freight every year, contributing over £4 billion to the UK economy and directly supporting around 45,000 full-time jobs.

Our long-standing relationship with MAG has seen us support both their £1.5 billion acquisition of London Stansted in 2013, and two bond issuances which raised a total of £810 million. Those funds allowed MAG to refinance the acquisition debt used to buy London Stansted, and gave them a platform to invest in services and facilities at their airports.

A good example of their investment is the multi-million pound upgrade of the terminal at London Stansted. The expansion will double the size of the security space, expand the departure lounge and help create a new lounge area in the terminal building.

Business review

Citizens Financial Group
Bruce Van Saun
Chairman and Chief Executive Officer, Citizens Financial Group, Inc.

Citizens Financial Group, Inc. (CFG) provides financial services primarily through the Citizens and Charter One brands. CFG is engaged in retail and corporate banking activities through its branch network in 11 states in the United States and through non-branch offices in other states.

RBS disposed of 29.5% of its interest in Citizens Financial Group, Inc. during the second half of 2014 primarily through an initial public offering in the USA.

Performance overview (1)

- Operating profit increased by £156 million ($306 million), or 26%, to £761 million ($1,253 million), reflecting the Q2 2014 gain on the sale of the Illinois franchise. The former Non-Core portfolio is now included and indirect expenses are no longer allocated on a prospective basis from 1 January 2014.
- Net interest income was up £121 million ($357 million), or 6%, to £2,013 million ($3,317 million) driven by a larger investment portfolio, loan growth including the transfer of assets from Non-Core, the benefit of interest rate swaps and deposit pricing discipline.
- Excluding restructuring costs of £103 million ($169 million) (2013 £16 million ($24 million)), total expenses were down £168 million ($96 million), or 3%, to £2,020 million ($3,328 million) driven by the removal of indirect costs in 2014 and the impact of the Illinois franchise sale partially offset by lower mortgage servicing rights impairment release and higher consumer regulatory compliance costs.
- Average loans and advances were up 10% driven by the $3.4 billion transfer of assets from Non-Core, commercial loan growth, auto loan organic growth and purchases of residential mortgages and auto loans, which were partially offset by a reduction in home equity loans.
- Average customer deposits were up 4%. On a US dollar basis average customer deposits were down 2% with planned run-off of high priced deposits.

Building a better bank that serves customers well
The initial public offering of CFG was successfully completed in September 2014 and RBS's interest in CFG stood at 70.5% of shares outstanding at 31 December 2014.

Further share sales are planned in 2015 and RBS intends to fully divest the business by the end of 2016.

Note:
(1) 2014 results are not directly comparable with prior year periods; prior year results exclude Non-Core operations and include indirect expenses. In the context of the planned disposal of Citizens Financial Group, indirect expenses are no longer allocated to the segment.

Performance highlights	2014	2014	2013	2013
	£	$	£	$
Return on equity (%)	6.6	6.6	5.7	5.7
Cost:income ratio (%)	69	69	74	74
Net loan and advances to customers (bn)	59.6	93.1	50.3	83.2

Customer deposits excluding repos (bn)	60.6	94.6	55.1	91.1
Loan:deposit ratio (%)	98	98	91	91
Risk-weighted assets (bn)	68.4	106.8	56.1	92.8

Note: RWAs at 31 December 2013 are on Basel 2.5 basis and on the end-point CRR basis at 31 December 2014.

RBS Capital Resolution

Rory Cullinan
Executive Chairman,
Corporate & Institutional Banking and Capital Resolution

RBS Capital Resolution (RCR) became fully operational on 1 January 2014 with a pool of c.£29 billion of funded assets with particularly high long-term capital intensity, credit risk and/or potentially volatile outcomes in stressed environments. RCR brings assets under common management and increases focus on the run down so as to release capital.

Performance overview

- RCR funded assets were reduced by £14 billion, or 48%, during 2014, driven by disposals and repayments.
- RWA equivalent decreased by £38 billion, or 58%, during 2014. This primarily reflects disposals and repayments, supplemented by methodology changes and lower market risk RWAs.
- Operating profit of £988 million reflects impairment provision releases and higher than anticipated sale prices for assets driven by a combination of strong execution and favourable market conditions particularly in Ireland.
- The net effect of the £988 million operating profit and RWA equivalent reduction of £38 billion (1) was CET1 accretion of £4.8 billion.

Building a better bank that serves customers well
RCR is managed and analysed in four asset management groups - Ulster Bank (RCR Ireland), Real Estate Finance, Corporate and Markets. Real Estate Finance excludes commercial real estate lending in Ulster Bank.

Note:
(1)Capital equivalent: £3.8 billion at an internal CET1 ratio of 10%.

2014 saw many of RCR's larger deals completed - around 360 of them.

Performance highlights	31 December 2014	1 January 2014
Risk-weighted asset equivalent (£bn)	27.3	65.0
Risk-weighted assets (£bn)	22.0	46.7
Funded assets (£bn)	14.9	28.9

Business review

Services
Simon McNamara
Chief Administrative Officer

Services plays a vital part in building loyalty with every customer interaction we have; from putting money in the ATMs, to keeping our customers safe from fraud, processing trillions of pounds in payments across the world, and making sure the bank's technology systems are there for our customers when they need them. We keep RBS running, driving efficiency and resilience in everything we do to support our customers 24 hours a day, 365 days a year. For reporting purposes, Services are allocated to the operating segments. It is not deemed as a reportable segment.

Here are just some of the ways we've worked to build customer trust in 2014:

We're more resilient
- The performance of our systems has improved with each one of our 130 services available to customers over 99.96% of the time. Through this work, in the second half of the year we have reduced system downtime by 79%.
- Our mirror bank capability now lets our customers access critical services in the event of a system outage. We can now process 90% of debit and credit card transactions for customers during an outage and they can view mini-statements and balances on mobile and online banking systems.
- We upgraded our service to improve stability and reduce the risk of outages associated with our core international payments infrastructure. This has resulted in a significant reduction in the number of outages we experience.
- We upgraded the infrastructure that supports our mobile banking service improving the stability, capacity and availability of this service for customers.
- On 'Black Friday' our systems supported high volumes and values across a number of our customer channels in the UK, including record-breaking figures for our mobile banking app.

We're simpler
- We implemented a new operating model for Services, fully aligned to the customer franchises in Personal & Business Banking, Commercial & Private Banking and Corporate & Institutional Banking, and RBS Capital Resolution. We reduced the number of properties we use by 200 to 2,500 today, including some major properties in London.
- Through our Simplifying Customer Life programme, we implemented over 4,000 ideas, generating improvements covering more than 2.6 million customer interactions.
- We used data and analytics to simplify pricing for our Instant Access Savings product (reducing from 70 to 2 different price points) - improving the savings rate for 4.5 million customers in the process.

We're more efficient
- We contributed around £500 million to the bank's cost reduction target.
- We refocused and prioritised our investment and transformation plans, reducing the number of projects we run from 550 to 182.
- We reduced the amount of cash spend on third parties by £800 million, a 17% reduction from 2013.
- We have invested in our data and customer technology, allowing us to personalise content presented to customers in over 1.2 billion interactions (across digital, telephony and face to face).

We're more innovative
- We initiated 23 proof of concepts, and generated a pipeline of over 450 ideas, through our innovation scouting network around the world.
-

We teamed up with Silicon Valley-based start-up TokBox, to trial cutting edge video conferencing technology, which increases choice and convenience for customers and entrepreneurs.

- We increased the number of active mobile banking users by around 600,000 customers to 2.9 million, with over 1 billion logins.
- We transformed 127 branches through our Points of Presence programme and installed Wi-Fi in almost 2000 sites for customers and colleagues.

Customer Case Study
Malted magic
Muntons supplies malt – an important ingredient in products like beer, whisky and confectionery – to a range of blue-chip customers.

UK owned and based in Suffolk, the firm uses only British barley to make their malt. To successfully build their business and compete on a bigger stage, they knew they would have to increase their global footprint. A recent joint venture in Thailand has added to their sales presence in the USA and Asia, supported by us.

Earlier this year Muntons invested £5.4 million in an anaerobic digestion plant at their Stowmarket headquarters, partly funded by RBS Invoice Finance with an asset-based lending package. This facility will help them manage the major capital spend they'll need to meet their ambitious growth targets both at home and abroad.

Governance at a glance

Governance at a glance

Board and committee activity remained busy during 2014 with a number of key strategic issues taking centre stage including the delivery of the strategic plan agreed in February 2014. Board committees continued to play a crucial role in our governance framework, undertaking their complex work comprehensively and effectively supporting the work of the Board.

Conduct and regulatory investigations have been key areas of focus and our 2014 results reflect the impact that conduct related matters continue to have on financial and operating performance. The Board will continue to drive cultural change and it is essential that our governance framework continues to evolve to support this.

During 2015, the Board will continue to focus on our key priorities, including customers, conduct, capital and funding, risk and delivery of the strategic plan.

Philip Hampton
Chairman of the Board of directors

Our Board

The Board has ten directors comprising the Chairman, two executive directors and seven independent non-executive directors, one of whom is the Senior Independent Director. Biographies for each director and details of which Board Committees they are members of can be found on pages 47 to 50.

There were a number of changes to the Board's composition during 2014, details of which can be found in the Chairman's Statement on page 8.

The Board is collectively responsible for the long-term success of RBS and delivery of sustainable shareholder value. Its role is to provide leadership of RBS within a framework of prudent and effective controls which enables risks to be assessed and managed.

We conducted an internal evaluation of the effectiveness of the Board and its committees in 2014, led by the Chief Governance Officer and Board Counsel. The evaluation has concluded that the Board is operating effectively but has identified some areas for improvement which we will focus on during 2015.

Our Board committees

In order to provide effective oversight and leadership, the Board has established a number of Board committees with particular responsibilities. The work of the Board committees is discussed in their individual reports.

The terms of reference for each of these committees is available on rbs.com and copies are also available on request from RBS Corporate Governance and Secretariat.

Group Nominations Committee

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

The Group Nominations Committee report is set out on pages 56 and 57.

Group Audit Committee
Assists the Board in discharging its responsibilities for monitoring the quality of the financial statements of RBS. It reviews the accounting policies, financial reporting and regulatory compliance practices of RBS. It also exercises oversight over systems and standards of internal controls, and monitors RBS's processes for internal audit and external audit.

The Group Audit Committee report is set out on pages 58 to 62.

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

The Board Risk Committee report is set out on pages 63 to 69.

Governance at a glance

Board of directors and Executive Committee
Board

Chairman
Philip Hampton

Executive directors
Ross McEwan
Ewen Stevenson

Non-executive directors
Sandy Crombie (Senior Independent Director)
Alison Davis
Morten Friis
Robert Gillespie
Penny Hughes
Brendan Nelson
Baroness Noakes

Chief Governance Officer and Board Counsel
Aileen Taylor (Company Secretary)

Executive Committee
The Board is supported by the Executive Committee comprising the executive directors and other senior executives. Details of the composition of the Executive Committee and biographies of its members can be found at www.rbs.com>about us>corporate governance>ceo and board >executive committee

RBS Capital Resolution (RCR) Board Oversight Committee
Provides oversight of RCR's progress against, and compliance with, its primary objective and asset management principles.

The RCR Board Oversight Committee report is set out on pages 70 and 71.

Sustainable Banking Committee
Responsible for overseeing and challenging how management is addressing sustainable banking and reputation issues, considering the long term interests of all stakeholder groups.

The Sustainable Banking Committee report is set out on pages 72 and 73.

Group Performance and Remuneration Committee
Responsible for approving remuneration policy and reviewing the effectiveness of its implementation. It also considers
senior executive remuneration and makes recommendations to the Board on the remuneration of executive directors.

The Director's Remuneration report is set out on pages 74 to 95.

Executive Committee

Supports the Chief Executive in managing RBS's businesses. It reviews and debates relevant items before consideration by the Board. It is responsible for determining and delivering RBS's strategy and it monitors and manages financial performance, capital allocations, risk strategy and policy, risk management, operational issues and customer issues.

UK Corporate Governance Code

Throughout the year ended 31 December 2014, RBS has complied with all of the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council dated September 2012 except in relation to provision (D.2.2) that the Group Performance and Remuneration Committee should have delegated responsibility for setting remuneration for the Chairman and executive directors. RBS considers that this is a matter which should rightly be reserved for the Board.

Risk overview

Risk overview

Capital developments

RBS continued to make good progress in reducing risk and strengthening its capital position. The Common Equity Tier 1 (CET1) ratio improved by 260 basis points to 11.2% and the leverage ratio by 80 basis points to 4.2%.

The key factors were:

- RCR disposals and run-off in 2014 which led to a reduction in funded assets of £14 billion and in risk-weighted asset equivalent of £38 billion (58% of the RCR start point).
- RCR was established with effect from 1 January 2014 to remove risk from the balance sheet, reduce volatile outcomes in stressed environments and to accelerate the release of capital over a three year period.
- A £40 billion reduction in CIB's risk- weighted assets (RWAs), including an orderly run-down of US asset-backed product business.
- Disposal of €9 billion of legacy available- for-sale securities, thereby reducing stressed capital and RWAs.

Despite these and other risk reduction measures, RBS's capital position was close to thresholds under adverse stress scenarios, as evidenced by the European Banking Authority.

(EBA) and Bank of England (BoE) stress test results published in the second half of 2014:

- EBA: 2016 CET1 ratio (based on 2013 accounts) under the modelled EBA adverse scenario was 5.7%, marginally above the minimum requirement of 5.5%.
- BoE: CET1 ratio under the hypothetical BoE adverse scenario was 4.6% at the end of 2016, slightly above the 4.5% post- stress minimum ratio threshold set by the BoE. After taking account of management actions, the adjusted ratio was 5.2%.

Other risk developments

- Conduct, regulatory, litigation and reputational risk: RBS continued to be affected by conduct issues. Litigation and conduct costs, including those relating to Payment Protection Insurance, Interest Rate Hedging Products, London Interbank Offered Rate (LIBOR), US mortgage securitisations and foreign exchange trading, have exceeded £9 billion since 2011 and continued to demand significant amount of management attention.
- Operational risk: RBS's ongoing transformation is complex and wide- ranging, affecting all business areas and functions. In 2014, a new functional operating model was implemented to embed standardisation and consistency of approach to the management of operational risk. Significant investments were made to improve technology resilience for core banking services. In addition, enhancements were made to cyber security programmes.
- Liquidity: A strong liquidity position was maintained, with a liquidity portfolio of £151 billion at the end of 2014 covering short-term and total wholesale funding by factors of over five and 1.5 respectively. Liquidity coverage ratio was 112% and the net stable funding ratio was 121% at the end of 2014.
- Credit risk: 2014 saw a net release of £1.2 billion of impairment provisions, principally in RCR and Ulster Bank reflecting sustained improvements in economic and asset market conditions in the UK and Ireland. RBS continued to reduce its risk concentrations, notably in commercial real estate and eurozone periphery countries. RBS still has substantial credit risk exposures with credit risk RWAs of £295 billion compared with £357 billion at the end of 2013, a 17% reduction.
- Market risk: RBS's traded market risk profile decreased significantly, with market risk limits being reduced across all businesses. Average trading VaR decreasing to £27.8 million, 35% of the 2013 average. Market risk RWAs also decreased by £6.3 billion to £24 billion.
- Country risk: RBS maintained a cautious stance as many clients continued to reduce debt levels. Total eurozone periphery net balance sheet exposure decreased by £10 billion or 25% to £31 billion. Total exposure to Greece was £0.4 billion but only £120 million after taking into account collateral and guarantees.

- Pension risk: The triennial actuarial funding valuation of the main scheme, agreed in May 2014, showed the value of liabilities exceeded the value of assets by £5.6 billion at 31 March 2013, a ratio of assets to liabilities of 82%. To eliminate this deficit, RBS has agreed to pay additional contributions: £650 million from 2014 to 2016 and £450 million (indexed for inflation) from 2017 to 2023. These contributions are in addition to regular annual contributions of around £270 million.

Top and emerging risk scenarios
A number of top and emerging risk scenarios attracted particular attention.

Macro-economic and other external risks
- Risks related to the macro-economy: A number of scenarios could have a significant negative impact on RBS's revenues and impairments, including a recession in the UK or any of the other major markets in which RBS operates, large falls in UK or Irish property prices, oil prices, a resumption of the eurozone crisis, global deflation or major geopolitical instability. To mitigate these risks, capital, liquidity and leverage ratios have been strengthened, and some higher risk and capital intensive portfolios have been exited.
- An increase in obligations to support pension schemes: If economic growth stagnates, and interest rates remain low, the value of pension scheme assets may not be adequate to fund the pension schemes' liabilities. The deficit in RBS pension schemes as determined by the most recent triennial valuations has increased, requiring RBS to increase its current and future cash contributions to the schemes as noted above. Depending on the economic and monetary conditions and longevity of scheme members prevailing at that time, the deficit may rise further at the next valuation in 2016. To limit pension risk, defined benefit pension schemes have been closed to new members since 2006 and terms for existing members have been altered in recent years.

Risk overview

- The impact of the 2015 UK general election on performance and strategy: Ahead of the upcoming UK election in May 2015, there is uncertainty around how the policies of a newly elected government may affect RBS. The implementation of new policies could significantly affect the operating employment environment and the fiscal, monetary, legal and regulatory landscape.

Conduct, litigation and reputational risk

- Risks to income, costs and business models arising from regulatory requirements: RBS is exposed to the risk of further increases in regulatory capital requirements as well as risks related to new regulations that could affect its business models. Regulatory intervention may result from a competition review of the personal current account and small business banking markets; the ring-fencing proposals from the Independent Commission on Banking or failure to implement the Basel Committee on Banking Supervision's Risk Data Aggregation and Reporting principles. RBS considers the implications of proposed or potential regulatory requirements in its strategic and financial plans.
- The impacts of past business conduct: Future conduct and litigation charges could be substantial. RBS is involved in ongoing class action litigation, securitisation and mortgage-backed securities related litigation, investigations into foreign exchange trading and rate- setting activities, continuing LIBOR related litigation and investigations, anti-money laundering, sanctions, mis-selling and compliance related investigations as well as a number of other matters. Settlements in relation to foreign exchange may result in additional financial, non-monetary penalties and collateral consequences, which may be material. RBS is embarking on a programme to embed a strong and comprehensive risk and compliance culture.

Risk related to RBS's operations

- Impact of Cyber attacks: Cyber attacks are increasing in frequency and severity across the industry. RBS has participated in industry-wide cyber attack simulations in order to help test and develop defence planning. To mitigate the risks, a large- scale programme to improve user access controls is in place. Action has also been taken to reduce the number of external websites and tighten management of them, to strengthen anti-virus protections, and to continue the staff education programme on information protection.
- Failure of information technology systems: RBS's information technology systems may be subject to failure. As such systems are complex, recovering from failure is challenging. To mitigate these risks, a major investment programme has significantly improved the resilience of the systems and more benefits are expected. Back-up system sustainability has improved, and a 'shadow bank' system, to provide basic services, if needed, has been created.
- Increased losses arising from a failure to execute major projects successfully: The successful execution of major projects, including the transformation plan, the recently announced restructuring of CIB and the divestment of Williams & Glyn, is essential to meet RBS's strategic objectives. These projects cover organisational structure, business strategy, information technology systems, operational processes and product offerings. RBS is working to implement change in line with its project plans while assessing the risks to implementation and taking steps to mitigate those risks where possible.
- Inability to recruit or retain suitable staff: RBS is going through a period of strategic and organisational change, leading to the need to implement new business strategies to respond to a changing external environment. Strong competition for staff from peers, the impact of remuneration regulations, and the implications of the new Bank of England Senior Managers Regime may contribute to this risk.

A description of summary rick factors is included on pages 110 to 112 and a full description of the principal risks facing RBS is set out on pages 466 to 484.

Sustainability

"Our ambition is to shape the communities we serve in a positive way. We recognise that we still have a long way to go to achieve this position across our business.

Sustainability is therefore not just about the many responsibilities and obligations that RBS has, but about taking leadership on a broad range of issues that are important to our stakeholders."

Andrew Cave, Chief Sustainability Officer

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

Governance
The sustainability programme at RBS is built on a robust governance framework that provides direction to our sustainability priorities. The Sustainable Banking Committee is a Group Board Committee and membership comprises three independent non-executive directors. The Committee is chaired by independent non-executive director Penny Hughes and attended by senior representatives from the customer-facing businesses as well as Human Resources, Sustainability, Risk, Conduct and Regulatory Affairs, Communications and Marketing, Corporate Services and Strategy. The Chairman of the Board also regularly attends meetings. The work of the Committee is essential to ensuring that our approach to issues is managed effectively and debated at the appropriate level.

The Sustainable Banking Committee has overseen a number of important developments within RBS since it was established in 2010. In 2014 the strategic direction of the Committee was refocused under the themes of bank-wide reputation and trust, Serving Customers and Sustainability/Emerging Issues. For more information see the report of the Committee Chairman on pages 72 and 73.

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

As part of our wider stakeholder engagement programme, the Sustainable Banking Committee runs its own programme of structured stakeholder engagement sessions. In 2014, the Committee took part in six of these stakeholder sessions which act as open forums where advocacy groups and experts can discuss key areas of concern with the most senior decision-makers in RBS.

We will continue to host these sessions to ensure that we understand our stakeholders' priorities. For more information see the report of the Committee Chairman on pages 72 and 73.

External commitments

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

Sustainability

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

We are also on the Steering Committee of the UK United Nations Global Compact (UNGC) network. The UNGC is the leading platform for the development, implementation and disclosure of responsible policies and practices in the areas of: human rights, labour, environment and anti-corruption.

Each year RBS receives ratings for its environmental and social performance by external indices. RBS has been included in the Dow Jones Sustainability World Index (DJSI) every year since its launch in 1999, maintaining our best ever score of 82 for a second year in 2014. The DJSI ranks companies' corporate sustainability performance, based on analysis of economic, environmental and social issues like corporate governance, risk management, branding and climate change.

The CDP is an independent, investor-driven organisation which facilitates the measurement and disclosure of greenhouse gas emissions for 2,500 organisations in over 60 countries. In 2014 RBS received a disclosure score of 98% and a performance score B.

The FTSE4Good Index Series measures the performance of companies that meet globally recognised corporate responsibility standards. RBS has been included in the FTSE4Good since it was launched 11 years ago.

Transparency and disclosure
At RBS, we have a long way to go to rebuild trust after everything that the company has been through. We are taking a very deliberate approach to be as open as possible about our business, including on-going challenges as well as progress. We were therefore particularly pleased in 2014 to have been ranked as the leading UK company in Transparency International's report on transparency in corporate reporting. In this Strategic Report we present data on our GHG emissions, diversity and our approach to human rights. More sustainability data is contained in our latest Sustainability Report and online at rbs.com/ sustainable.

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

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

Progress also continues on reducing the environmental impacts of our operations. Data to the end of 2014 showed we had achieved our 2011-2014 targets for energy (15% reduction), water (12% reduction) and waste (10% reduction). However we had not yet met our objective of diverting 70% of our waste away from landfill. New 2020 targets are to be announced in the forthcoming 2014 RBS Sustainability Report.

Sustainability

RBS in the Community

We run a number of targeted programmes focussed on providing support to the communities where we operate. In addition to this, we have a well established employee volunteering and giving programme in RBS. As well as supporting local causes in our areas of operation and topping up employee fundraising, we also support volunteering during work time.

Diversity at RBS

The bank's ambition is to be number one for customer service, trust and advocacy in every one of our chosen business areas, supported by a people commitment to make RBS a great place to work. Valuing difference is therefore essential for our customers and colleagues. Our inclusion policy standard applies to all our people globally; and our strategy for diversity and inclusion sits with the RBS Board and Executive Committee.

Our approach during 2014/15 focuses on building inclusion into all stages of the employee lifecycle. In 2014 we started rolling out bank-wide unconscious bias learning for all employees, which will continue across 2015. We've introduced a gender target to increase the number of women in senior roles across the bank. And we continue to support our employee-led networks, with membership across the bank at over 15,000 people.

This year RBS has been recognised for its work on Equality, Diversity and Inclusion by retaining our Platinum ranking from Opportunity Now (gender) for the second year; increasing our ranking from Silver to Gold for Race for Opportunity (race); retaining a position in the Times Top 50 Employers for Women for the eighth consecutive year; and improving upon our ranking in the Stonewall Workplace Equality Index (LGBT).

As at 31 December 2014, of our global population of 110,027 employees, 50,816 (46%) were male and 59,211 (54%) female. There were 762 'senior managers', which comprises our executive employee population and individuals who are directors of our subsidiaries, of whom 637 (84%) were male and 125 (16%) female. The RBS Board of directors has ten members, consisting of seven male and three female directors.

Our approach to Human Rights

RBS recognises our corporate responsibility to respect and uphold human rights. We regularly review our policies and procedures to ensure that we avoid infringing on the human rights of others throughout our sphere of influence. We also participated in projects with our peers through the Thun Group and UNEP FI to better understand and implement the human rights responsibilities of banks as defined by the UN Guiding Principles on Business and Human Rights.

We have adopted and contributed to a number of internationally accepted codes, notably the Equator Principles and the UN Global Compact, which specifically address the management of human rights issues.

The RBS Code of Conduct 'Our Code' sets out the standards we expect our people to work to, including a clear commitment to respecting human rights. We conduct regular consultations with employees on key aspects of their working environment, and operate a confidential helpline facility that allows employees to discuss any matter of concern with regards to their wellbeing.

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

Our ESE Risk policies include sector-specific human rights risk screenings and are regularly reviewed and updated to ensure best practice. We conduct due diligence on clients relating to human rights standards, and expect our clients to share our commitment to respecting human rights within their operations. In all sectors, we will not provide financial services to companies involved in harmful child labour or forced labour. In 2014, we continued to strengthen human rights due diligence in our ESE policies as well as public disclosure on the details of these policies.They can be seen at rbs.com/sustainable.

Sustainability

Partnership Case Study

Accelerate for growth

Over the next two years we'll be building on our successful partnership with Entrepreneurial Spark and increasing our support for entrepreneurs. We're backing eight new business accelerator hubs in locations like Birmingham, Bristol, Cardiff, Leeds, Manchester and Belfast. Each hub will offer workspace, hands-on mentoring, start-up 'boot camps' and a free 18 month programme including advice, support and funding clinics.

The hubs will have physical work spaces for up to 80 entrepreneurs and host two intakes each year, with a graduation event bringing together entrepreneurs, investors and business advisors at the end of each programme. Entrepreneurs from any sector will be able to join the hub, creating valuable network building opportunities. Each business will also have the opportunity to pitch to potential investors and apply for growth awards of up to £50,000.

The aim is to help ambitious entrepreneurs take their businesses to the next level, supporting them to create jobs and growth, boosting the UK economy.

Governance report

Letter from the Chairman

Dear Shareholder,

I am pleased to introduce our Corporate Governance report for the 2014 financial year which outlines the role our Board and Committees have had in shaping and refining the strategic ambition for the business, and providing oversight and challenge.

Board and Committee activity during 2014 continued to be extremely busy, focused on the delivery of the strategic plan announced in February 2014.

In April 2014, we entered into an agreement with Her Majesty's Treasury to provide for the future retirement of the Dividend Access Share (DAS). Among other benefits, the retirement of the DAS will in future allow the Board to state more clearly a dividend policy to investors.

In September, we launched the initial public offering (IPO) of our US subsidiary Citizens Financial Group, Inc. (CFG) which represents a significant step towards improving our capital position and helping us create a strong and secure bank that can continue to support the needs of our customers.

Conduct and regulatory investigations have also been a key area of focus and our 2014 results reflect the huge cost of dealing with these issues. The announcements made in November 2014 in relation to settlements with certain regulators regarding misconduct in foreign exchange trading were a stark reminder of the importance of culture and integrity in banking. The Board will continue to drive cultural change and it is essential that our governance and risk frameworks continue to evolve to support this.

Systems, controls and resilience were also considered regularly by the Board, particularly in light of the regulatory investigations in relation to the 2012 IT incident which were settled in November 2014. By the end of 2015 we will have invested an additional £750 million in enhancing the security and resilience of our IT systems and many improvements have already been implemented.

Board Committees

Board Committees continued to play a crucial role in our governance framework during 2014, undertaking their complex work comprehensively and effectively supporting the work of the Board.

The Group Audit Committee has monitored the quality of RBS's financial statements and has supported the Board in making its assessment that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable, in accordance with the UK Corporate Governance Code. The Committee has also exercised close oversight of the effectiveness of the RBS's control environment, placing particular focus on the remediation of culture and controls in the former Markets division. Together with the Board Risk Committee, the Group Audit Committee will examine management's plans to embed an effective three lines of defence model within the new organisational construct. During 2014, the Group Audit Committee also spent additional time overseeing the tender process for selection of the external auditor for the year commencing 1 January 2016.

The Board Risk Committee welcomed Baroness Noakes as its new Chairman in April 2014. During the year, it has played a key role in the oversight of execution risk arising from RBS's strategic agenda, most notably the Transformation Programme, and will continue to do so in 2015. The Committee has monitored developments in the internal and regulatory investigations of our activities in foreign exchange markets, including the resulting disciplinary and accountability process. It has also overseen the remediation activity following the IT incident in 2012. The Board Risk Committee has considered the capital and liquidity position of RBS and related regulatory submissions and dedicated significant additional time to the consideration of internal and external stress testing exercises.

As announced previously, Penny Hughes stood down as Chairman of the Group Performance and Remuneration Committee and Sandy Crombie stood down as Chairman of the Sustainable Banking Committee. I would like to thank Penny and Sandy for their outstanding commitment and dedication whilst chairing these Committees.

The Group Performance and Remuneration Committee welcomed Sandy as its new Chairman. The Committee has played a vital role in ensuring that our remuneration policy is fair and transparent and supports the work to rebuild a successful and trusted RBS. During 2014 the Committee had oversight of the implementation of a limit of variable pay to no more than 100% of fixed pay and the use of deferral and malus, to deliver fair remuneration outcomes.

Penny became the new Chairman of the Sustainable Banking Committee and refocused its strategic direction on three core themes - Bank-wide Reputation and Trust, Serving Customers and Sustainability/Emerging issues. The Sustainable Banking Committee has overseen the values and conduct work in relation to behavioural and cultural issues and the development of Environmental, Social and Ethical policies, while continuing its commitment to stakeholder engagement.

The RBS Capital Resolution (RCR) Board Oversight Committee chaired by Baroness Noakes since 1 April 2014 was established to oversee the separation and wind-down of RBS’s high capital intensive assets and has implemented a governance structure and delegated authorities for RCR. The RCR Board Oversight Committee has considered RCR’s financial performance, risk reporting, delivery against targets and asset management principles and certain remuneration matters.

Letter from the Chairman

Board changes
There were a number of changes to the Board's composition during 2014.

Ewen Stevenson took over as Chief Financial Officer in May 2014 when Nathan Bostock left RBS. Ewen has extensive experience of working with both governments and boards on the steps needed to restore confidence in financial institutions following the crisis; and his skills and experience have already been of great benefit to the Board.

Two of our non-executive directors also retired from the Board in 2014. Tony Di Iorio stood down in March 2014, having served on the Board since September 2011. Tony made an excellent contribution to the Board and, in particular, the Board Risk Committee and Group Audit Committee, and he left with our best wishes for the future. Tony remains a director of CFG in the US.

Philip Scott stood down in October 2014 having served on the Board since 2009. I would like to record my thanks to Philip for his outstanding commitment to the Board having served four years as Chairman of the Board Risk Committee during a period of enormous change.

In April 2014, we welcomed Morten Friis as a new non-executive director and a member of the Board Risk Committee and Group Audit Committee. Morten brings a wealth of experience of the financial services industry and has an especially strong background in risk. This is already evident in the contributions he is making to the Board and the committees he sits on.

On 25 February 2015 the Board approved the appointment of Howard Davies as a non-executive director with effect from the end of June 2015 and as Chairman from 1 September 2015.

Board effectiveness
This year, we conducted an internal evaluation of the effectiveness of the Board and its committees, led by the Chief Governance Officer and Board Counsel. The evaluation has concluded that the Board is operating effectively but has identified some areas of improvement that we will focus on during 2015.

The Board also received support from the Chief Governance Officer and Board Counsel in a number of other areas related to board effectiveness such as the Prudential Regulation Authority's review of Board effectiveness, Board process, information flows and operating rhythm between the Board and committees, professional development and induction for new directors.

Corporate governance
Our statement of compliance with the UK Corporate Governance Code (the "Code") is set out on page 96.

Finally, as we reflect on another challenging year, I would like to conclude this letter by recording my sincere thanks towards my fellow Board members. Being a director of RBS requires extensive time and commitment, and the readiness to deal with the unusual challenges of a government controlled listed company. I remain extremely grateful for their continued support and dedication in working towards the recovery of RBS.

As announced previously I will be leaving RBS on 31 August 2015. Howard Davies will join the Board at the end of June and will assume the role of Chairman with effect from 1 September 2015. It has been a privilege to serve as Chairman of RBS since 2009 and it is with sadness that I will leave the Board, but I am confident that the Board will continue to work with dedication to implement our strategy under the new Chairman.

Philip Hampton
Chairman of the Board of directors
25 February 2015

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Our governance structure

Board and Board committee structure

The Board
The Board is collectively responsible for the long-term success of RBS and delivery of sustainable shareholder value. Its role is to provide leadership of RBS within a framework of prudent and effective controls which enables risks to be assessed and managed.

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

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

Group Performance and Remuneration Committee
Responsible for approving remuneration policy and reviewing the effectiveness of its implementation. It also considers senior executive remuneration and makes recommendations to the Board on the remuneration of executive directors.

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

Sustainable Banking Committee
Responsible for overseeing and challenging how management is addressing sustainable banking and reputation issues, considering the long term interests of all stakeholder groups.

Executive Committee
Supports the Chief Executive in managing RBS's businesses. It reviews and debates relevant items before consideration by the Board. It is responsible for determining and delivering RBS's strategy, and it monitors and manages financial performance, capital allocations, risk strategy and policy, risk management, operational issues and customer issues.

RCR Board Oversight Committee
Provides oversight of RCR's progress against, and compliance with, its primary objective and asset management principles.

Our Board

Chairman

Philip Hampton (age 61)
Date of appointment: 19 January 2009 (Board)
3 February 2009 (Chairman)

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

External appointment(s):
- Senior Independent director of Anglo American plc, chairman of its Remuneration Committee and member of the Audit Committee
- Non-executive director, chairman of the Nominations Committee and chairman designate of GlaxoSmithKline plc

Committee membership(s)
- Group Nominations Committee (Chairman)
- RCR Board Oversight Committee

Executive directors

Chief Executive

Ross McEwan (age 57)
Date of appointment: 1 October 2013

Experience: He became Chief Executive of The Royal Bank of Scotland Group in October 2013. Between August 2012 and September 2013, he was Chief Executive Officer for UK Retail, joining from Commonwealth Bank of Australia where he was Group Executive for Retail Banking Services for five years. Prior to this he was Executive General Manager with responsibility for the branch network, contact centres and third party mortgage brokers.

Ross has more than 25 years experience in the finance, insurance and investment industries, and prior to Commonwealth Bank of Australia, was Managing Director of First NZ Capital Securities. He was also Chief Executive of National Mutual Life Association of Australasia Ltd / AXA New Zealand

External appointment(s):
None

Committee membership(s)
- Executive Committee (Chairman)

	Ltd. He has an MBA from Harvard.	
Chief Financial Officer	Ewen Stevenson (age 48) Date of appointment: 19 May 2014. Experience: Previously at Credit Suisse for 25 years where he was latterly co-Head of the EMEA Investment Banking Division and co-Head of the Global Financial Institutions Group. Ewen has over 20 years of experience advising the banking sector while at Credit Suisse. He has a Bachelor of Commerce and Administration majoring in Accountancy and a Bachelor of Law from Victoria University of Wellington, New Zealand.	External appointment(s): None Committee membership(s) · Executive Committee

Our Board

Independent non-executive directors

Sandy Crombie (age 66)
Date of appointment: 1 June 2009
(Senior Independent Director)

Experience: Previously group chief executive of Standard Life plc and Chairman of Creative Scotland. He was also previously a director of the Association of British Insurers and Chairman of the Edinburgh World City of Literature Trust. In 2007 he was the Prince of Wales' Ambassador for Corporate Social Responsibility in Scotland.

External appointment(s):
- Member and vice-chairman of the Board of Governors of The Royal Conservatoire of Scotland
- President of the Cockburn Association

Committee membership(s):
- Group Performance and Remuneration Committee (Chairman)
- Group Audit Committee
- Group Nominations Committee
- RCR Board Oversight Committee

Alison Davis (age 53)
Date of appointment: 1 August 2011

Experience: Previously, she served as a director of City National Bank and First Data Corporation and as chair of the board of LECG Corporation. She has also worked at McKinsey & Company, AT Kearney, as Chief Financial Officer at Barclays Global Investors (now BlackRock) and as managing partner of Belvedere Capital, a private equity firm focused on buy-outs in the financial services sector.

External appointment(s):
- Non-executive director and member of the audit and compensation committees of Unisys Corporation
- Non-executive director, chair of the compensation committee and member of the audit committee of Diamond Foods Inc.
- Non-executive director, and member of the audit committee of Fiserv Inc
- Non-executive director, Ooma Inc

Committee membership(s):
- Group Nominations Committee
- Group Performance and Remuneration Committee
- Sustainable Banking Committee

Morten Friis (age 62)
Date of appointment: 10 April 2014

External appointment(s):

Experience: He has 34 years financial services experience and has previously held various roles at Royal Bank of Canada and its subsidiaries including Associate Director at Orion Royal Bank, Vice President, Business Banking and Vice President, Financial Institutions. In 1997, he was appointed as Senior Vice President, Group Risk Management and served as the Chief Credit Officer then Chief Risk Officer from 2004 to 2014. He was also previously a Director of RBC Bank (USA), Westbury Life Insurance Company, RBC Life Insurance Company and of RBC Dexia Investor Services Trust Company.

· Member of the Board of Directors of The Canadian Institute for Advanced Research
· Member of the Board of Directors of the Harvard Business School Club of Toronto

Committee membership(s):
· Group Audit Committee
· Group Nominations Committee
· Board Risk Committee

Our Board

Independent non-executive directors

Robert Gillespie (age 59)
Date of appointment: 2 December 2013

Experience: Began his career with Price Waterhouse (now PricewaterhouseCoopers) where he qualified as a chartered accountant. He then moved into banking joining SG Warburg, specialising in corporate finance, and was appointed as Co-Head and Managing Director of its US investment banking business in 1989. Following the acquisition in 1995 of Warburg by Swiss Bank Corporation (which subsequently merged with UBS), he then held the roles of Head of UK Corporate Finance, Head of European Corporate Finance and Co-Head of its global business and CEO of the EMEA region. He relinquished his management roles at the end of 2005, and was appointed Vice Chairman of UBS Investment Bank. Robert left UBS to join Evercore Partners, from where he was seconded to the UK Panel on Takeovers and Mergers, as Director General, from 2010 to 2013. He is a non-executive director of Citizens Financial Group, Inc.

External appointment(s):
- Independent Board Director at Ashurst LLP
- Chairman of Council at the University of Durham
- Chairman of the Somerset House Trust
- Chairman of the Boat Race Company Limited
- Director of Social Finance Limited

Committee membership(s):
- Group Nominations Committee
- Group Performance and Remuneration Committee
- Board Risk Committee
- Sustainable Banking Committee

Penny Hughes, CBE (age 55)
Date of appointment: 1 January 2010

Experience: Previously a director and chairman of the Remuneration Committee of Skandinaviska Enskilda Banken AB and a non-executive director of Home Retail Group plc and chairman of its Remuneration Committee. She spent the majority of her executive career at Coca-Cola where she held a number of leadership

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

Committee membership(s):

positions, latterly as President, Coca-Cola Great Britain and Ireland. Former non-executive directorships include Vodafone Group plc, Reuters Group PLC, Cable & Wireless Worldwide plc and The Gap Inc.	· Sustainable Banking Committee (Chairman) · Group Nominations Committee · Board Risk Committee
Brendan Nelson (age 65) Date of appointment: 1 April 2010 Experience: Former global chairman, financial services for KPMG. Previously held senior leadership roles within KPMG including as a member of the KPMG UK board from 1999 to 2006 and as vice-chairman from 2006. Chairman of the Audit Committee of the Institute of Chartered Accountants of Scotland from 2005 to 2008. President of the Institute of Chartered Accountants of Scotland 2013/14.	External appointment(s): · Non-executive director and chairman of the audit committee of BP plc · Member of the Financial Reporting Review Panel Committee membership(s): · Group Audit Committee (Chairman) · Group Nominations Committee · RCR Board Oversight Committee · Board Risk Committee

Our Board

Independent non-executive directors

Baroness Noakes, DBE (age 65)
Date of appointment: 1 August 2011

Experience: An experienced director on UK listed company boards with extensive and varied political and public sector experience. A qualified chartered accountant, she previously headed KPMG's European and International Government practices and has been President of the Institute of Chartered Accountants in England and Wales. She was appointed to the House of Lords in 2000 and has served on the Conservative front bench in various roles including as shadow treasury minister between 2003 and May 2010. Previously held non-executive roles on the Court of the Bank of England, Hanson, ICI, Severn Trent, Carpetright, John Laing and SThree.

External appointment(s):
- Deputy chairman, Ofcom

Committee membership(s):
- Board Risk Committee (Chairman)
- RCR Board Oversight Committee (Chairman)
- Group Audit Committee
- Group Nominations Committee

Chief Governance Officer and Board Counsel

Aileen Taylor (age 42)
Date of appointment: 1 May 2010 (Company Secretary)

Experience: A qualified solicitor, joined RBS in 2000. She was appointed Deputy Group Secretary and Head of Group Secretariat in 2007, and prior to that held various legal, secretariat and risk roles including Head of External Risk, Retail, Head of Regulatory Risk, Retail Direct and Head of Legal and Compliance at Direct Line Financial Services.

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

Executive Committee

The Board is supported by the Executive Committee comprising the executive directors and other senior executives. Details of the composition of the Executive Committee and biographies of its members can be found at www.rbs.com>about us>corporate governance>ceo and board>executive committee

Corporate governance

The Board

The Board has ten directors comprising the Chairman, two executive directors and seven independent non-executive directors, one of whom is the Senior Independent Director.

Name	Position	Nationality
Philip Hampton	Chairman	British
Ross McEwan	Chief Executive	New Zealand
Ewen Stevenson	Chief Financial Officer	British/ New Zealand
Sandy Crombie	Senior Independent Director	British
Alison Davis	Independent non-executive director	British/USA
Morten Friis	Independent non-executive director	Norwegian
Robert Gillespie	Independent non-executive director	British
Penny Hughes	Independent non-executive director	British
Brendan Nelson	Independent non-executive director	British
Baroness Noakes	Independent non-executive director	British

Biographies for each director and details of which Board committees they are members of can be found on pages 47 to 50. The Board considers that the Chairman was independent on appointment and that all non-executive directors are independent for the purposes of the Code.

Board Changes

Non-executive directors Tony Di Iorio and Philip Scott stepped down from the Board on 26 March 2014 and 31 October 2014 respectively. Nathan Bostock stepped down from the Board on 28 May 2014. RBS has announced that Philip Hampton will step down from the Board during 2015.

Morten Friis was appointed as a non-executive director on 10 April 2014. Ewen Stevenson was appointed as an executive director and Chief Financial Officer on 19 May 2014.

On 25 February 2015 the Board approved the appointment of Howard Davies as non-executive director with effect from the end of June 2015 and as Chairman from 1 September 2015.

Roles and responsibilities

The Board

The Board is collectively responsible for the long-term success of RBS and delivery of sustainable shareholder value. The Board's terms of reference include key aspects of RBS's affairs reserved for the Board's decision and are reviewed at least annually. The terms of reference are available on rbs.com>about us.

Chairman
The role of Chairman is distinct and separate from that of the Chief Executive and there is a clear division of responsibilities with the Chairman leading the Board and the Chief Executive managing RBS's business day to day.

The Chairman's key responsibilities are to:
· provide strong and effective leadership to the Board;

· ensure the Board is structured effectively and observes the highest standards of integrity and corporate governance;

· manage the business of the Board and set the agenda, style and tone of Board discussions to promote effective decision-making and constructive debate;

· facilitate the effective contribution and encourage active engagement by all members of the Board;

· in conjunction with the Chief Executive and Chief Governance Officer and Board Counsel, ensure that members of the Board receive accurate, timely and clear information, to enable the Board to lead RBS, take sound decisions and monitor effectively the performance of executive management;

· ensure that the performance of individual directors and of the Board as a whole and its committees is evaluated regularly; and

· ensure RBS maintains effective communication with shareholders and other stakeholders.

Chief Executive
The Chief Executive has responsibility for all of RBS's business and acts in accordance with the authority delegated by the Board.

The Chief Executive's key responsibilities are to:
· exercise executive responsibility for RBS's franchises and functions;

· define, drive and deliver the overall strategic direction approved by the Board;

· drive and deliver performance against the RBS's financial plans and budget acting in accordance with authority delegated by the Board;

· consult regularly with the Chairman and Board on matters which may have a material impact on RBS;

· act as a guardian and champion of the culture and values of RBS, creating an environment where employees are engaged and committed to good customer outcomes;

· lead the senior executive team and ensure there are clear accountabilities for managing RBS's business and managing risk; and

· in conjunction with the Chairman and Chief Governance Officer and Board Counsel, ensure the Board receives accurate, timely and clear information.

Corporate governance

Senior Independent Director

Sandy Crombie, as Senior Independent Director, acts as a sounding board for the Chairman and as an intermediary for other directors when necessary. He is also available to shareholders to discuss any concerns they may have, as appropriate.

Non-executive directors

Along with the Chairman and executive directors, the non-executive directors are responsible for ensuring the Board fulfils its responsibilities under its terms of reference. The non-executive directors combine broad business and commercial experience with independent and objective judgement and they provide independent challenge to the executive directors and the leadership team. The balance between non-executive and executive directors enables the Board to provide clear and effective leadership across RBS's business activities.

The standard terms and conditions of appointment of non-executive directors are available on rbs.com or from RBS Corporate Governance and Secretariat.

Board Committees

In order to provide effective oversight and leadership, the Board has established a number of Board committees with particular responsibilities. Please see the corporate governance structure on page 46 for more details. The work of the Board committees are also discussed in their individual reports as follows:

Group Nominations Committee - pages 56 and 57.
Group Audit Committee - pages 58 to 62.
Board Risk Committee - pages 63 to 69.
RCR Board Oversight Committee pages 70 and 71.
Sustainable Banking Committee - pages 72 and 73.
Group Performance and Remuneration Committee - pages 74 to 95.

The terms of reference for each of these committees is available on rbs.com and copies are also available on request from RBS Corporate Governance and Secretariat.

Chief Governance Officer and Board Counsel

Aileen Taylor is the Chief Governance Officer and Board Counsel and is also the Company Secretary. Reporting directly to both the Chairman and the Chief Executive, she is responsible for delivering commercial corporate governance advice and support to the Board. She acts as a trusted advisor in the effective functioning of the Board, ensuring appropriate alignment and information flows between the Board and its committees, including the Executive Committee. As Board Counsel, she is responsible for the provision of legal advice to the Board. Her responsibilities include: -

- advising on Board skills and composition including induction, ongoing training and professional development;
- executive responsibility for Chairman/non-executive Director search and appointment process;
- leading on all aspects of corporate governance across RBS;
- facilitating good information flows between Board members and the Board and its committees; and
- leading on implementation of recommendations from the annual Board evaluation.

Conflicts of interests

The company has procedures in place to ensure that the Board's powers for authorising actual or potential conflicts of interest are operating effectively. On appointment, each director is provided with RBS's guidelines for referring conflicts of interest to the Board. Each director is required to notify any actual or potential conflicts of interest to the Board for consideration and to update the Board on an ongoing basis when he or she becomes aware of any changes.

The Board considers each director's notification separately on the facts and can impose conditions or limitations as part of the authorisation process. Actual and potential conflicts of interest can be authorised by the Board in accordance with the company's Articles of Association. Details of all conflicts of interest are recorded in a register which is maintained by the Chief Governance Officer and Board Counsel and reviewed annually by the Board.

Board meetings

In 2014, nine Board meetings were scheduled and individual attendance by directors at these meetings is shown in the table below. One of the Board meetings took place overseas during the Board's visit to RBS's US businesses.

In addition to the nine scheduled meetings, 34 additional meetings of the Board and committees of the Board were held, including meetings to consider and approve financial statements. The Chairman and the non-executive directors meet at least once per year without executive directors present.

	Attended/ scheduled
Philip Hampton	9/9
Ross McEwan	9/9
Ewen Stevenson (1)	6/6
Sandy Crombie	9/9
Alison Davis	9/9
Morten Friis (2)	6/6
Robert Gillespie	9/9
Penny Hughes	9/9
Brendan Nelson	9/9
Baroness Noakes (3)	8/9
Former directors	
Nathan Bostock (4)	4/4
Tony Di lorio (5)	3/3
Philip Scott (6)	6/7

Notes:

(1)	Appointed to the Board on 19 May 2014.
(2)	Appointed to the Board on 10 April 2014.
(3)	Missed one meeting due to family bereavement.
(4)	Stepped down from the Board on 28 May 2014.
(5)	Stepped down from the Board on 26 March 2014.
(6)	Stepped down from the Board 31 October 2014.

Corporate governance

Principal activities of the Board during 2014

In advance of each Board meeting, the directors are provided with comprehensive papers. During 2014 there has been an enhanced focus on implementation of the new organisational design, building of capital and developing resilient systems. These have been recurring themes underpinning Board discussions during the year. An overview of the principal activities of the Board during 2014 is shown below.

Each meeting	
· Chairman's report · Chief Executive's report · Monthly results · Capital, funding & liquidity · Franchise updates · RCR update	· Risk report (including updates on conduct matters) · Reports from Committee Chairmen · Secretary's report (routine matters for approval/noting) · Transformation programme
1st Quarter	2nd Quarter
· Budget · Remuneration proposals · Annual results and AGM notice · Board & Committee evaluations · Internal Audit evaluation · External Auditor evaluation · Dividend Access Share Retirement agreement · Board session with Andrew Tyrie, Treasury Select Committee · RBS contingency funding plan · Global Restructuring Group deep dive · Capital plan · Scottish independence considerations	· Q1 results · Resolution planning · Board strategy offsite · AGM preparations · Dividend Access Share Retirement Agreement · Citizens IPO · Stress testing · Internal Capital Adequacy Assessment Process · Scottish independence considerations
3rd Quarter	4th Quarter
· Interim results	· Q3 results · ICB update

· High net worth review	· CIB strategy review
· Scottish independence contingency planning	· High net worth review
· Individual Liquidity Adequacy Assessment	· Succession planning session
· 2014 recovery plan	· IT resilience exercise
· PRA Board effectiveness review	· Ulster Bank strategic review
· Board session with PRA	· Political risk 2015
· Board session with FCA	· Technology update
· Board session with UKFI	
· ICB updates	
· CIB strategy review	
· RBS entrepreneurial programme	
· Citizens IPO	
· Board evaluation update	

Franchise Chief Executives attend each Board meeting to provide an update on the performance of their businesses. Other relevant senior executives including the Chief Risk Officer, the Chief Regulatory Affairs Officer and the Chief Administration Officer attend Board meetings to present reports to the Board as appropriate. This provides the Board with an opportunity to engage directly with management on key issues and supports the Board's succession planning activity.

Board effectiveness

Skills and experience on the Board

The Board is structured to ensure that the directors provide RBS with the appropriate balance of skills, experience and knowledge as well as independence. Given the nature of the RBS's businesses, experience of banking and financial services is clearly of benefit, and we have a number of directors with substantial experience in that area, but the Board also benefits from directors with experience in other fields.

The table below illustrates the breadth of skills and experience on the Board.

· Retail Banking	· Chief Executive
· Other Financial Services	· Finance & Accountancy
· Markets/Investment Banking	· Risk
· Utilities	· Technology/Digital
· Government & Public Sector	· Operations
· Mergers & Acquisitions	· Change Management
· Corporate Restructuring	· Consumer Facing

· Stakeholder
Management

Board committees also comprise directors with a variety of skills and experience so that no undue reliance is placed on any individual.

Induction and professional development
Each new director receives a formal induction on joining the Board, which is co-ordinated by the Chief Governance Officer and Board Counsel. This includes visits to RBS's major businesses and function and meetings with directors and senior management. Meetings with the external auditors and external counsel are also arranged. Each induction programme has a core element that the director is required to complete with the remainder of the programme tailored to the new director's specific requirements. An example of an induction programme for a new non-executive director is set out below:

Chairman	Franchise Chief Executives
Chief Executive	Business visits (UK and overseas)
Chief Financial Officer	Finance
Senior Independent Director	Risk
Board committee Chairs	Internal Audit
Chief Governance Officer and Board Counsel	Tax
Chief Risk Officer	Human Resources
Chief Conduct & Regulatory Affairs Officer	Investor Relations
RBS Treasurer	Strategy & Corporate Development
RBS Chief Legal Officer and General Counsel	Communications and Marketing
External Auditor	Institutional Investors
External Counsel	

Corporate governance

The Chief Governance Officer and Board Counsel advises directors of appropriate external training and professional development opportunities and internal training is also provided which is relevant to the business of RBS. Business visits are also arranged as part of the Group Audit Committee and Board Risk Committee schedule (details of which can be found on pages 59 and 65) and all non-executive directors are invited to attend. Directors undertake the training they consider necessary to assist them in carrying out their duties and responsibilities as directors.

During 2014, the directors received updates on a range of subjects to enhance their knowledge, including:

- ICB/Ring-fencing
- The Senior Persons Regime
- The revised UK Corporate Governance Code
- CRD IV Directorship Limits and Subsidiary Compliance
- Shareholder Rights Directive
- Banking Standards Review Council
- PRA Consultation on proposed changes to the Remuneration Code
- EU Market Abuse Regulations and impact on RBS
- Listing Rule changes
- Department of Business, Innovation and Skills Proposals on Transparency and Trust

The Chief Governance Officer and Board Counsel maintains continuing professional development logs. These are reviewed regularly with directors to assist in identifying future training and development opportunities that are specific to the individual director's requirements.

Information

All directors receive accurate, timely and clear information on all relevant matters and have access to the advice and services of the Chief Governance Officer and Board Counsel. In addition, all directors are able, if necessary, to obtain independent professional advice at the company's expense.

Time commitment

There is an anticipated time commitment in line with the recommendations of the Walker Review in respect of general Board duties and additional time as necessary in respect of committee duties. However, as stated in the Chairman's introductory letter to his Corporate governance report, the time commitment currently required of our non-executive directors is significant. Each director is required to seek the agreement of the Chairman before accepting additional commitments that might affect the time the director is able to devote to his or her role as a non-executive director of RBS. Directors have also been briefed on the limits on the number of other directorships that they can hold under the requirements of fourth Capital Requirements Directive (CRD IV). The Board monitors the other commitments of the Chairman and directors and is satisfied that they are able to allocate sufficient time to enable them to discharge their duties and responsibilities effectively.

Election and re-election of directors

In accordance with the provisions of the Code, all directors of the company are required to stand for election or re-election annually by shareholders at the company's Annual General Meeting and in accordance with the UK Listing Rules, the election or re-election of independent directors requires approval by all shareholders and also by independent shareholders.

Performance evaluation

In accordance with the Code, an external evaluation of the Board takes place every three years. An internal evaluation takes place in the intervening years.

The 2012 evaluation was conducted externally by a specialist board evaluation consultancy. The 2013 evaluation was conducted internally by the Chief Governance Officer and Board Counsel and a number of initiatives were implemented aimed at improving the overall performance and effectiveness of the Board. These included keeping Board and committee composition under review; ensuring sufficient time on Board agendas for Board oversight of key strategic areas; a review of risk reporting and a focus on regular contact with external stakeholders. These topics have been appropriately addressed and will be kept under regular review as a matter of good practice.

In 2014, the Board and committee evaluation process was conducted internally by the Chief Governance Officer and Board Counsel. A comprehensive review of the Board's effectiveness was also carried out by the Prudential Regulatory Authority during 2014.

Performance evaluation process

The Chief Governance Officer and Board Counsel undertook a formal evaluation by:

- preparing surveys that were completed by each director and holding interviews with each director;
- discussing the outcomes and recommendations with the Chairman; and
- recommending the outcomes and areas for improvement to the Board.

Amongst the areas reviewed were Board composition, Board meetings and processes, information quality and flows, external relationships and priorities for 2015.

Corporate governance

Outcomes of the 2014 performance evaluation
The 2014 performance evaluation concluded that the Board was strong and operated effectively and within its terms of reference throughout 2014. Key strengths identified included:

- the Board performed strongly during a challenging 2014, demonstrating alignment with RBS values;
- the dynamic between Board members was good and on the whole members worked well together, creating effective challenge, debate and oversight; and
- the Board's committees operated effectively within their terms of reference throughout the year providing strong support to the Board.

A summary of the key themes arising from the 2014 performance evaluation is set out below, together with an overview of the proposed actions:

Key themes included	Proposed action
Board and Board committee composition	Keep Board and Board committee composition under review during 2015, to ensure balance of skills, experience, independence, knowledge and diversity remains appropriate.
Succession planning	Ensure that an effective succession planning process is in place at Board and Executive level.
Board and Committee agendas	Ensure that Board and Committee agendas for 2015 minimise duplication and allow effective oversight of key areas of strategic focus, sufficient time for debate and focus on the RBS priorities, particularly the customer.
Information	Continue to improve and enhance the information presented to the Board and Committees.
Professional development	Enhance the professional development programme provided to Board members.

Individual director and Chairman effectiveness reviews

The Chairman met with each director individually to discuss their own performance and ongoing professional development and also shared peer feedback that had been provided as part of the evaluation process. Separately, the Senior Independent Director sought feedback on the Chairman's performance and canvassed views on the Chairman's performance from the non-executive directors collectively. The results of the Chairman's effectiveness review were then discussed by the Chairman and the Senior Independent Director.

Relations with investors

The Chairman is responsible for ensuring effective communication with shareholders. The company communicates with shareholders through the Annual Report and Accounts and by providing information in advance of the Annual General Meeting. Individual shareholders can raise matters relating to their shareholdings and the business of RBS at any time throughout the year by letter, telephone or email via rbs.com/ir.

Shareholders are given the opportunity to ask questions at the Annual General Meeting and any General Meetings held or can submit written questions in advance. The Senior Independent Director and the chairmen of the Board committees are available to answer questions at the Annual General Meeting.

Communication with the company's largest institutional shareholders is undertaken as part of the Investor Relations programme:

- the Chief Executive and Chief Financial Officer meet regularly with UKFI, the organisation set up to manage the Government's investments in financial institutions, to discuss the strategy and financial performance of the business. The Chief Executive and Chief Financial Officer also undertake an extensive annual programme of meetings with the company's largest institutional shareholders.

- the Chairman independently meets with RBS's largest institutional shareholders annually to hear their feedback on management, strategy, business performance and corporate governance. Additionally, the Chairman, Senior Independent Director and chairmen of the Board committees met with the governance representatives of a number of institutional shareholders during the year.

- the Senior Independent Director is available if any shareholder has concerns that they feel are not being addressed through the normal channels.

- the Chairman of the Group Performance and Remuneration Committee consults extensively with major shareholders in respect of the Group's remuneration policy.

In 2014, RBS continued its programme of UK-based events aimed at individual shareholders. These events provided an opportunity for shareholders to meet with directors and senior management to learn more about the business.

Throughout the year, the Chairman, Chief Executive, Chief Financial Officer and Chairman of the Group Performance and Remuneration Committee communicate shareholder feedback to the Board. The directors also receive independent analyst notes and reports reviewing share price movements and performance against the sector. Detailed market and shareholder feedback is provided to the Board after major public announcements such as a results release. The arrangements in place are to ensure that directors develop an understanding of the views of major shareholders and that these are considered as part of the annual Board evaluation.

The Investor Relations programme also includes communications aimed specifically at its fixed income (debt) investors. The Chief Financial Officer and/or the RBS Treasurer give regular presentations to fixed income investors to discuss strategy and financial performance. There is also a separate section on the RBS website for fixed income investors which includes information on credit ratings, securitisation programmes and securities documentation. Further information is available at rbs.com/ir.

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Report of the Group Nominations Committee

Dear Shareholder,

As Chairman of the Board and Chairman of the Group Nominations Committee I am pleased to present our report on the committee's activity during 2014.

Role and responsibilities

The Group Nominations Committee engages with external consultants, considers potential candidates and recommends appointments of new directors to the Board. The terms of reference of the Group Nominations Committee are reviewed annually and approved by the Board and are available at rbs.com.

Principal activity during 2014

The Committee continues to monitor succession planning on an ongoing basis taking into account business requirements and industry developments. In 2014, discussions principally focussed on the Chairman search and the search for new non-executive directors. The Board held a separate session on succession planning in September 2014, covering the Executive Committee and an update on RBS's People Strategy.

Membership and meetings

All non-executive directors are members of the Group Nominations Committee which is chaired by the Chairman of the Board. The RBS Chief Executive and the Chief Financial Officer are invited to attend meetings.

The Group Nominations Committee holds at least two scheduled meetings per year, and also meets on an ad hoc basis as required. In 2014, there were four scheduled Group Nominations Committee meetings, which I chaired, and individual attendance by directors at these meetings is shown in the table below. In addition a number of ad hoc meetings were held to discuss Chairman succession.

	Attended/ scheduled
Philip Hampton (Chairman)	4/4
Sandy Crombie	4/4
Alison Davis	4/4
Morten Friis (1)	4/4
Robert Gillespie	4/4
Penny Hughes	4/4
Brendan Nelson	4/4
Baroness Noakes	4/4
Former members	
Tony Di lorio (2)	—
Philip Scott (3)	3/4

Notes:

(1) Appointed to the Committee on 10 April 2014.

(2) Stepped down from the Board on 26 March 2014.

(3) Stepped down from the Board on 31 October 2014.

Chairman search

In September 2014, it was announced that I would step down as Chairman in 2015. The search for my successor commenced immediately. In line with the Code, I did not chair the Nominations Committee meetings in relation to these discussions.

Egon Zehnder International (EZ) has been engaged to support the search process for the new Chairman. EZ does not provide services to any other part of the RBS. A job specification has been prepared, which includes an assessment of the time commitment expected. The Committee has held a number of discussions on potential candidates (internal and external) and engaged with RBS's key stakeholders to seek their views on candidates. On 25 February the Board approved the appointment of Howard Davies as a non-executive director with effect from the end of June and as Chairman from 1 September 2015.

Consideration of new non-executive directors

EZ has continued to support the search for new non-executive directors during 2014 following the departure of Art Ryan, Tony Di Iorio and Philip Scott and to support the future Board succession planning. The search for potential candidates is continuing.

Report of the Group Nominations Committee

Tenure of non-executive directors
The chart below sets out the tenure of non-executive directors.

Board and Committee membership
Board and Committee membership was reviewed in 2014 and the following Committee membership changes were made:

- Robert Gillespie was appointed a member of the Board Risk Committee, Group Performance and Remuneration Committee and Sustainable Banking Committee with effect from 1 April 2014;

- Baroness Noakes was appointed Chairman of the Board Risk Committee and RCR Board Oversight Committee with effect from 1 April 2014;

- Morten Friis was appointed a member of the Board Risk Committee and Group Audit Committee with effect from 10 April 2014;

- Sandy Crombie was appointed Chairman of the Group Performance and Remuneration Committee with effect from 25 June 2014; and

- Penny Hughes was appointed Chairman of the Sustainable Banking Committee with effect from 25 June 2014.

Boardroom diversity
The Board remains supportive of Lord Davies' recommendations and currently exceeds the target of 25 per cent female board representation as set out in Lord Davies' report.

The chart below details the gender diversity of the Board.

In accordance with the recommendations contained within Lord Davies' report, the Board operates a boardroom diversity policy and a copy of the Board's diversity statement is available on rbs.com>about us.

RBS understands the importance of diversity and, with regard to gender diversity, recognises the importance of women having greater representation at key decision making points in organisations. The search for Board candidates will continue to be conducted, and nominations/appointments made, with due regard to the benefits of diversity on the Board, however, all appointments to the Board are ultimately based on merit, measured against objective criteria, and the skills and experience the individual can bring to the Board.

The balance of skills, experience, independence, knowledge and diversity on the Board, and how the Board operates together as a unit is reviewed annually as part of the Board evaluation. Where appropriate, findings from the evaluation will be considered in the search, nomination and appointment process. If appropriate, additional targets on diversity will be developed in due course.

Further details on RBS's approach to diversity can be found on page 101.

Philip Hampton
Chairman of the Group Nominations Committee
25 February 2015

Report of the Group Audit Committee

Letter from Brendan Nelson,
Chairman of the Group Audit Committee

Dear Shareholder,

There have been a number of changes to the membership of the Audit Committee during 2014. I would like to begin by welcoming Sandy Crombie and Morten Friis, who joined the Committee in April 2014. Both bring a wealth of experience across finance, risk and control matters and have already made valuable contributions to the work of the Committee. I would also like to extend my gratitude to Tony Di Iorio and Philip Scott who stood down as members of the Board and Committee in March and October 2014, respectively. The Committee also welcomed Ewen Stevenson to RBS, who succeeded Nathan Bostock as Chief Financial Officer.

The key priority of the Audit Committee during 2014 has been to monitor the integrity of RBS's financial statements, focusing in particular on the quality and transparency of disclosure, and to support the ongoing strengthening of the internal control environment.

Owing to favourable credit conditions and the delivery of the early cost saving benefits from RBS's Transformation Programme, RBS experienced better than anticipated operating performance during the year. The Audit Committee supported the Board in its decision to release trading statements ahead of the half year and Q3 reporting periods.

Throughout the reporting period, through discussion and deliberation with Management, the Committee satisfied itself that the key accounting decisions, risks and significant management judgements that underlie the financial statements were appropriate. The Committee reviewed the conclusions of the External Auditor and, where applicable, other experts and concluded that disclosures in the financial statements about these judgements and estimates were transparent and appropriate. A more detailed account of the most material issues considered by the Committee is set out in the report below.

The Audit Committee also focused on the effectiveness of internal controls. In 2014, RBS embarked on its journey of transformation to a simpler and more efficient organisation. While the Transformation Programme will ultimately bring long term benefits, the scale of change is not to be underestimated and the Audit Committee has monitored the short term impact on RBS's control environment.

The Committee continued to oversee the Markets Control Remediation Programme (MCRP) during the year. It is anticipated that all aspects of this programme will have been successfully delivered within 2015. However, there remains further work to be done within the business to improve controls and to drive cultural change. A wider programme of cultural and control remediation across the former Markets division has commenced in 2015.

An effective three lines of defence model is critical to the success of cultural change and strengthening internal controls across the organisation. The model has been developed further during 2014; it is now more clearly articulated and principles based. However, while the process of embedding the three lines of defence within the new organisational construct has begun, more work is required and this needs to remain a priority for RBS in 2015. In conjunction with the Board Risk Committee, the Audit Committee will exercise oversight of progress.

One of the most significant pieces of work for the Audit Committee during 2014 was the tender process to select an external auditor from the year commencing 1 January 2016. Following a competitive tender process, the Committee recommended to the Board that Ernst & Young LLP (EY) be appointed. A transition period will commence during 2015 to ensure EY are familiar with RBS's internal processes. Deloitte will continue as RBS's external auditor throughout 2015, and I would like to take this opportunity to formally thank the firm and its partners for its work as auditor of RBS and its subsidiaries over the last 14 years. While the tender process and the transitional period inevitably have involved and will continue to involve considerable work, I firmly believe that the appointment of EY will ensure that RBS continues to receive the highest quality advice and external audit services.

EY also carried out an external review of the effectiveness of Internal Audit. The review compared Internal Audit's current audit policies, procedures and practices to the applicable regulatory and industry standards. The Committee were pleased to note that notwithstanding the level of change within the organisation, Internal Audit has made progress in key areas identified within its strategic plan, including enhancing its role, people and audit processes. The review also highlighted future areas of focus for the function, including a continued focus on retention and recruitment of skilled personnel and identification of opportunities to increase further the efficiency and effectiveness of audit processes. Action plans are in place to address all detailed findings and will be tracked to closure.

The oversight role and specific business of the Committee in these and other related areas are explained in more detail in the Committee's full report.

As Chairman of the Audit Committee, I reported after each meeting to the Board on the principal matters discussed to ensure all directors were informed of the Committee's work. 2014 has been another challenging year for the Committee. However, I believe that the balance of skills and experience amongst the members has enabled the Committee to strike the correct balance between independent oversight and challenge and support to management. I would like to thank my fellow members for their contribution to the effective Committee performance in 2014.

Brendan Nelson
Chairman of the Group Audit Committee
25 February 2015

Report of the Group Audit Committee

Report of the Group Audit Committee
Meetings and visits
A total of seven scheduled meetings of the Audit Committee were held in 2014, including meetings held immediately before the annual and interim financial statements and the quarterly interim management statements were considered by the Board. The Committee also held six ad hoc meetings. Meetings are attended by relevant executive directors, the Internal and External Auditors and Finance, Legal and Risk Management executives. Other executives, subject matter experts and external advisers are also invited to attend, as required, to present and advise on reports commissioned by the Committee. At least twice a year the Audit Committee meets privately with the External Auditors and separately with Internal Audit management.

During 2014 members of the Group Audit Committee, in conjunction with members of the Board Risk Committee, took part in an annual programme of visits to businesses and control functions in order to gain a closer understanding of the risks and control issues they face. This value adding programme included visits to Commercial and Private Banking; Corporate and Institutional Banking; Technology Services; Finance; Risk Management and Conduct & Regulatory Affairs (twice); Internal Audit (twice).

Membership of the Group Audit Committee
The Group Audit Committee comprises four independent non-executive directors. The Chairman and members of the Committee, together with their attendance at scheduled meetings, are shown below.

	Attended/ scheduled
Brendan Nelson (Chairman)	7/7
Sandy Crombie (1)	4/4
Morten Friis (2)	4/4
Baroness Noakes	7/7
Former members	
Tony Di Iorio (3)	3/3
Philip Scott (4)	5/6

Notes:

(1)	Became a member of the Committee on 1 April 2014.
(2)	Became a member of the Committee on 10 April 2014.
(3)	Stepped down from the Board on 26 March 2014.
(4)	Stepped down from the Board on 31 October 2014.

Brendan Nelson, Morten Friis and Baroness Noakes are also members of the Board Risk Committee. Philip Scott was also a member of the Board Risk Committee until he stood down from the Board. Sandy Crombie is Chairman of the Group Performance and Remuneration Committee. This common membership helps facilitate effective governance across all finance and risk issues; ensures that compensation decisions reflect relevant finance and risk considerations; and that agendas are aligned and overlap of responsibilities is avoided where possible.

The members of the Audit Committee are selected with a view to the expertise and experience of the Committee as a whole and with proper regard for the key issues and challenges facing RBS.

The Board is satisfied that all Audit Committee members have recent and relevant financial experience and that each member of the Group Audit Committee is independent as defined in the SEC rules under the US Securities Exchange Act of 1934 (the "Exchange Act") and related guidance. The Board has further determined that Brendan Nelson, Committee Chairman, and Baroness Noakes are both 'financial experts' for the purposes of compliance with the Exchange Act Rules and the requirements of the New York Stock Exchange. Philip Scott was also deemed to be a 'financial expert' for the same purposes, throughout his tenure as a Committee member. Full biographical details of the Committee members are set out on pages 47 to 50.

Performance evaluation

An evaluation of the Group Audit Committee's operation was conducted internally in 2014. Overall the review concluded that the Audit Committee continued to operate effectively. The Committee has considered and discussed the outcomes of the evaluation and is satisfied with the way in which they have been conducted, the conclusions and the recommendations to be taken forward. The evaluation praised the well-run manner of the Committee and the positive dynamic between members. The allocation of business to the Committee was considered to be appropriate, although it was acknowledged it was a heavy agenda. Recommendations for improvements focused on quality and volume of papers provided to the Committee. This will be addressed via a bank-wide programme to refresh the paper format and guidelines for submission to senior Committees and Boards.

The outcomes of the evaluation have been reported to the Board and the Committee will track progress during 2015.

In addition, the PRA undertook a review of the effectiveness of the Board and its senior committees throughout 2014, including the Group Audit Committee. The outcomes of this evaluation will be reported to the Board in due course and recommendations will be progressed as appropriate.

The role and responsibilities of the Group Audit Committee

The Group Audit Committee's primary responsibilities are set out in its terms of reference which are reviewed annually by the Committee and approved by the Board. These terms of reference are available on the RBS website www.rbs.com.

Allocation of Group Audit Committee agenda time

Report of the Group Audit Committee

Financial reporting and policy
The Audit Committee focused on a number of salient judgements and reporting issues in the preparation of the 2014 accounts. In particular, the Committee considered: · The evidence (including in relation to RBS's capital, liquidity and funding position) to support the directors' going concern conclusion. Further information is set out on page 102; · The adequacy of loan impairment provisions, focusing particularly on the judgements and methodology applied to provisions in RCR, given the exit strategy for the business and sensitivity to market conditions. The Committee was satisfied that the overall loan impairment provisions and underlying assumptions and methodologies were reasonable and applied consistently; · Valuation methodologies and assumptions for financial instruments carried at fair value including RBS's credit market exposures and own liabilities assessed at fair value; · The appropriateness of the carrying value of goodwill and other intangible assets. Particular consideration was given to the classification of Citizens Financial Group (CFG) in light of the Initial Public Offering (IPO) and planned disposal. Following discussion it was agreed that CFG should be re-classified as a disposal group and as a discontinued operation; · The judgements that had been made by management in assessing the recoverability of deferred tax assets, bearing in mind RBS's simplification agenda and the potential impact of ICB and ring-fencing; · Valuation of the Group's main defined benefit pension scheme. The Committee considered the assumptions that had been set in valuing the fund and the sensitivities of those

assumptions.

· The methodology and assumptions underlying the level of provision held and/or the appropriateness of required disclosure in relation to:

° redress, specifically in relation to Payment Protection Insurance and Interest Rate Hedging Products;

° ongoing regulatory and litigation actions: including foreign exchange trading; retail mortgage backed securities litigation in the US; and UK shareholder actions.

Following review, the Committee was satisfied that overall the level of provision held is appropriate and that disclosure is balanced and transparent;

· the assessment by management of the adequacy and effectiveness of internal controls over financial reporting which had identified deficiencies in the bank's privileged user access controls within Technology Services. The Committee monitored remediation progress and received regular reports on actions undertaken by the business to address the weaknesses. The Committee has received assurances that the majority of significant items have been closed and that the issue did not lead to the identification of any errors in the financial statements;

· the quality and transparency of disclosures contained within the external financial statements.

As part of its overall assessment of the Annual Report and Accounts, the Committee assisted the Board in determining that the Annual Report and Accounts taken as a whole was fair, balanced and understandable, providing the information necessary for shareholders to assess the company's performance, business model and strategy. A comprehensive review process supports both the Audit Committee and ultimately the Board in reaching their conclusion:

- The production of the Annual Report and Accounts is co-ordinated centrally by the Financial Controller with guidance on requirements being provided to individual contributors;

- The Annual Report and Accounts is reviewed by the Executive Disclosure Committee prior to consideration by the Audit Committee; and

- A management certification process requires members of the Executive Committee and other senior executives to provide confirmation following their review of the Annual Report and Accounts that they consider them to be fair, balanced and understandable.

This process is also undertaken in respect of the half year and quarterly results announcements. In addition, the External Auditor considers the Board’s statement as part of its audit requirements.

Systems of internal control

Remediation of known control issues has remained a focus of the Committee during 2014. As noted in the letter from the Committee Chairman, on behalf of the Board the Committee has continued to oversee the Control Remediation Programmes within the Markets division (MCRP) and has challenged management on the prioritisation of issues, delivery of remediation, quality assurance and contingency plans. The Committee received reports from Risk Management and Internal Audit and commissioned independent assurance that: the remediation programmes were progressing in accordance with plan; issues were being remediated to industry standard; and internal reporting accurately reflected progress. It is anticipated that MCRP will conclude, with delivery of all necessary actions completed, during the first part of 2015.

Notwithstanding the progress achieved in MCRP, the Committee remained concerned about the lack of improvement to the Markets control environment rating, regarding regulatory concerns around the lack of cultural shift and in light of the foreign exchange trading issues. The Committee invited management to report on improvements to the business and to provide assurances that the business was addressing the risks in an appropriate and sound manner. A larger project will begin in 2015 which will encompass specific remediation issues and wider cultural change. This will be closely monitored by the Board Risk Committee and Group Audit Committee in 2015.

Report of the Group Audit Committee

Key to the success of the remediation programme will be an effective three lines of defence model. In conjunction with the Board Risk Committee, this has been a primary area of focus for the Audit Committee during 2014. The Committee supported management's proposals to transition the policy to be more principles-based. The governance of the model has been simplified and streamlined. However, further work is required to ensure the revised model is fully embedded and operating effectively in practice. As such, the Committee has requested a clear articulation of end-state and a plan to reach that goal which will be closely monitored during 2015. In addition, the Committee has agreed that each business will report on progress at Committee visits in 2015.

Regular updates on RBS's credit quality assurance testing were received by the Committee. These reports highlighted certain weaknesses within the wealth credit business and the Committee requested that management report on action being taken to address these issues. Root causes of the weaknesses have been identified and remediation programmes have been established to address the underlying issues. The Committee will review closely plans and progress during 2015.

Bi-annual reports were also noted in relation to RBS notifiable event process and alerts on each major event are received by the Chairman of the Committee and the Chairman of the Board Risk Committee.

The Finance and Risk System Transformation (FiRST) was kept under the review of the Committee in 2014. A strategic review of the programme's aims, progress and deliverables was undertaken by management in light of the new RBS model. A proposal was presented to the Committee under which the programme scope will now be more streamlined with a narrower set of priorities, which should enable delivery.

External independent assurances on the suitability of the revised plan were provided. Progress will be monitored closely by the Committee in 2015.

During 2014 the Committee has received reports on the ongoing work of the Sensitive Investigations Unit. It was also updated on the whistleblowing arrangements RBS has in place for employees to raise concerns and received reports on incidents reported and investigated. This is an important tool for employees to raise issues and to identify improper behaviours. The Committee considered the enhancements made to the process during the year and also discussed the output of an Internal Audit review.

In line with the Committee's terms of reference, consideration was given to management's processes for identifying and responding to the risk of fraud.

As discussed in the report of the Board Risk Committee (set out on page 63 to 69), the effectiveness of the Divisional Risk and Audit Committees was considered in 2013. In response to management feedback, consideration was given to alternative mechanisms that could more effectively provide a line of sight into business risk and audit issues. A revised construct of standardised Business Risk Committees, chaired by business Chief Executives, was created and implemented in 2014, with responsibility for the consideration of all risk issues. These Committees also consider finance and audit issues on a quarterly basis and provide reports to the Board Risk Committee and Audit Committee. A review of effectiveness of the Committees will be undertaken in 2015.

The Committee has considered RBS's compliance with the requirements of the Sarbanes-Oxley Act of 2002, and is satisfied in this respect.

Internal audit

The Committee received regular reports and opinions from Internal Audit throughout 2014. The audit universe was refreshed during the year to remain aligned with the evolving shape of the bank as the Transformation Programme progressed. This will continue in 2015. Audit officers are working closely with the businesses to ensure the work undertaken is appropriate in both the short and longer term.

The Committee received regular updates on the progress of implementation of Internal Audit's strategic plan. It also considered and approved Internal Audit's annual plan for 2014 and monitored progress against it during the year. Consideration was also given to resourcing levels and the impact of the Transformation Programme and other changes taking place across RBS. During two visits to Internal Audit in 2014, the Committee reviewed external co-sourcing arrangements and recruitment strategies aimed at ensuring any capability gaps were appropriately addressed. Significant progress has been made and the benefits are being observed across the function. Overall the Committee is satisfied that the function is appropriately resourced.

The reporting arrangements for the Chief Audit Executive have remained unchanged in 2014: the role continues to report to the Chairman of the Audit Committee, with a secondary reporting line to the Chief Executive for administrative purposes. The Chief Audit Executive exercises his right of attendance at Executive Committee meetings, and Internal Audit officers regularly attend relevant business-level meetings as appropriate.

The annual review of the effectiveness of Internal Audit was undertaken externally in 2014. Following a competitive tender process, EY was appointed to perform this. Their report concluded that Internal Audit had operated effectively during the year. Certain recommendations were made to enhance particular practices within the function. These will be implemented during 2015, with progress tracked by the Committee.

Report of the Group Audit Committee

Oversight of the Bank’s relationship with its regulators
As set out in the terms of reference, the Committee has a responsibility to monitor the relationship with the Financial Conduct Authority (FCA) and the Prudential Regulation Authority (PRA) and other relevant regulatory bodies. Regular reports were received by the Committee on the status of ongoing regulatory investigations. Any significant developments in the relationship with the regulators were noted by the Committee. The Committee members met, individually and together with other Board members, with the PRA and the FCA during the year as part of their regular interaction with the regulator. The Committee also tracked progress in relation to mandatory and remedial projects and challenged the management of individual business areas and functions on the ability to meet regulatory expectations, responsibilities and the level of resource required to do so.

External audit
During 2014, the External Auditor provided the Group Audit Committee with reports summarising its main observations and conclusions arising from the year end audit, half year review and work in connection with the first and third quarter financial results and any recommendations for enhancements to RBS’s reporting and controls. The External Auditor also presented for approval to the Committee its audit plan and audit fee proposal and engagement letter, as well as confirmation of its independence and a comprehensive report of all non-audit fees. The Audit Committee undertakes an annual evaluation to assess the independence and objectivity of the External Auditor and the effectiveness of the audit process, taking into

consideration relevant professional and regulatory requirements. The evaluation sought the views of Committee members and attendees and other key members of management. In assessing the effectiveness of the External Auditor, the Audit Committee had regard to the experience of the audit engagement team; the scope of the audit work planned and executed; standards of communication and reporting; quality of insights on the internal control environment; and independence.

The Audit Committee is responsible for making recommendations to the Board in relation to the appointment, re-appointment and removal of the External Auditors. In order to make a recommendation to the Board, the Audit Committee considers and discusses the performance of the External Auditor, taking account of the outcomes of the annual evaluation carried out. The Board submits the Audit Committee's recommendations to shareholders for their approval at the Annual General Meeting.

The Audit Committee approves the terms of engagement of the External Auditor and also fixes their remuneration as authorised by shareholders at the Annual General Meeting.

A competitive tender was undertaken in 2014 to select an auditor for the audit of RBS and its subsidiaries in 2016 (and future periods). Following this, and due consideration by the Audit Committee and the Board, EY was chosen. A transition period will take place in 2015, during which EY will reach a point of independence from RBS and will begin to shadow the audit process to ensure it is well informed to commence as the External Auditor in 2016.

Audit and non-audit services

The Audit Committee has adopted a policy on the engagement of the External Auditor to supply audit and non-audit services, which takes into account relevant legislation regarding the provision of such services by an external audit firm. The Committee reviews the policy annually and prospectively approves the provision of audit services and certain non-audit services by the External Auditor.

For all other permitted non-audit services, Group Audit Committee approval must be sought in advance, on a case-by-case basis. A competitive tender process is required for all proposed non-audit services engagements where the fees are expected to exceed £100,000. Engagements below £100,000 may be approved by the Chairman of the Group Audit Committee; as an additional governance control all engagements have to be approved by the Financial Controller and Supply Chain Services. Where the engagement is tax related, approval must also be obtained from the Director of RBS Tax. Ad hoc approvals of non-audit services are ratified by the Group Audit Committee each quarter. During 2014, the External Auditor was approved to undertake certain significant engagements which are explained more fully below:

- Assurance testing in relation to RBS's 2013 Sustainability Report. The External Auditor was selected given its significant experience in specialist sustainability reporting. An improved fee was also negotiated.
- Provision of a compliance report required to comply with an amendment by the SEC to certain broker-dealer annual reporting requirements. Standard industry practice is for the External Auditor to be appointed to perform this work.
- Provision of advice and assistance to RBS Capital Resolution in formulating deleveraging strategies and transaction preparation. Data gathering, due diligence and information assessment was also undertaken. Following a review of all advisors in this area, Deloitte was selected in recognition of the team's position as one of the leaders in the European loan portfolio sale market, particularly in the relevant geographies.

Further details of the non-audit services that are prohibited and permitted under the policy can be found on the website www.rbs.com. Information on fees paid in respect of audit and non-audit services carried out by the External Auditor can be found in Note 5 to the consolidated accounts

on page 363.

Brendan Nelson
Chairman of the Group Audit Committee
25 February 2015

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Report of the Board Risk Committee

Letter from Baroness Noakes,
Chairman of the Board Risk Committee

Dear Shareholder,

This is my first letter to you as Chairman of the Board Risk Committee, having succeeded Philip Scott on 1 April 2014. I have been a member of the Committee since 1 March 2012. On behalf of the Committee, I would like to thank Philip for his leadership as Chairman over the previous four years. I would also like to thank Sandy Crombie and Tony Di Iorio for their work as members of the Committee: both stood down at the end of March. In April we welcomed three new members to the Committee: Morten Friis, Robert Gillespie and Penny Hughes who have already made significant contributions.

The purpose of this report is to describe how the Committee discharged its responsibilities during 2014 and to provide details of the material and significant issues which it considered and debated during the course of the year. It should provide a sense of the breadth of the Committee's work, which included focus on conduct risk, credit risk, market risk, operational risk, people risk, regulatory risk and reputational risk. As a reflection of the increased demands on the Committee, the number of scheduled meetings during 2014 was increased from seven to nine. This will be maintained in 2015.

The backdrop throughout 2014 for RBS has been one of significant change. In February, the bank announced its new strategy to be a
smaller, simpler UK focused bank. It mobilised a transformation programme with the objective of implementing the future bank-wide operating model and required process and technology changes. The Board Risk Committee assumed responsibility for monitoring execution risk. It received regular reports on progress, including independent opinions from Risk Management, Internal Audit and HR. Monitoring the risks associated with the transformation programme will continue throughout 2015 and beyond.

The objective underpinning RBS's revised strategy is gaining customers' trust and putting customers' needs at its core. Unfortunately, in 2014 RBS continued to deal with certain significant conduct issues that have hindered the speed of RBS's recovery and damaged its reputation. Of particular concern were the issues associated with manipulation of foreign exchange markets. The Committee oversaw the internal and regulatory investigations which ultimately led to the imposition of a substantial fine in November 2014, by the FCA and US Commodity Futures Trading Commission (CFTC).

The outcome was a stark reminder of the importance of culture and integrity in banking. On behalf of the Board, the Committee monitored the resulting disciplinary and accountability processes and made recommendations to the Group Performance and Remuneration Committee on action to be taken. The Committee will continue to oversee interactions on this matter with RBS's other regulators in 2015. Details of other conduct and litigation matters under review of the Committee are set out in the Committee report.

It is always disappointing to have to consider behaviour which falls below expected standards. While the Committee plays a key role in ensuring appropriate action is taken when things go wrong, it is important to instil values that will eliminate this conduct at the outset. Driving a strong and healthy risk culture is fundamental to this. During 2014, RBS has commenced a programme of work to benchmark its risk culture both against peers and heightened regulatory expectations. The Committee has supported this programme wholeheartedly and will review a plan in early 2015 which will articulate how the bank can define and embed a stronger risk culture and evidence that this is effective.

Equally important is ensuring that the accountabilities of our staff are clear and transparent. In conjunction with the Group Audit Committee, the members have reviewed progress in embedding the three lines of defence model across RBS. While progress has been made to develop definition and design principles, significant work is still required to articulate and embed the operating model within businesses. This will be a priority in 2015.

RBS was fined in November 2014 for failing to put in place resilient IT systems. During the year, the Board Risk Committee has continued to oversee the remediation activity following the IT incident, which occurred in 2012. It has also considered accountability. Independent assurance has been provided by PwC that the work undertaken by the business has been appropriate and addresses the key areas requiring remediation. However, more remains to be done and the Committee will continue to ensure in 2015 that changes are sustained and risks are appropriately identified and escalated.

The Committee has dedicated considerable effort in 2014 to reviewing external and internal stress testing exercises. The Committee reviewed and recommended to the Board the submissions to the European Banking Authority (EBA) and the Bank of England (BoE) and approved the reverse stress test trigger framework. Unfortunately, in November 2014 an error was identified in the calculation of the modelled Common Equity Tier 1 (CET1) ratio in the EBA stress test results which led to RBS's published CET1 stress test ratios being overstated. Independent assurance was sought and the error was corrected. The Committee will continue to closely monitor the actions being taken to avoid a repeat of this error until it is clear that we can deliver against our own and regulatory expectations for stress testing.

Report of the Board Risk Committee

Other material areas of Committee focus during the year have included:

- consideration of the risk appetite framework of RBS to ensure it remains fit for purpose in light of internal restructuring, market positioning and regulatory changes;
- planned improvements to the Operational Risk Management Framework;
- the capital and liquidity position of RBS and related regulatory submissions;
- improvements to risk reporting; and
- assessment of the risk performance of both businesses and individuals and consideration of the accountability and behaviour of individuals in relation to specific matters.

More detailed information on each of these areas is set out in the Board Risk Committee report that follows.

Key Priorities for 2015
The report demonstrates the substantial efforts being taken to reduce the level of risk at RBS, under the oversight of the Committee. However, it is important to note that risk reduction remains a work in progress. Management is continually striving to enhance the safety and soundness of the bank, and will continue to pursue actions to bring RBS within risk appetite. The Board Risk Committee will monitor progress closely and will oversee the quality and quantity of available resources to ensure they are sufficient to achieve real improvement. Other priorities will include risk culture, risk appetite, operational risk management, cyber risk and information security; and the execution risks associated with strategic initiatives.

2014 was another challenging year for the Board Risk Committee and I would like to extend my thanks to my fellow members and to RBS's senior leadership team for the additional time they have dedicated to the business of the Committee.

Baroness Noakes
Chairman of the Board Risk Committee
25 February 2015

Report of the Board Risk Committee

Meetings and visits
The Board Risk Committee held nine scheduled meetings and four ad hoc meetings in 2014. The ad hoc meetings were required to consider: the Clifford Chance report into the allegations set out in the Tomlinson Report; the EBA stress test results; risk performance of businesses and individuals; and accountability matters relating to the manipulation of the foreign exchange market.

In addition to the members, Board Risk Committee meetings are also attended by relevant executive directors, including representatives from Risk Management, Conduct and Regulatory Affairs (C&RA), Finance and Internal Audit. External advice is also sought by the Board Risk Committee, where appropriate. A standing invite has been issued to the lead partner of the External Auditor to attend all meetings from January 2015 onwards.

During 2014, in conjunction with members of the Group Audit Committee, members of the Board Risk Committee took part in an annual programme of visits to businesses and control functions in order to gain a deeper understanding of the risks and issues they face. This value adding programme included visits to Commercial and Private Banking; Corporate and Institutional Banking; Technology Services; and Finance. In addition, the Committee made two visits to Risk and C&RA; and Internal Audit. In addition, an in-depth session on risk reporting was undertaken by the Committee in 2014.

Membership
The Board Risk Committee comprises at least three independent non-executive directors. The Chairman and members of the Committee, together with their attendance at scheduled meetings, are shown below.

	Attended/ scheduled
Baroness Noakes (Chairman)(1)	9/9
Morten Friis(2)	6/6
Robert Gillespie (3)	5/6
Penny Hughes (3)	6/6
Brendan Nelson	9/9
Former members	
Sandy Crombie (4)	3/3
Tony Di Iorio (5)	3/3
Philip Scott (6)	8/8

Notes:
(1) Became Chairman of the Committee with effect from 1 April 2014.
(2) Became a member of the Committee with effect from 10 April 2014.
(3) Became a member of the Committee with effect from 1 April 2014.
(4) Stepped down from the Committee on 31 March 2014.
(5) Stepped down from the Board on 26 March 2014.
(6) Stepped down from the Board on 31 October 2014.

Baroness Noakes, Morten Friis and Brendan Nelson are also members of the Group Audit Committee. Philip Scott was a member of the Group Audit Committee until he stood down from the Group Board on 31 October 2014. Robert

Gillespie is also a member of the Group Performance and Remuneration Committee and the Sustainable Banking Committee, and Penny Hughes chairs the Sustainable Banking Committee. This common membership across Committees ensures effective governance across all risk, finance, reputational and remuneration issues and that agendas are aligned and overlap of responsibilities is avoided where possible.

Role of the Board Risk Committee

The Board Risk Committee's primary responsibilities are set out in its terms of reference which are reviewed annually by the Committee and approved by the Board. These are available on the bank's website: www.rbs.com.

Allocation of Board Risk Committee agenda time

Performance Evaluation

The annual review of the effectiveness of the Board and its senior Committees, including the Board Risk Committee, was conducted internally in 2014. The Committee has considered and discussed the outcomes of this evaluation and accepts the findings. Overall the review concluded that the Board Risk Committee continued to operate effectively. The composition of the Committee was considered to be well-balanced, with the skills and perspectives required to respond to the challenges faced. The quality of debate at Committee meetings was also noted to be of a high standard. Some areas where further enhancements to Committee performance could be made were identified, these included: the development of a specific technical training programme to complement the members' knowledge; review of the thresholds for reporting and escalation of issues to ensure Committee focuses on the key issues; and continued improvements to reporting to the Committee so that there are more focussed and higher quality papers which clearly articulate the key issues for debate.

The outcomes of the evaluation have been reported to the Board. The conclusions and the recommendations to help improve the Committee's effectiveness will be taken forward and progress will be tracked during 2015.

Report of the Board Risk Committee

Risk strategy and policy

In February 2014, RBS announced its refreshed strategic direction to become a smaller UK centric bank with a focus on placing customers at the fore. A transformation programme was established to implement the required changes, with both short term and longer term objectives. During 2014, the Board Risk Committee, on behalf of the Board, dedicated significant time to regularly reviewing the execution risks and issues arising from the implementation of such fundamental change across the organisation. The Committee has received regular progress updates from the project team. Risk Management has been fully involved in the transformation programme and has provided an independent opinion to the Committee at each meeting on the risks in the programme. In addition, the Committee receives independent opinions from HR and Internal Audit. On a rolling basis, the Committee has held focus sessions on the key workstreams under the programme which are aligned to the priority areas of Reshaping the Bank, Cost, Customer, Control & IT execution. In 2014, the Committee received reports on the customer workstream, the control transformation programme and technology. The Committee also commissioned a detailed review of the people risks facing the organisation. Detailed 2015-17 plans were presented to the Board in December 2014 and the Committee will continue to rigorously monitor the risks and issues arising as plans progress.

The Committee also considered the risks in specific strategic objectives of the bank, in particular it:

- reviewed the progress on the strategic initiative to dispose of the Williams & Glyn business. It considered the technical complexities inherent in the programme; risks associated with the disposal; regulatory requirements; scope; viability; and threats to delivery. Risk is engaged in the programme and has provided the Committee with opinion on key risks and execution. The Committee will continue to oversee delivery throughout 2015, being particularly mindful of the challenging timescales;

· considered the potential impacts on RBS's mortgage book in the event of a sharp fall in property prices in the short to medium term, should concerns over rising London house prices crystallise;

· received regular reports on the threats to RBS and its customers' businesses posed by economic or political events across a number of countries including Thailand, Russia and Ukraine; and

· reviewed the RBS Resolution Plan and recommended it to the Board for approval prior to submission to the PRA.

The Committee considered operation of RBS's Policy Framework and considered management's plans to improve the accessibility, clarity and ease of implementation of RBS's policies.

Risk profile

Reporting

A key priority for the Committee in 2014 was the need to improve and streamline the quality of risk reporting. Following a focus session on Risk Reporting, good progress has been made in this respect and a revised format risk report, including a 'top risks' section, was launched in October. Risk reporting is now more strategic and forward looking and current and future risk positions are reported relative to risk appetite and limits.

Throughout 2014 the Committee received reports on key risk issues and risk metrics at each meeting and the Chief Risk Officer provided a verbal update on the key risks to RBS. The Chief Conduct and Regulatory Affairs Officer also provided a verbal update on current matters pertinent to the Committee at each meeting. This has been a useful means of ensuring the

Committee receives the latest information on current and emerging risk and conduct matters. Reports are made to the Committee at each meeting on the most recent discussions at the Executive Risk Forum – the management-level risk committee which reports to the Board Risk Committee.

Conduct and Remediation

The Committee carefully considered various conduct issues and remediation programmes in 2014. A primary concern was the investigation of misconduct within the foreign exchange trading business. The Committee received regular reports as the investigation evolved and was kept abreast of interactions with regulators. In November 2014, RBS reached a settlement with the FCA and the US Commodity Futures Trading Commission (CFTC) in relation to failings in the foreign exchange business. RBS fully cooperated with the regulatory investigations and accepted the findings. The Committee has exercised close oversight of the internal investigation into the conduct of current and former employees who had involvement in the foreign exchange area. RBS has announced action taken to date and will provide a further update when the accountability review is complete, which is expected to be in the first quarter. RBS remains in discussion with other governmental and regulatory authorities on these issues, including the US Department of Justice, and the Committee will continue to give this appropriate focus in 2015.

The allegations of misconduct within RBS’s Restructuring business, which were set out in the Tomlinson Report, were also given detailed consideration at the Committee. In response to the report, RBS commissioned Clifford Chance to undertake an independent review into the most serious allegations. The Committee played a key role in monitoring developments and overseeing the publication of the report, in April 2014. It welcomed the finding that there was no evidence of the serious and damaging allegation that RBS had set out to deliberately defraud its business customers. The Committee will continue to monitor the separate, external investigation into

Restructuring, which was commissioned by the FCA under section 166 of the Financial Services and Markets Act. The results of this are anticipated during the first part of 2015, and will be reviewed in detail by the Committee.

Report of the Board Risk Committee

Following the IT incident in June 2012, a significant amount of work has been undertaken to strengthen the resilience of RBS's technology systems and this continued to be an area of focus for the Committee in 2014. It received quarterly reports on the work being undertaken to enhance resilience and to address the findings of the section 166 regulatory review. Reports have included independent assurance from PwC that the work undertaken by the business has been appropriate, sustainable and addresses the key areas requiring remediation. In order to further inform the Committee's considerations around technology resilience a 'deep dive' session was held for all Board members in May 2014. As well as considering the immediate concerns around improving resilience, this session also offered an opportunity to review longer term priorities for the function. The Committee is satisfied with the progress of the IT resilience remediation programme and it is anticipated that the work will be complete in early 2015. At this point the Committee will determine appropriate methods of future oversight of the risks associated with IT resilience.

A key part of ensuring the correct behaviours are instilled across RBS is articulating and embedding an appropriate risk culture within RBS that is set and cascaded from the top. This needs to be clearly aligned to the RBS's existing culture programme. The Risk and Conduct & Regulatory Affairs functions have started the process of researching and developing an appropriate risk culture programme for RBS, and have kept the Committee appraised of progress. Lessons have been gained from liaison with peers and benchmarking. The Committee will review management's plan to embed risk culture across RBS and the proposed measures to assess and validate its effectiveness during 2015. This topic is of keen regulatory interest will remain a priority for the Committee in 2015 and beyond.

In 2014, the Committee also received reports on other conduct and regulatory issues, including:

- quarterly updates from the oversight committee established to monitor the status of current open investigations in the former Markets Division. This work has been complemented by that of the Markets Controls Remediation Programme (MCRP) which has been monitored by the Group Audit Committee. In 2015, MCRP will be succeeded by the Markets Standards Programme. The Markets Standards Programme will be similar in scale to MCRP, with a greater focus on conduct and culture in addition to controls. It will incorporate remediation of the foreign exchange trading issues;

- RBS's progress in improving its end to end customer complaints management process, in particular its strategic aims to reduce complaint volumes and to resolve issues at the first point of contact or within forty eight hours of receipt. The Committee will receive further updates on progress next year;

- reports on Anti-Money Laundering remediation at each of its meetings in the first half of 2014, ahead of the regulatory attestation in June 2014. Reporting has now returned to exception based reporting pending further regulatory review;

- initial reports on trade and transaction reporting compliance and collateral management issues within the Corporate and Institutional Banking business. The Committee will receive more detailed reports on required action and remediation in early 2015;

- the status of key litigation cases, in particular the US residential mortgage-backed securities litigation claims; and

- the remediation of known regulatory issues in the RBS Americas region.

Capital Management

The Committee reviewed the capital and liquidity position of the bank regularly. It reviewed and recommended that the Board approve the Individual Liquidity Adequacy Assessment (ILAA) and the Internal Capital Adequacy Assessment Process (ICAAP). An assurance opinion was provided by Internal Audit on the adequacy of the processes supporting the preparation of the submissions.

In response to increased regulatory expectations, the Committee has dedicated considerable effort in 2014 to the oversight of stress testing. It has been actively engaged in discussions on underlying assumptions and scenario selection for the European Banking Authority and Bank of England 'UK Variant' stress-test exercises and recommended the stress test results submissions to the Board. The Committee reviewed the output of stress testing exercises and has been involved in consideration of their announcement to the market. The Committee also made appropriate recommendations to the Board on reverse stress testing thresholds.

Focus on stress testing and reliance upon the outputs is set to increase in 2015 and beyond. It is therefore essential that the business is resourced to meet expectations and that individuals possess the correct skills and are supported by the correct processes and tools. The Committee will carefully review stress testing capability enhancement plans to ensure that these are fit for purpose and meet regulatory expectations for 2015.

Market, Credit and Operational Risk
The Committee conducted its regular review of the market risks managed by RBS. The appetite for market risk and related limits were also reviewed in the context of the reduction in the size of the Corporate and Institutional Banking business, in line with the bank's strategy. The Committee reviewed key market risk issues and hot topics including remediation and compliance with CRD IV requirements. Plans to enhance the management of exposures across Credit and Market Risk were considered.

A detailed overview of the Credit Risk portfolio was also provided to the Committee, including a report on activities to address current and emerging risks, and an update on the credit risk appetite frameworks. Steps taken to de-risk certain portfolios, including commercial real estate, and to improve overall asset quality were considered.

Report of the Board Risk Committee

Working closely with the Group Audit Committee, the Committee reviewed the updated three lines of defence design principles (across front line management, risk and internal audit). In the second half of 2014, implementation has been focussed on publication and dissemination of the principles, and application in both organisational structures and individual role profiles. During 2015, the focus will be on driving these principles deeper into the organisation, supported by the planned activity on risk culture outlined above. Effective operation of the three lines of defence model is critical to the success of the bank's transformation and the Committee will carefully consider plans in early next year and monitor delivery against agreed objectives.

An effective first line of defence with a clear understanding and ownership, is fundamental to the success of the Operational Risk Management Framework (ORMF). The way in which RBS currently manages Operational Risk is inconsistent across the bank and a programme of work has been established to address identified weaknesses in capabilities. During 2014, RBS Risk has defined an enterprise wide approach to risk management covering all risk disciplines and has aligned its end state vision of what a good ORMF should look like to this approach. The Board Risk Committee has received reports on progress and will consider detailed plans in the first quarter of 2015.

Thereafter, the Committee will monitor progress as the programme is delivered over the following two years.

The Committee also received reports on:

· RBS's long dated derivatives business and noted the risk and control framework (including limits and collateral requirements) which supported it;

· the New Product Risk Assessment process including enhancements made to the end to end product life cycle;

· the status of RBS's compliance with the Single European Payments Area (SEPA) Directive;

· regular reports on improvements in information security, corporate security, records management and cyber risk;

· enhancements to data quality across the organisation. The opinion of Internal Audit was considered in this respect also. Further status updates will be provided during 2015.

In December 2014, the Committee supervised the responses provided by RBS to the PRA and FCA as part of their Dear Chairman II Exercise on IT resilience. In particular, it reviewed the detailed responses to the FCA questionnaires, and for the more technical PRA questionnaires, the Committee reviewed the processes used to prepare the responses. In each case the Committee received assurance reports from Risk and from Internal Audit and on this basis recommended to the Board that it approve the submissions to the regulators.

The Committee received bi-annual reports on cyber threats and responses, covering the threat landscape together with key issues and progress on the bank's improvements plans in this area. The bank is re-baselining its appetite and approach to cyber risk and is moving to a model of strong detection and response in addition to mitigation. The banking sector will continue to be a prime target for attackers and the Committee will keep cyber risk under close review during 2015.

The Committee reviewed RBS's 2014 Annual Risk and Control Report and was satisfied that RBS had operated its risk management framework in accordance with the requirements of the UK Corporate Governance Code.

Risk appetite, framework and limits

The Board Risk Committee reviewed the risk appetite framework of RBS during 2014, particularly in light of internal restructuring, market positioning and changes to regulations. This included a review of capital adequacy, earnings volatility and stakeholder confidence. This review is being finalised and a formal risk appetite which reflects the new organisational structure will be approved in the first quarter of 2015. This review will also focus on how the detailed risk appetite processes within the individual businesses fit within the enterprise wide appetite set by the Board.

Risk and C&RA operating model

During the course of two separate visits, the Board Risk Committee reviewed the Risk Management and C&RA operating model to ensure that both functions had the appropriate structures and resources in place to deliver their strategic plans. The bench-strength of the functions was reviewed and consideration was given to succession planning, resource and budget.

The Committee considered in detail the impact of RBS's transformation programme on the holistic risk management operating model. This included: resourcing levels and quality; changes to risk management's technology support infrastructure; the impact on RBS's overall control environment; and alignment with other major change and investment programmes.

Last year, the Committee reviewed the operation of the Divisional Risk and Audit Committees. In response to management feedback, consideration was given to alternative mechanisms that could more effectively provide a line of sight into business risk and audit issues. In early 2014, the Committee agreed that standardised Business Risk Committees, chaired by business Chief Executives, should be responsible for the consideration of all risk issues and escalation to the business ExCo and ERF. These Committees also consider finance and audit issues on a quarterly basis and provide reports to the Board Risk Committee and Group Audit Committee. While the Committees are in their infancy, it is anticipated that these changes will improve the risk governance at a business level and facilitate the escalation of issues as appropriate. A review of effectiveness will be undertaken in 2015.

Report of the Board Risk Committee

Risk architecture
The Board Risk Committee considered model risk management across the organisation and this will remain a key area of focus of the Committee into 2015 and beyond. The Committee reviewed the preparations underway to ensure compliance with the new Basel Principles on Effective Risk Data Aggregation and Reporting, which were due to come into effect from January 2016. Detailed plans will be reviewed and the Committee will receive reports on delivery through 2015.

Accountability and Remuneration
The Board Risk Committee recognises clear link between conduct, culture and performance management. As part of its work the Committee has continued to work closely with the Group Performance and Remuneration Committee to consider the risk aspects of Executive Committee members' objectives, performance and remuneration arrangements. The committee makes recommendations as appropriate to the Group Performance and Remuneration Committee. The Committee also considered the risk performance of businesses in light of known risk and control issues and under advice from Risk, C&RA and internal audit functions. It has also reviewed specific accountability cases and made recommendations regarding appropriate adjustments to performance related reward to the Group Performance and Remuneration Committee. The Group Performance and Remuneration Committee's report on pages 75 to 95 includes more detail on how risk is taken into account in remuneration decisions.

Baroness Noakes
Chairman of the Board Risk Committee
25 February 2015

Report of the RBS Capital Resolution (RCR) Board Oversight Committee

Letter from Baroness Noakes,
Chairman of the RCR Board Oversight Committee

Dear Shareholder,

The RBS Capital Resolution Board Oversight Committee was established following the creation of RBS Capital Resolution (RCR) on 1 January 2014.

RCR was established to separate and wind down RBS's high capital intensive assets. Targets were set to remove 55-75% of these assets from the balance sheet by the end of 2015 and 85% by the end of 2016.

Key principles are:

- removing risk from the balance sheet in an efficient, expedient and economic manner;
- reducing the volatile outcomes in stressed environments; and
- accelerating the release of capital through management and exit of the portfolio.

Given the importance of delivery of the RCR objectives for RBS's future plans, the Committee's role is an important one. I was appointed Chairman of the Committee on 1 April 2014 and am pleased to present the report on the Committee's activity during 2014.

The role and responsibilities of the RCR Board Oversight Committee
The Committee's responsibilities are set out in its terms of reference which are reviewed annually by the Committee and approved by the Board. These are available on rbs.com.

The Committee's role is to:

- oversee the actions of RCR's management, including implementation of RCR's strategy;
- review and report to the Board on RCR's progress against and compliance with the primary objective (to eliminate the bank's exposure to RCR assets) and the asset management principles (criteria for taking decisions on the reduction of capital and assets);
- agree in consultation with the Group Performance and Remuneration Committee specific incentives for RCR management, aligned to the objectives of RCR;
- consider financial disclosures in respect of RCR; and
- report to the Board on the Committee's activities and recommend changes to RCR strategy.

Membership and meetings
The Chairman of the Committee is the Chairman of the Board Risk Committee. The Senior Independent Director, the Chairman of RBS and the Chairman of the Group Audit Committee are members. Attendance at meetings is shown below.

	Attended/ scheduled
Baroness Noakes (Chairman) (1)	3/3
Sandy Crombie	3/4
Philip Hampton	4/4
Brendan Nelson	3/4
Former member	
Philip Scott (2)	1/1

Notes:
(1) Baroness Noakes took over from Philip Scott as Chairman of the Committee on 1 April 2014. The Committee held four scheduled meetings and two ad hoc meetings in 2014. Meetings are attended by relevant executives, and representatives from the risk, finance and human resources functions.
(2) Stepped down from the Committee on 1 April 2014.

Principal activities during 2014
As a newly established Board Committee, the focus at the first meeting was reviewing the Committee's terms of reference and schedule of business for the year. The Committee also reviewed the governance structure and delegated authorities for RCR. The format of reporting on progress against the primary objective and asset management principles, and the pro-forma for financial reporting were also considered.

At each scheduled meeting during the remainder of the year, the Committee has considered financial performance and delivery against targets and asset management principles, and received updates on emerging issues and material transactions. The outlook in relation to capital release and the residual asset pool is also reviewed.

Risk reporting developed and evolved through the year and the Committee now receives information on a quarterly basis on operational, conduct and people risk.

The Committee recognised that the objective of accelerating disposal of assets carried additional customer and conduct risks. It paid particular attention to the leadership and culture within RCR and reviewed the RCR framework and operating principles to satisfy itself that management were managing these risks appropriately.

The Committee also reviewed and considered certain remuneration matters for RCR and, in conjunction with the Group Performance and Remuneration Committee, has approved RCR remuneration principles, and RCR related annual objectives for the CEO of Capital Resolution Group.

Committee meetings are attended by senior RCR managers and also representatives from the control functions, in particular from the risk function.

As explained on page 153, RCR now expects substantially to complete its work by the end of 2015. The Committee will continue to oversee the activities of RCR throughout this period.

Report of the RBS Capital Resolution (RCR) Board Oversight Committee

Performance evaluation
An internal review of the effectiveness of the Board and senior committees was conducted during 2014. The Committee has considered and discussed the report on the outcomes of the evaluation and is satisfied with the way in which the evaluation has been conducted.

Overall, the review concluded that the Committee operated effectively and exercised appropriate oversight and challenge of management.

Baroness Noakes,
Chairman of the RCR Board Oversight Committee
25 February 2015

Report of the Sustainable Banking Committee

Letter from Penny Hughes
Chairman of the Sustainable Banking Committee

Dear Shareholder,

RBS has a clear ambition to be number one for customer service, trust and advocacy in each of our chosen business areas by 2020. Delivery of this ambition depends in large part on our ability to demonstrate beyond question that we are a responsible company doing business in a sustainable way.

Our strategy is clear – our success as a company is dependent on the success and fortune of our customers and the communities we live and work in. When they succeed, so do we.

We know that RBS exists in a sector that faces huge challenges and needs to change, and we're committed to play a leadership role. I'm encouraged that we've changed our business practices this year on a range of issues to make banking fairer for our customers and our communities.

Inside the bank we are on a long journey to create a culture that stands apart from the misconduct of the past. We have strong, clear values that guide our decision making, but these are yet to be truly ingrained in our approach to running the bank.

The Sustainable Banking Committee is primarily concerned with overseeing how well management is running the bank sustainably for its stakeholders and dealing with matters of reputation and trust, including cultural change. In fulfilling this responsibility, we try to consider the long term interests of all stakeholder groups which include customers, employees, shareholders, government, regulators, society and advocacy groups.

Although we still have a long way to go, some good progress was made in 2014 and the key areas of work during the year included:

- Oversight of the values and conduct work intended to address behavioural and cultural issues
- Assessing performance on delivery of customer commitments on trust, advocacy and service including simple, transparent and fair banking
- Ongoing commitment to stakeholder engagement through face to face sessions with advocacy groups on key issues of concern (more details on the next page)
- Oversight of progress on sustainability activities across RBS including serving society, serving customers and supporting communities
- Oversight of the development of Environmental, Social and Ethical (ESE) policies designed to ensure responsible and sustainable management of risks in sensitive and controversial lending sectors. ESE polices have now been developed for Defence, Forestry, Fisheries & Agribusiness, Mining & Metals, Oil & Gas, Gambling, Power Generation and Animal Testing. As a result of these policy decisions, the Committee has played an instrumental role in not providing finance to a number of controversial areas of industry.

- Oversight of progress on people issues including safety and health, wellbeing, diversity and inclusion and employee engagement

- Considering sustainability positioning on environmental targets, climate change, human rights and sustainable energy opportunities

- Transparent reporting through the annual Sustainability Review which describes our performance and approach to making RBS a more sustainable business, one which will support the long-term future of the economy and society.

Also during 2014, the opportunity was taken to refocus the strategic direction of the Committee to ensure greater alignment with the customer ambition of the bank. Our work will concentrate on three core themes: Bank-wide Reputation and Trust, Serving Customers and Sustainability/Emerging issues. More detail on these themes is provided on pages 39 to 40. Previously known as the Group Sustainability Committee, we felt the new name of Sustainable Banking Committee better reflected our purpose and underlined the importance of sustainable banking being a core part of our strategy.

Although there is still much to be done to rebuild trust, it is pleasing that the efforts to build a responsible and sustainable business are being recognised through independent and external measures. These include having recently been ranked as the top scoring UK company in Transparency International's latest report on transparency in corporate reporting. We have also successfully retained our place in the Dow Jones World Sustainability Index and scored well in the Carbon Disclosure Project disclosure results which assess management of climate risks and opportunities. RBS has also been reselected for inclusion in the FTSE4Good index which measures the performance of companies against globally recognised responsibility criteria. Turning to people commitments, progress on diversity and inclusion has also been recognised with various gender, race and equality awards. More information on these and our sustainability performance and external commitments can be found on pages 39 to 40.

With an increasing focus on ethics and sustainability, the priority of the Committee will be to assess and encourage the work of the executive team in building a bank that puts customers' interests first and embeds sustainable banking into everything that we do. I took over as Chairman of the Committee after the 2014 AGM having served as a member since 2013. My thanks go to the Committee members and attendees for their support and, in particular my predecessor Sandy Crombie for his commitment in steering the work of the Committee. There are significant challenges ahead, but I am confident that we will continue to build on the work that has already been done to embed sustainability into the strategic priorities of RBS.

Penny Hughes
Chairman of the Sustainable Banking Committee
25 February 2015

Report of the Sustainable Banking Committee

Report of the Sustainable Banking Committee

Meetings

The Sustainable Banking Committee held six scheduled Committee meetings in 2014 in addition to six stakeholder engagements sessions. Both were attended by senior representatives from the customer-facing divisions as well as Human Resources, Sustainability, Risk, Conduct and Regulatory Affairs, Communications and Marketing, Strategy and Corporate Services. The Chairman of the Board regularly attends the meetings as well as internal and external specialists who are invited to join for specific items.

Stakeholder engagement sessions

In addition to ongoing engagement which takes place across our business each day, the Sustainable Banking Committee runs a proactive engagement programme to which we invite external stakeholders to meet with, and challenge, the most senior decision makers in RBS. These discussions help shape future policies, influence strategic priorities and inform decision making across RBS and will continue to play a key role. To date we have met with over 40 different groups of NGOs, civil society groups, government bodies, consumer groups and investors in this way. In particular, in 2014 we held six such stakeholder engagement sessions covering the following topics:

- Fair Banking with particular emphasis on how well RBS serves low income customers
- Privacy and the need to balance security against the employee right to privacy
- Climate Change including the latest science on the predicted physical and humanitarian impacts
- Supporting Enterprise and in particular how well RBS supports international trade
- Sustainability priorities of the investment community
- Employee Engagement with focus on people strategy, employee sentiment and balanced leadership

In addition, the programme of UK-based events aimed at individual shareholders continued in 2014 and provided an opportunity for shareholders to meet directors and senior management to learn more about the business.

Membership

The Sustainable Banking Committee comprises three independent non-executive directors. During the year, new member Robert Gillespie joined existing member Alison Davis, and Penny Hughes took over from Sandy Crombie as Chairman after the AGM. The Chairman and members of the Committee, together with their attendance at meetings, are shown below.

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

Notes:

(1) Appointed Chairman of the Committee on 25 June 2014.

(2) Appointed to the Committee with effect from 1 April 2014.

(3) Stepped down from the Committee on 25 June 2014.

Performance evaluation

An internal review of the effectiveness of the Sustainable Banking Committee took place in 2014 and overall the review concluded that the Committee continued to operate effectively. In particular, the stakeholder engagement sessions were regarded as a valuable opportunity to learn how well RBS is aligned to external sustainability priorities and these will continue in 2015. Another key focus will be to embed the changes made in 2014 to the strategic direction of the Committee.

Role and responsibilities of the Sustainable Banking Committee

The Sustainable Banking Committee is responsible for overseeing and challenging how management is addressing sustainable banking and reputation issues, considering the long term interests of all stakeholder groups.

Authority is delegated to the Sustainable Banking Committee by the Board and the Committee reports and makes recommendations to the Board as required. The terms of reference of the Committee are available on the RBS website rbs.com and these are reviewed annually and approved by the Board. A report on the activities of the Committee in fulfilling its responsibilities is provided to the Board following each meeting. The principal responsibilities of the Committee are shown below grouped under its three core themes of work: Bank-wide Reputation and Trust; Serving Customers; and Sustainability/Emerging Issues.

Bank-wide Reputation and Trust led by the Chief Executive

Oversight of:

- Management of reputation and delivery of commitments on trust, advocacy and customer service
- Reputational challenges relating to people agenda including embedding of values and cultural change activity
- Development of brand strategy in line with, RBS’s purpose, vision and values
- Sustainable growth of business and measures taken to support economic development and how banks can better serve society
- Community programmes and employee engagement in charitable partnerships

Serving Customers led by business leaders

- Provide challenge on how well RBS is integrating sustainable banking into its business strategy and what is being done to foster a sustainable business for customers
- Receive reports on key reputational risks relating to customer priorities and performance against customer commitments
- Consider product sustainability, transparency and fairness
- Receive reports on how RBS is supporting SMEs and oversee the approach to responsible lending and financial inclusion

Sustainability/Emerging Issues led by the Chief Sustainability Officer

- Oversight of Environmental, Social and Ethical risk policies
- Engage with key internal and external stakeholder groups on emerging sustainability issues
- Approve the annual Sustainability Report and receive the external auditors assurance report
- Oversee priorities, targets and reputational challenges on key emerging sustainable banking issues and consider best practice benchmarking

Directors' Remuneration Report

Annual Statement from Sandy Crombie
Chairman of the Group Performance and Remuneration Committee
Dear Shareholder,

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

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

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

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

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

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

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

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

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

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

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

Directors' Remuneration Report

Performance considerations for 2014

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

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

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

Pay decisions for our wider workforce

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

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

- The average annual salary increase amongst our core population of employees in 2015 will be 2%, up from 2014, whereas it will be less than 1% across the most senior RBS employees.

- The bonus pool has fallen from a total of £576 million last year (£536 million excluding CFG) to £421 million excluding CFG in 2014, a reduction of 21% excluding CFG or a 27% overall reduction. Over 90% of this pool will be directed to those below the most senior RBS employees. The Corporate & Institutional Banking (CIB) bonus pool is 53% lower than 2013.

- The bonus pool represents 6% of operating profit (excluding CFG and before variable compensation expense, conduct, litigation and restructuring charges and other one-off items).

-

Where employees do receive a bonus, the average amounts remain relatively modest with 51% of employees receiving £2,000 or less and a further 22% receiving less than £5,000.

- Bonus awards above £2,000 are subject to deferral requirements and the Committee approved a 2014 deferral structure for higher earners and MRTs that exceeds current regulatory requirements.

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

Pay decisions for executive directors

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

Considerations for the year ahead

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

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

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

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

Directors' Remuneration Report

Executive director outcomes for 2014 and implementation in 2015

Remuneration in 2014 (£000s)

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

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

Implementation of policy for 2015

· Details of remuneration arrangements for 2015 are set out in the implementation of policy section on page 83.

· Variable pay will consist of a long-term incentive award (LTI) with performance conditions that are designed to be stretching and support delivery of the business strategy.

· LTI performance conditions will be assessed over three years with any vesting taking place in equal tranches in years four and five.

· Malus and clawback provisions will apply for an overall period of seven years from the date of grant.

Linking remuneration to the business strategy

Full details of the LTI performance conditions are set out on page 84.

Directors' Remuneration Policy

Directors' Remuneration Policy

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

Fixed pay elements for executive directors (EDs)

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

Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics and period
Base salary	To aid recruitment and retention of high performing individuals whilst paying no more than is necessary. To provide a competitive level of fixed cash remuneration, reflecting the skills and experience required, and to discourage excessive risk-taking.	Paid monthly and reviewed annually. The rates for 2015 are as follows: Chief Executive - £1,000,000 Chief Financial Officer - £800,000 Further details on remuneration arrangements for the year ahead are set out in the annual report on remuneration.	Determined annually. Any future salary increases will be considered against peer companies and will not normally be greater than the average salary increase for RBS employees over the period of the policy.	n/a
Fixed share allowance	To provide fixed pay that reflects the skills and experience required for the role. This will be delivered in shares which must be retained for the long term.	A fixed allowance, paid entirely in shares. Individuals will receive shares that vest immediately subject to any deductions required for tax purposes and a retention period will apply. Shares will be released from the retention period in equal tranches over a five year period. The fixed share allowance will broadly be paid in arrears, currently in two instalments per year. For 2015, the instalments will be paid in August and December.(1)	An award of shares with an annual value of up to 100% of salary at the time of award. The fixed share allowance is not pensionable.	n/a
Benefits				n/a

	To provide a range of flexible and market competitive benefits to further aid recruitment and retention of key individuals.	A set level of funding is provided and EDs can select from a range of benefits including: ·Company car ·Private medical insurance ·Life assurance ·Ill health income protection Also entitled to use of a car and driver on company business and standard benefits such as holiday and sick pay. Further benefits including allowances when relocating from overseas may be provided to secure the most suitable candidate for the role.	Set level of funding for benefits (currently £26,250) which is subject to review. Further benefits such as relocation allowances and other benefits (e.g. tax advice, housing and flight allowances and payment of legal fees) may be offered in line with market practice. The value of benefits paid will be disclosed each year in the annual report on remuneration.	
Pension	To encourage planning for retirement and long-term savings.	Provision of a monthly cash pension allowance based on a percentage of salary. Opportunity to participate in a defined contribution pension scheme.	Pension allowance of 35% of salary.	n/a

Note:

(1) The company believes that delivery in shares is the most appropriate construct for a fixed allowance to executive directors, qualifying as fixed remuneration for the requirements imposed under CRD IV. If regulatory requirements emerge that prohibit allowances being delivered in shares, or deem that such allowances will not qualify as fixed remuneration, then the company reserves the right to provide the value of the allowance in cash instead in order to comply with the requirements.

Directors' Remuneration Policy

Variable pay

Variable pay is intended to incentivise superior long-term performance and promote the success of RBS, with rewards aligned with shareholders and adjusted for risk, based on the achievement of stretching performance measures.

Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics and period
Variable pay award (long-term incentive)	To support a culture where good performance against a full range of measures will be rewarded. To incentivise the delivery of stretching targets in line with the Strategic Plan. The selection of performance metrics will be closely aligned with Key Performance Indicators. Performance is assessed against a range of financial and non-financial measures to encourage superior long-term value creation for shareholders. Delivery in shares with the ability to apply malus adjustments and clawback further supports longer-term alignment with shareholders.	Any variable pay award made will be delivered in the form of a long-term incentive, paid in shares (or in other instruments if required by regulators) and subject to a combination of time and performance-based vesting requirements. A minimum three year performance period will apply. The award will have an overall five year vest period, vesting in equal tranches in years four and five. As a minimum, shares will be subject to retention periods as required under the PRA and Financial Conduct Authority (FCA) Remuneration Code. Provisions for malus adjustment of unvested awards and clawback of vested awards. The long-term incentive award will be delivered under the RBS 2014 Employee Share Plan, as approved by shareholders at the 2014 AGM.	The maximum level of award is subject to any limit on the ratio of variable to fixed pay as required by regulators. This currently limits variable pay to the level of fixed pay (i.e. base salary, fixed share allowance, benefits and pension). A higher ratio, up to 200% of fixed pay, is possible with shareholder approval. RBS is not seeking any such approval at the 2015 AGM. For these purposes awards will be valued in line with the EBA rules, including any available discount for long-term deferral. In addition to the regulatory ratio which currently limits variable pay to the level of fixed pay, awards for executive directors are subject to a maximum of 300%	Any award made will be subject to performance conditions measured over a minimum three year period. Typical measures may fall under the following categories (weighted 25% each): · Economic Profit · Relative TSR · Safe and Secure Bank · Customers and People An underpin gives the Committee discretion to reduce vesting amounts in light of underlying financial results, or conduct and risk management effectiveness. These or similar measures and weightings will be applied to reflect the strategy going forward. Details of the performance measures for awards to be granted in 2015 are set out as part of the implementation of remuneration policy on page 84.

of base salary (1).

The vesting level of the award could vary between 0% and 100% dependent on the achievement of performance conditions. Between 20% - 25% will vest at threshold for each performance measure.

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

Other pay elements

Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics and period
Shareholding requirements	To ensure EDs build and continue to hold a significant shareholding to align interests with shareholders.	A period of five years is allowed in which to build up shareholdings to meet the required levels. Any unvested share awards are excluded in the calculation.	Chief Executive – 250% of salary. Chief Financial Officer - 125% of salary. Requirements may be reviewed and increased in future.	n/a

Directors' Remuneration Policy

Notes to policy table

- The Committee sets stretching performance targets taking into account the company's business strategy, financial forecasts and wider non-financial metrics. The performance conditions for variable pay awards made to EDs have been chosen to promote the building of a safer, stronger and more sustainable business. The Committee agrees the performance conditions each year after consultation with major shareholders.

- The Committee recognises the importance of alignment with shareholders through the use of shareholding requirements, a longer vesting period for long-term incentive awards and retention periods post vesting. Upon leaving, any outstanding share awards held by 'good leavers' will vest, normally on the original vesting dates, and shares from the fixed share allowance will continue to be released over the applicable five year retention period in order to ensure former EDs maintain an appropriate interest in RBS shares.

- Remuneration for EDs broadly follows the policy for all employees but with a significant element delivered in shares and an appropriate proportion delivered through variable performance-related pay. This is to ensure that total remuneration to EDs is more aligned with the long-term interests of shareholders and dependent on specific performance measures being met.

Malus and Clawback

An accountability review process is operated that allows the Committee to respond in instances where new information would change the variable pay decisions made in previous years and/or the decisions to be made in the current year. As a result, malus can be applied to reduce (if appropriate to zero) the amount of any variable pay awards prior to payment taking place. Clawback provisions can also be applied to require repayment of any amounts already paid. Malus and clawback can be applied to current and former employees.

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

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

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

Further details can be found on page 93.

Consideration of employment conditions elsewhere in the company

The Committee retains oversight of remuneration policy for all employees to ensure there is a fair and consistent approach throughout the organisation. The broader policy uses deferral, malus and clawback to promote effective risk management and alignment with shareholders. Further details of our remuneration policy for all employees are set out on page 93.

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

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

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

Discretion

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

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

In addition, the Committee retains discretion to apply malus and clawback to awards and also to adjust the vesting outcome in relation to certain long-term incentive awards through the application of an underpin.

Directors' Remuneration Policy

Remuneration policy for the Chairman and non-executive directors

Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics and period
Fees	To provide a competitive level of fixed remuneration that reflects the skills, experience and time commitment required for the role. No variable pay is provided so that the Chairman and non-executive directors can maintain appropriate independence, focus on long-term decision making and constructively challenge performance of the executive directors.	Fees are paid monthly. The level of remuneration reflects their responsibility and time commitment and the level of fees paid to directors of comparable major UK companies. The Chairman and non-executive directors do not participate in any incentive or performance plan. Fees are reviewed regularly.	The rates for the year ahead are set out in the annual report on remuneration on page 83. Any future increases to fees will be considered against directors at comparable companies and will not normally be greater than the average inflation rate over the period under review, taking into account that any change in responsibilities, role or time commitment may merit a larger increase. Additional fees may be paid for new Board Committees provided these are not greater than fees payable for the existing Board Committees as detailed in the annual report on remuneration.	n/a
Benefits	Any benefits offered would be in line with market practice.	Reimbursement of reasonable out-of-pocket expenses incurred in performance of duties. The Chairman also receives private medical cover in line with the scheme rules.	The value of the private medical cover provided to the Chairman will be in line with market rates and disclosed in the annual report on remuneration.	n/a

Recruitment remuneration policy

- The approach to recruitment of directors is to consider both internal and external candidates and to pay no more than is required to attract the most suitable candidate for the role.

-

The policy on the recruitment of new directors aims to structure pay in line with the framework and quantum applicable to current directors, taking into account that some variation may be necessary to secure the preferred candidate.

- Consideration will be given to the skills and experience held by the individual being recruited as well as the incumbent's position.

- No sign-on awards or payments will be offered over and above the normal buy-out policy to replace awards forfeited or payments foregone. The Committee will seek to minimise buy-outs wherever possible and will seek to ensure they are no more generous than, and on substantially similar terms to, the original awards or payments they are replacing.

- The maximum level of variable pay which may be granted to new executive directors is the same as that applicable to existing executive directors, excluding any buy-out arrangements. The Chairman and non-executive directors do not receive variable pay.

Recruitment of Ewen Stevenson during 2014

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

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

Maximum variable pay (long-term incentive award) is calculated in line with the ratio limiting variable to fixed remuneration, including the EBA discount for long-term deferral, with the first award due to be made in March 2015. Further details are set out in the implementation of policy section on page 83.

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

Directors' Remuneration Policy

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

Provision	Policy	Details
Payments for loss of office	Payment in lieu of notice only	If either party wishes to terminate an executive director's service contract they are required to give 12 months' notice to the other party. The service contracts do not contain any pre-determined provisions for compensation on termination. The service contracts give RBS the discretion to make a payment in lieu of notice, which is based on salary only (with no payment in respect of any other benefits, pension or fixed share allowances) and is released in monthly instalments. During the period when instalments are being paid, the executive director must take all reasonable steps to find alternative work and any remaining instalments will be reduced as appropriate to offset income from any such work.
Treatment of annual and long-term incentives on termination	Treatment in line with the relevant plan rules as approved by shareholders	Existing annual incentive awards under the Deferral Plan will not normally lapse on termination, unless termination is for Cause (as defined in the rules of the Deferral Plan). The awards will normally continue to vest on the original vesting dates, subject to provisions regarding malus, clawback, competitive activity and detrimental activity as appropriate. Existing long-term incentive awards normally lapse on leaving unless the termination is for one of a limited number of specified 'good leaver' reasons or the Committee exercises its discretion to prevent lapsing. The Committee may exercise this discretion where it believes this is an appropriate outcome in light of the contribution of the participant and shareholders' interests. Where awards do not lapse on termination, any vesting will normally take place on the original vesting dates subject to the performance conditions being met and pro-rating to reflect the proportion of the period that has elapsed at the date of termination. Malus and clawback provisions may also apply in accordance with policy.
Fixed share allowances	Treatment in line with the plan rules as approved by shareholders	Any shares already received under fixed share allowances will not be forfeited on termination but must continue to be held for the original retention periods. The fixed share allowance will continue to accrue for the period up to cessation of employment.
Other provisions	Standard contractual terms in line with market practice	Contracts include standard clauses covering remuneration arrangements and discretionary incentive plans (as set out in the main policy table above), reimbursement of

		reasonable out-of-pocket expenses incurred in performance of duties, redundancy terms and sickness absence, the performance review process, the disciplinary procedure and terms for dismissal in the event of personal underperformance or breaches of RBS policies.
Other payments	Discretionary	The Committee retains the discretion to make payments (including but not limited to professional and outplacement fees) to mitigate against legal claims, subject to any payments being made pursuant to a settlement or release agreement.
Provisions for non-executive directors (NEDs) and the Chairman		NEDs do not have service contracts or notice periods although they have letters of engagement reflecting their responsibilities and time commitments. No compensation would be paid to any NED in the event of termination of appointment. Arrangements for the Chairman Philip Hampton is entitled to receive a cash payment in lieu of notice of 12 months' fees in the event that his appointment is terminated as a result of the majority shareholder seeking to effect the termination of his appointment, or if RBS terminates his appointment without good reason, or if his re-election is not approved by shareholders at a General Meeting resulting in the termination of his appointment.

In accordance with the provisions of the UK Corporate Governance Code, all directors of the company stand for election or re-election annually by shareholders at the company's Annual General Meetings. Neither of the current executive directors hold a non-executive director role at another company.

Annual report on remuneration

Annual report on remuneration

Total remuneration paid to directors for 2014

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

Total remuneration for executive directors (audited)

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

Notes:

(1) Ross McEwan’s remuneration for 2013 reflected his service from appointment to the Board on 1 October to 31 December 2013.

(2) Ewen Stevenson was appointed to the Board on 19 May 2014 and the table reflects his remuneration for the period since appointment.

(3) Nathan Bostock joined the Board on 1 October 2013 and stepped down from the Board on 28 May 2014. See page 85for details of termination arrangements.

(4) Benefits figure includes standard benefit funding of £26,250 per annum with the remainder being relocation expenses provided to Ross McEwan.

(5) The value for Ross McEwan relates to an award made on appointment to his previous role as CEO UK Retail to replace awards forfeited on leaving Commonwealth Bank of Australia. This element of the award was subject to RBS performance conditions which ended on 31 December 2014 and have been assessed as set out below.

(6) The amount shown for Ewen Stevenson relates to an award made on appointment to replace the value of awards forfeited on leaving Credit Suisse. The award was delivered entirely in shares and subject to deferral, on terms that are no more generous than the terms of the awards replaced.

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

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

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

Notes:
(1) This element follows the performance conditions applicable to the overall RBS-wide measures for the 2012 LTIP awards and the assessment is detailed on page 85.
(2) The performance measures applicable for UK Retail were based on: Financial targets (weighted 50%) covering risk weighted assets, nominal assets, loan:deposit ratio, notional return on equity, operating profit, cost:income ratio; Customer measures (weighted 10%); People measures (weighted 10%); and Risk measures (weighted 30%). All financial targets were deemed to have been met in full with the customer, people and risk measures ranked as partially met. The Committee also considered recommendations from the Board Risk Committee in determining the final outcome.

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

	Grant date	Face value of award (£000)	Number of shares awarded	% that would vest at threshold and maximum	Performance requirements
Ross McEwan (1)	7 March 2014	3,000	915,193	Vesting between 0% - 100% with 20% vesting at threshold for the TSR measure and 25% vesting at threshold for the Economic Profit measure.	Conditional share awards subject to stretching performance conditions covering Economic Profit, Relative Total Shareholder Return, Safe & Secure Bank and Customers & People. Performance measured over a three year period. See page 86 for further details.
Ewen Stevenson (2)	19 May 2014	1,911	584,506	Award made on appointment to replace the value of awards forfeited on leaving Credit Suisse. The shares are deferred over a similar time period as the awards replaced and subject to employment, malus and clawback provisions. No threshold vesting applies.	

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

Annual report on remuneration

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

	Board and Committee fees £000s	Benefits and other fees £000s	2014 Total £000s	2013 Total £000s
Philip Hampton (1)	750	1	751	751
Sandy Crombie	213	—	213	186
Alison Davis	141	—	141	132
Morten Friis (2)	112	—	112	—
Robert Gillespie (3)	149	35	184	7
Penny Hughes	178	—	178	154
Brendan Nelson	183	—	183	164
Baroness Noakes	186	—	186	136
Former non-executive directors				
Tony Di Iorio (4)	34	11	45	136
Philip Scott (5)	125	—	125	164

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

Implementation of remuneration policy in 2015

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

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

		£26,250 (3)			
Chief Financial Officer	£800,000	£26,250	£280,000	£800,000	£2,160,000

Notes:

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

(2) The LTI that can be awarded in 2015 is limited to the level of fixed remuneration, on an annualised basis where appropriate. The value at grant incorporates the discount factor for long-term deferral calculated in line with European Banking Authority rules and results in a maximum LTI value of approximately 113% of fixed remuneration.

(3) Also receives relocation benefits include housing and flight allowances, the value of which is disclosed each year in the total remuneration table.

Chairman and non-executive directors' fees

Chairman	£750,000
Non-executive Director Group Board	£72,500
Senior Independent Director (SID)	£30,000
Membership of: Group Audit Committee (GAC), Board Risk Committee (BRC), Group Performance and Remuneration Committee (RemCo) and Sustainable Banking Committee (SBC)	£30,000
Additional fee for Chairman of the GAC, BRC, RemCo or SBC	£30,000
Membership of the RCR Board Oversight Committee (RCR BOC)	£15,000
Additional fee for Chairman of the RCR BOC	£15,000
Membership of Group Nominations Committee (NomsCo)	£10,000

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

Board Committee membership as at 31 December 2014

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

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Annual report on remuneration

LTI awards to be granted to executive directors in 2015

Performance criteria

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

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

Economic profit (25%)

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

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

Performance target and weightings

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

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

Relative Total Shareholder Return (25%)

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

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

Relative TSR Comparator Group

		Weighting
1	Barclays	200%
2	Lloyds Banking Group	

3	HSBC	100%
4	Standard Chartered	
5 to 13	BBVA, BNP Paribas, Credit Agricole, Credit Suisse Group, Deutsche Bank, Santander, Societe Generale, UBS, Unicredito	50%

Performance target and weightings

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

Safe & Secure Bank (25%)

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

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

Customers & People (25%)

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

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

Performance target and weightings

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

Note:

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

The overall vesting under the above categories will be qualified by the Committee's discretion taking into account changes in circumstances over the performance period, the margin by which individual targets have been missed or exceeded, and any other relevant factors. Details of performance against targets will be disclosed once the awards vest.

Risk underpin and clawback

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

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

Annual report on remuneration

Payments for loss of office (audited)

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

Payments to past directors (audited)

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

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

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

Notes:

(1) Targets relating to non-core assets, cumulative non-core loss, Core Tier 1 capital, wholesale funding, liquidity, leverage ratio, loan to deposit ratio, risk appetite and funded assets were met or exceeded. While the credit rating condition was not met, given the over-achievement on other measures, the Committee determined that the Balance Sheet & Risk element should vest in full.

(2) The cost:income ratio target was not achieved within the Strategic Scorecard and taking into account the extent of the shortfall, the Committee determined that this element should not vest.

Value of payments on vesting (audited)

		Number of shares and value per category					
		Stephen Hester			Bruce Van Saun		
Performance category	% vesting	Maximum shares (2)	Vested shares	Value (3)	Maximum shares (2)	Vested shares	Value (3)
Economic Profit	0%	257,912	—	—	170,677	—	—
Relative TSR	0%	257,912	—	—	170,677	—	—

Balance Sheet & Risk	100%	257,912	257,912	£858,847	170,677	170,677	£568,354
Strategic Scorecard	0%	257,912	—	—	170,677	—	—
Overall shares vesting (1)	25%		257,912	£858,847		170,677	£568,354
Check within maximum shares available to vest			955,228			632,136	

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

Total Pension Entitlements – Bruce Van Saun (audited)

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

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

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

Awards are due to vest in 2015 to 2017. An assessment of performance of each relevant element is provided by the control functions and PwC assesses relative TSR performance. The Committee determines overall vesting based on these assessments including consideration of the drivers of performance and the context against which it was delivered. Each of the four performance categories could give rise to shares worth 100% of salary at grant, but with the overall maximum capped at 300% of salary. The assessment is analytical and if any discretion is used in the final assessment, it will be explained.

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

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

Notes:

(1) Targets relating to non-core assets (<=£40 billion), cumulative non-core loss (<=£6.8 billion), Core Tier 1 capital (>10%), leverage ratio (<18x), wholesale funding (<10%), liquidity reserves (>1.5x short-term wholesale funding), loan to deposit ratio (<=100%) and earnings volatility (<100%) were uniformly met or exceeded resulting in 100% vesting for this element of the award.

(2) Targets relating to customer franchise, cost:income ratio, lending targets, sustainability performance, employee engagement, leadership index and succession. The cost:income ratio and employee engagement index were both behind target and overall it was determined that half of the Strategic Scorecard measures had been met satisfactorily resulting in a 25% vesting outcome.

(3) The Committee also considered recommendations from the Board Risk Committee in determining the outcome above.

2013 and 2014 LTIP – current assessment

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

Performance measure	Weighting	Vesting	2013 Current Assessment	2014 Current Assessment
Economic Profit	25%	Threshold: 25% vesting for meeting minimum economic profit targets	Performance consistent with some level of vesting based on current assessment.	A strong start has been made in 2014. The Committee notes that strategic decisions

		Maximum: 100% vesting for performance ahead of the Strategic Plan.		have been taken in 2014 and will monitor the impact of these in the remaining performance period.
Relative TSR	25%	Threshold: 20% vesting if TSR is at median of the comparator group. Maximum: 100% vesting if TSR is at upper quartile of the comparator group. Pro-rata vesting in between.	Latest assessment shows percentile ranking of 53.7% which would result in 32% vesting for this element.	Latest assessment shows percentile ranking of 100% which would result in 100% vesting for this element.
Balance Sheet & Risk (for 2013 award) Safe & Secure Bank (for 2014 award)	25%	For 2013, vesting will be qualified by Committee discretion. Indicative vesting levels are: · Over half of objectives not met: 0%; · Half of objectives met: 25%; · Two-thirds of objectives met: 62.5%; and · Objectives met or exceeded in all material respects: 100%.	All measures currently expected to be on track or ahead of targets by end of 2015.	A strong start has been made in 2014. The Committee notes that strategic decisions have been taken in 2014 and will monitor the impact of these in the remaining performance period.
Strategic Scorecard (for 2013 award) Customers & People (for 2014 award)	25%	For 2014 awards, target ranges have been set for each measure and vesting will be qualified by Committee discretion taking into account the margin by which targets have been missed or exceeded.	The cost:income ratio target remains challenging and is unlikely to be met. Engagement Index is behind target. Customer and leadership metrics would result in some level of vesting on current assessment.	Engagement Index currently behind target. Improvement in Net Promoter Score over 2014 would lead to some level of vesting if continued.

Annual report on remuneration

Directors' interests in shares and shareholding requirements (audited)

The target shareholding level for the Chief Executive is 250% of salary and 125% of salary for other executive directors and members of the Executive Committee, in each case excluding any unvested share awards in the calculation. A period of five years is allowed in which to build up shareholdings to meet the required levels. Shareholding requirements will be considered when relevant individuals request permission to sell shares, recognising the timeframe allowed to reach the target level. The Group Performance and Remuneration Committee receive regular updates on progress towards meeting these requirements.

	As at 31 December 2014 (or date of cessation if earlier)					
	Shares beneficially owned	% of issued share capital	Value (1) (£)	% of shareholding requirement met	Unvested LTIP awards	Unvested Deferral Plan awards
Ross McEwan	754,987	0.01186	2,974,649	119%	1,742,186	37,596
Ewen Stevenson	70,978	0.00111	279,653	28%	Buyout [584,506]	0
Nathan Bostock (2)	375,969	0.00591	1,289,574	135%	0	0
Philip Hampton	27,630	0.00043				
Sandy Crombie	20,000	0.00031				
Alison Davis	20,000	0.00031				
Morten Friis (3)	20,000	0.00031				
Robert Gillespie	25,000	0.00039				
Penny Hughes	562	0.00001				
Brendan Nelson	12,001	0.00019				
Baroness Noakes	21,000	0.00033				
Tony Di Iorio (4)	30,000	0.00047				
Philip Scott (5)	50,000	0.00079				

Note:

(1) Value is based on the share price on 31 December 2014, which was £3.94; for Nathan Bostock the value is based on the share price of £3.43 on 28 May 2014, the date he stepped down from the Board. During the year ended 31 December 2014, the share price ranged from £2.96 to £4.04.

(2) Stepped down from the Board on 28 May 2014.

(3) Interest is 10,000 American Depository Receipts representing 20,000 ordinary shares.

(4) Interest is 15,000 American Depository Receipts representing 30,000 ordinary shares. Stepped down from the Board on 26 March 2014.

(5) Stepped down from the Board on 31 October 2014.

No other director had an interest in the company's ordinary shares during the year or held a non-beneficial interest in the shares of the company at 31 December 2014, at 1 January 2014 or date of appointment if later. The interests shown above include connected persons of the directors. As at 25 February 2015, there were no changes to the directors' interests in shares shown in the table above.

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

Rules, employees must not engage in any personal hedging strategies to lessen the impact of a reduction in value of unvested share awards, for example if the RBS share price goes down.

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

Long-Term Incentive Plan (LTIP) awards

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

Deferred awards

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

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

Annual report on remuneration

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

Total Shareholder Return (TSR) performance

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

Historical Chief Executive pay over same period

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

Note:

(1) 2013 remuneration includes Stephen Hester (SH) as CEO for the period to 30 September and Ross McEwan (RM) for the period from 1 October to 31 December 2013.

(2) The LTIP vesting for Ross McEwan relates to an award made on appointment to his previous role as CEO UK Retail to replace awards forfeited on leaving Commonwealth Bank of Australia.

Change in Chief Executive pay compared to employees

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

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

Notes:

(1) Executive directors are not eligible for an annual bonus. Standard benefit funding for executive directors remained unchanged between 2013 and 2014. The benefits for the Chief Executive excludes the relocation expenses provided to Ross McEwan as part of his recruitment as CEO UK Retail in 2012. The value of relocation benefits is disclosed each year in the total remuneration table.

(2) Data represents full year salary costs of the UK based employee population, which covers the majority of RBS employees and is considered to be the most representative comparator group.

Relative importance of spend on pay

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

	2014 (1) £m	2013 (1) £m	change

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

Notes:

(1) Numbers exclude discontinued operations, principally CFG.

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

(3) Includes initial payment relating to the initial dividend on the Dividend Access Share in 2014.

(4) Input VAT and other indirect taxes not recoverable by RBS due to it being partially exempt.

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

Annual report on remuneration

Consideration of matters relating to directors' remuneration

Membership of the Group Performance and Remuneration Committee
All members of the Committee are independent non-executive directors. The Committee held nine scheduled meetings in 2014 and a further seven ad hoc meetings.

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

Notes:
(1) Chair until 25 June 2014
(2) Chairman from 25 June 2014
(3) Robert Gillespie was appointed to the Committee on 1 April 2014.

The role and responsibilities of the Committee
The Committee is responsible for approving the remuneration policy for all employees and overseeing its implementation. It reviews performance and makes recommendations to the Board in respect of the remuneration arrangements of the executive directors. The Committee is also responsible for approving remuneration arrangements for members and formal attendees of the Executive Committee and employees with total annual compensation which exceeds £1 million. It is also responsible for setting the remuneration framework and principles for MRTs falling within the scope of the PRA/FCA Remuneration Code. A definition of employees deemed to be MRTs along with details of how risk is taken into account in the remuneration process is provided on page 94.

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

Summary of the principal activity of the Committee during 2014

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

First quarter
- 2013 performance reviews and remuneration arrangements for members of the Executive Committee, Code Staff and high earners.
- Approval of variable pay pools and Directors' Remuneration Report.
- Outcomes of the annual performance evaluation of the Committee.
- Assessment of the performance to date of unvested LTIP awards and performance targets for 2014 awards.

- Appointment and departure terms for various senior positions.
- Presentation from Compliance and Risk on business and strategic priorities and people plans.

Second quarter

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

Third quarter

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

Fourth quarter

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

Performance evaluation process

A thorough internal review of the effectiveness of the Committee was conducted during 2014 involving questionnaires and follow-up interviews. The Committee considered the outcomes of the evaluation and is satisfied with the way in which the evaluation has been conducted.

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

Annual report on remuneration

Advisers to the Group Performance and Remuneration Committee

The Committee reviews its selection of advisers annually. PricewaterhouseCoopers LLP (PwC) were appointed as the Committee's remuneration advisers on 14 September 2010 following a review of potential advisers, and their appointment was reconfirmed by the Committee in July 2014 after an annual review of the quality of the advice received and fees charged. PwC are signatories to the voluntary code of conduct in relation to remuneration consulting in the UK.

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

Statement of Shareholding Voting

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

1. Directors' Remuneration Policy

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

2. Annual Report on Remuneration for 2013

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

Shareholders views and their impact on remuneration policy

An extensive consultation is undertaken every year with major shareholders including UKFI and other stakeholders on our remuneration approach. The consultation process, led by the Chairman of the Committee, typically involves inviting our largest shareholders to attend either one-to-one meetings or roundtable sessions with relevant shareholder bodies. The process takes place in sufficient time for shareholder views to be considered prior to the Committee making any final decisions on remuneration and variable pay awards.

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

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

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

The reaction to the consultation process was positive and allowed the Committee to gain valuable insight into areas that shareholders were likely to support and those areas of concern. Shareholders continue to play a vital role in developing remuneration practices that support the long-term interests of the business and the Committee is grateful and greatly encouraged by their involvement in the process.

Shareholder dilution

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

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

Other Remuneration Disclosures

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

(£000s)	Executive 1	Executive 2	Executive 3	Executive 4	Executive 5	Executive 6	Executive 7	Executive 8
Fixed pay (cash)	800	594	550	600				