Sink Daniel R
Form 4
February 25, 2009

FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL
OMB Number: 3235-0287
Expires: January 31, 2005
Estimated average burden hours per response... 0.5

(Print or Type Responses)

1. Name and Address of Reporting Person *
Sink Daniel R
(Last) (First) (Middle)
KITE REALTY GROUP TRUST, 30 S MERIDIAN STREET, SUITE 1100
(Street)
INDIANAPOLIS, IN 46204
(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
KITE REALTY GROUP TRUST [KRG]

3. Date of Earliest Transaction (Month/Day/Year)
02/23/2009

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer
(Check all applicable)
_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Executive VP & CFO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

SEC 1474 (9-02)

Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned
(*e.g.*, puts, calls, warrants, options, convertible securities)

1. Title of Derivative Security (Instr. 3)	2. Conversion or Exercise Price of Derivative Security	3. Transaction Date (Month/Day/Year)	3A. Deemed Execution Date, if any (Month/Day/Year)	4. Transaction Code (Instr. 8)		5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5)		6. Date Exercisable and Expiration Date (Month/Day/Year)		7. Title and Amount of Underlying Securities (Instr. 3 and 4)	
				Code	V	(A)	(D)	Date Exercisable	Expiration Date	Title	Amount or Number of Shares
Common Share Option (right to buy)	$ 3.56	02/23/2009		A		54,000		(1)	02/23/2019	Common Shares	54,000

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
Sink Daniel R KITE REALTY GROUP TRUST 30 S MERIDIAN STREET, SUITE 1100 INDIANAPOLIS, IN 46204			Executive VP & CFO	

Signatures

Daniel R. Sink	02/25/2009
**Signature of Reporting Person	Date

Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

(1) The options vest over 5 years as follows: 1/5 of the total number of shares covered by the option vest on the one-year anniversary of the grant date; thereafter 1/60 of the total number of shares covered by the option vest on a monthly basis.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. -left:0pt;text-indent:0pt;text-align:left;margin-top:0pt;margin-bottom:0pt'>

Westport, Connecticut 06880

City, State and Zip Code

PART II RULES 12b-25(b) AND (c)

If the subject report could not be filed without unreasonable effort or expense and the registrant seeks relief pursuant to Rule 12b-25(b), the following should be completed. (Check box if appropriate)

(a) The reason described in reasonable detail in Part III of this form could not be eliminated without unreasonable effort or expense

o (b) The subject annual report, semi-annual report, transition report on Form 10-K, Form 20-F, Form 11-K, Form N-SAR or Form N-CSR, or portion thereof, will be filed on or before the fifteenth calendar day following the prescribed due date; or the subject quarterly report or transition report on Form 10-Q, or portion thereof, will be filed on or before the fifth calendar day following the prescribed due date; and

(c) The accountant s statement or other exhibit required by Rule 12b-25(c) has been attached if applicable.

PART III NARRATIVE

State below in reasonable detail why Forms 10-K, 20-F, 11-K, 10-Q, N-SAR, N-CSR, or the transition report or portion thereof, could not be filed within the prescribed time period.

Terex Corporation (the Company) completed its consolidated financial statements for the year ended December 31, 2004, including a restatement of the Company s consolidated financial statements for 2000-2003, on February 17, 2006 and filed its Annual Report on Form 10-K for the year ended December 31, 2004 on the same date. This effort required the Company to devote a significant amount of resources to completing the 2004 financial statements and restating prior years, and, as a result, the Company has not yet been able to complete its interim consolidated financial statements for the periods ended March 31, 2005, June 30, 2005 and September 30, 2005 and its consolidated financial statements for the year ended December 31, 2005. The Company is currently in the process of completing such financial statements and will file its Quarterly Reports on Form 10-Q for the quarters ended March 31, 2005, June 30, 2005 and September 30, 2005 and its Annual Report on Form 10-K for the year ended December 31, 2005 as soon as they are completed. The Company currently estimates that it will file such quarterly and annual financial statements in approximately four to six weeks.

As previously disclosed in the Company s Annual Report on Form 10-K for the year ended December 31, 2004, management concluded that due to the existence of material weaknesses, the Company's internal control over financial reporting was not effective as of December 31, 2004. The Company has not yet completed its assessment of effectiveness of internal control over financial reporting as of December 31, 2005. However, the Company expects to report in its Annual Report on Form 10-K for the year ended December 31, 2005 that its internal control over financial reporting was not effective as of December 31, 2005 and, furthermore, that its disclosure controls and procedures were not effective as of December 31, 2005.

PART IV OTHER INFORMATION

(1) Name and telephone number of person to contact in regard to this notification

Eric I Cohen	203	222-7170
(Name)	(Area Code)	(Telephone Number)

(2) Have all other periodic reports required under Section 13 or 15(d) of the Securities Exchange Act of 1934 or Section 30 of the Investment Company Act of 1940 during the preceding 12 months or for such shorter period that the registrant was required to file such report(s) been filed ? If answer is no, identify report(s). oYes xNo

Quarterly Report on Form 10-Q for the period ended March 31, 2005

Quarterly Report on Form 10-Q for the period ended June 30, 2005

Quarterly Report on Form 10-Q for the period ended September 30, 2005

(3) Is it anticipated that any significant change in results of operations from the corresponding period for the last fiscal year will be reflected by the earnings statements to be included in the subject report or portion thereof?

xYes oNo

The Company expects revenue for its year ended December 31, 2005, to be approximately $6.4 billion, an increase of approximately 28% from revenue of $5.0 billion in the year ended December 31, 2004. At this time, the Company anticipates that net debt (defined as total debt less cash) decreased to approximately $571 million at the end of 2005, down approximately $209 million from $780 million at the end of 2004.

TEREX CORPORATION

(Name of Registrant as Specified in Charter)

Has caused this notification to be signed on its behalf by the undersigned thereunto duly authorized.

Date: March 16, 2006

By: /s/ Phillip C. Widman
Phillip C. Widman
Senior Vice President and Chief Financial Officer

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Aileen Taylor (age 41)
Date of appointment: 1 May 2010

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

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

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Executive Committee

Ross McEwan, Group Chief Executive
Nathan Bostock, Group Finance Director
For biographies see page 42

Rory Cullinan (age 54)
Chief Executive, RBS Capital Resolution Group
Rory Cullinan became CEO of the RBS Capital Resolution Group (CRG) on 1 January 2014. CRG was set up to deliver, transform, optimise or exit the businesses and assets which will be the primary driver of the RBS capital build. CRG includes RBS Capital Resolution (RCR) and the divestments of both RBS Citizens Financial Group, Inc and Williams & Glyn. He previously served as CEO of the Group's Non-Core Division and also led the negotiation and establishment of RBS's entry into the UK Government's Asset Protection Scheme. Rory previously worked at RBS as Head of Equity Finance (2002-2005). Before rejoining RBS he was Co-Managing Partner and Group Board Member at Renaissance Group. Prior to 2002, he worked for a variety of banks and active financial investment companies in the Americas, Africa and Europe including Permira Advisors, Verdoso Investments (a company he co-founded), Pembridge Investments and Citibank.

Suneel Kamlani (age 52)
Co -Chief Executive, Markets
Suneel Kamlani joined the Group in 2010 and is currently Co-Chief Executive Officer of Markets with responsibility for global trading, sales, research and origination across interest rate products, foreign exchange, asset backed securities, emerging markets, credit fixed income and debt capital markets. In this capacity, he oversees businesses which provide financing, risk management and advisory services to major corporations, financial institutions and public sector clients around the world. Based in the Group's offices in Stamford, Connecticut, Suneel also serves in a regional capacity as Chairman of Markets and International Banking, Americas and Deputy Head of RBS Americas. Suneel has over 30 years of experience in investment banking, having previously served as Chief Operating Officer for UBS's Investment Bank and as a member of the UBS Group managing board. He has worked in New York, London, Hong Kong and Stamford, leading investment banking and capital markets businesses globally.

Les Matheson (age 54)
Chief Executive, UK Retail
Les Matheson was appointed Chief Executive of UK Retail on 11 February 2014. He joined RBS in January 2010 as Managing Director of Products, assumed additional responsibility for Marketing in October 2011 and then served as interim Chief Executive for UK Retail before assuming the role on a permanent basis. Prior to joining RBS, Les was Group Executive Retail for St George Bank (part of the Westpac Group of companies) and before that was with Citigroup for eleven years, where he was CEO Citibank Australia, Citigroup Country Officer for Australia and a member of the Citigroup Global Management Committee. Prior to Citigroup Les worked for a number of consumer marketing companies. He began his career with Procter & Gamble in Brand Management in the UK. Les is a member of the Board of Visa Europe and is a member of the Edinburgh University Court.

Simon McNamara (age 54)
Group Chief Administrative Officer
Simon McNamara was appointed Group Chief Administrative Officer in September 2013. Prior to joining the Group, Simon was Chief Information Officer of Standard Chartered's Consumer Bank based in Singapore and has previously held a number of senior Information Technology and Operations positions in the global financial services industry including with Westpac Banking Corporation, Deutsche Bank, BNP Paribas and Midland Bank. He was also a founding partner in a successful software start-up company, CATS INC, in Silicon Valley. Simon holds a Bachelor of Science (Hons) in Economics and Statistics from University College Swansea and a Post Graduate Diploma in

Computer Science from the University of Hertfordshire. He has also completed the Executive Programme at Stanford University.

Jon Pain (age 56)
Group Head of Conduct & Regulatory Affairs
Jon Pain joined the Group on 15 August 2013 as Head of Conduct & Regulatory affairs, from KPMG where he was a partner and Head of the Financial Services Risk Consultancy practice. Jon has over 30 years' experience in Financial Services including three years as Managing Director of Supervision at the Financial Services Authority (FSA) during the financial crisis (2008 - 2011). Prior to the FSA, Jon's executive career was with the Lloyds Banking Group (LBG) where he held a range of senior roles including Managing Director of LBG's C&G mortgage business, the General Insurance Business and the Private Banking Business.

David Stephen (age 49)
Group Chief Risk Officer
David Stephen joined RBS in July 2010 as Deputy Group Chief Risk Officer, and became Group Chief Risk Officer on 1 October 2013. He is responsible for risk globally across all divisions including credit risk, market risk and operational risk functions and enterprise risk management. Spanning a 28 year career in the finance industry across London, New York, Hong Kong and Melbourne, he has worked for both full service and investment banks. These included Credit Suisse Financial Products where he was Chief Credit Officer and ANZ Bank where he was Group Chief Risk Officer and was a member of ANZ Bank's Management Board. David is a graduate of Melbourne's Monash University.

Executive Committee

Chris Sullivan (age 56)
Chief Executive, Corporate Banking
Chris Sullivan was appointed Chief Executive of the Corporate Banking Division in August 2009 and also has responsibility for Ulster Bank Group. Chris' previous role was as Chief Executive of RBS Insurance. Prior to this, Chris was Chief Executive of Retail and Deputy Chief Executive of Retail Markets. Chris is the Group sponsor for Gender Diversity and the Group's internal Women's Networks and was recognised as the European Diversity Champion of the Year in 2011. He is an active sponsor of professional and leadership development and is a member of the Chartered Banker Professional Standards Board and Governor of Ashridge College. Chris holds a number of positions outside the Group including Chairman of the Global Banking Alliance for women and is a member of the Westminster Abbey Investment Committee. Chris earned his Fellowship of the Chartered Institute of Bankers in Scotland for his services to Scottish Banking.

Bruce Van Saun (age 56)
Chairman & Chief Executive, RBS Citizens Financial Group, Inc. and Head of RBS Americas
Bruce Van Saun was appointed Chairman and Chief Executive Officer of RBS Citizens Financial Group, Inc. and Head of RBS Americas in October 2013. Prior to taking up his current role, Bruce was Group Finance Director and a director of the Company, RBS and NatWest having been appointed to those positions in 2009. Bruce has more than 30 years of financial services experience and has previously held senior positions with Bank of New York, Bank of New York Mellon, Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co. Bruce is currently a Director of Lloyd's of London and is a member of the Financial Services Roundtable and The Clearing House supervisory board and is active in several community organisations.

These are the biographies of Executive Committee members as at the date of the signing of the Annual Report and Accounts.

Executive Committee (effective 28 February 2014)
Ross McEwan, Group Chief Executive
Nathan Bostock, Group Finance Director
Chris Sullivan, Deputy Group Chief Executive
David Stephen, Chief Risk Officer
Jon Pain, Group Head of Conduct & Regulatory Affairs
Simon McNamara, Group Chief Administrative Officer
Bruce Van Saun, Chief Executive Officer, Citizens and Head of Americas
Les Matheson, Chief Executive Officer, Personal and Business Banking
Alison Rose, Chief Executive Officer, Commercial and Private Banking
Donald Workman, Chief Executive Officer, Corporate & Institutional Banking
Rory Cullinan, Chief Executive Officer, RBS Capital Resolution Group
Elaine Arden, Group Human Resources Director

Corporate governance

The Board

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

Name	Position	Nationality
Philip Hampton	Chairman	British
Ross McEwan	Group Chief Executive	New Zealand
Nathan Bostock	Group Finance Director	British
Sandy Crombie	Senior Independent Director	British
Alison Davis	Independent non-executive director	British/USA
Tony Di Iorio	Independent non-executive director	USA
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
Philip Scott	Independent non-executive director	British

Biographies for each director and details of which Board Committees they are members of can be found on pages 42 to 45. 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

Joe MacHale retired from the Board on 14 May 2013 and Stephen Hester, Art Ryan and Bruce Van Saun all retired from the Board on 30 September 2013. Ross McEwan and Nathan Bostock were appointed to the Board on 1 October 2013 and Robert Gillespie was appointed to the Board on 2 December 2013. Mr Bostock has since confirmed his resignation although his leaving date is still to be agreed.

Roles and responsibilities

The Board

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

The Board has overall responsibility for:

- the establishment of Group strategy and consideration of strategic challenges;

- the management of the business and affairs of the Group;

- ensuring the Group manages risk effectively through the approval and monitoring of the Group’s risk appetite;

- considering stress scenarios and agreed mitigants and identifying longer term strategic threats to the Group’s business operations;

- the allocation and raising of capital; and

- the preparation and approval of the Group’s annual report and accounts.

The Board’s terms of reference include key aspects of the company’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 Group Chief Executive and there is a clear division of responsibilities with the Chairman leading the Board and the Group Chief Executive managing the Group’s businesses on a day to day basis.

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 Group Chief Executive and Group Secretary, ensure that members of the Board receive accurate, timely and clear information, to enable the Board to lead the Group, 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 the Group maintains effective communication with shareholders and other stakeholders.

Group Chief Executive

The Group Chief Executive has responsibility for all Group businesses and acts in accordance with the authority delegated by the Board.

The Group Chief Executive's key responsibilities are to:

· exercise executive responsibility for the Group's businesses;

· develop and implement strategy approved by the Board;

· act in accordance with authority delegated by the Board;

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

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

· in conjunction with the Group Chairman and Group Secretary, 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 the Group’s business activities.

The standard terms and conditions of appointment of non-executive directors are available on rbs.com or from RBS 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 framework on page 41 for more details. The work of the Board committees are also discussed in their individual reports as follows

Nominations Committee - pages 53 and 54.
Group Audit Committee - pages 55 to 60.
Board Risk Committee - pages 61 to 66.
Group Sustainability Committee - pages 67 and 68.
Group Performance and Remuneration Committee - pages 69 to 93.

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

Group Secretary
Aileen Taylor is the Group Secretary and Head of Corporate Governance. She is responsible for advising the Board on all governance matters and for ensuring that Board procedures are followed. In conjunction with the Chairman and the Group Chief Executive, she is also responsible for ensuring that the Board receive accurate, timely and clear information, particularly on the Group’s performance and matters reserved to the Board; facilitating good information flows between Board members; leading on the implementation of the recommendations from the annual Board Evaluation and developing and maintaining the induction and continuing professional development programme for directors. A key element of the role is to ensure alignment between the Board and Executive Management to ensure the appropriate escalation of issues to the Board. Aileen also leads on all aspects of corporate governance across the Group.

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 the Group’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 Group Secretary and reviewed annually by the Board.

Board meetings

In 2013, 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 the Group’s US businesses.

In addition to the nine scheduled meetings, 35 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 (1)	2/2
Nathan Bostock (1)	2/2
Sandy Crombie	9/9
Alison Davis	9/9
Tony Di Iorio	9/9
Robert Gillespie (2)	1/1
Penny Hughes	9/9
Brendan Nelson	9/9
Baroness Noakes	9/9
Philip Scott	9/9
Former directors	
Stephen Hester (3)	7/7
Joe MacHale (4)	4/4
Art Ryan (3)	7/7
Bruce Van Saun (3)	7/7

Notes:

(1) Appointed to the Board on 1 October 2013. Nathan Bostock has since confirmed his resignation although his leaving date is still to be agreed.

(2) Appointed to the Board on 2 December 2013

(3) Retired from the Board on 30 September 2013.

(4) Retired from the Board on 14 May 2013.

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Corporate governance

Principal activities of the Board during 2013

In advance of each Board meeting, the directors are supplied with comprehensive papers in hard copy and/or electronic form. During 2013 there has been an enhanced focus on culture and values, conduct and customers. These have been recurring themes underpinning Board discussions during the year and the Board received regular updates on the cultural change programme. An overview of the principal activities of the Board during 2013 is shown below.

Each meeting	
· Chairman's Report · Group Chief Executive's Report · Monthly Results · Capital, Funding & Liquidity	· Risk Report (including updates on conduct matters) · Reports from committee Chairs · Secretary's Report (routine matters for approval / noting)
1st Quarter	2nd Quarter
· UK Retail Deep Dive · Budget Update · Markets Strategy Updates · Remuneration Proposals · Lending Updates · Risk Appetite Framework · Annual Results & AGM Notice · Board and committee Evaluations · Group Internal Audit Evaluation · External Auditor Evaluation	· Non-Core Deep Dive · AGM Preparations · Q1 Results · Markets Strategy Updates · Lending Updates · Recovery and Resolution Planning · Board Session with the Financial Conduct Authority · Good Bank/Bad Bank Review · Board Strategy Offsite · Succession Planning
3rd Quarter	4th Quarter
· Good Bank/Bad Bank Review · Parliamentary Commission on Banking Standards Recommendations · Interim Results · Lending Updates · Board Evaluation Update · RBS Citizens Deep Dive	· Launch of Strategic Review · Review of Capital Position · Independent Lending Review · Board Session with the Prudential Regulatory Authority · Corporate Banking Deep Dive · Q3 Results · Markets Deep Dive

- Board Session with the Federal Bank of Boston

Other senior executives, such as the Group Chief Risk Officer and the Head of Conduct and Regulatory Affairs, also attend Board meetings as required to present reports. Divisional Chief Executives, accompanied where appropriate by other senior executives from the division, attend Board meetings to present the divisional deep dives. This provides the Board with an opportunity to engage directly with divisional 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 the Group with the appropriate balance of skills, experience and knowledge as well as independence. Given the nature of the Group'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 experience on the Board.

· Retail Banking	· Government & Public Sector
· Risk	· Consulting
· Finance & Accountancy	· Chief Executive
· Private Equity	· Technology
· Investment Banking	· Retailing
· Insurance & Actuarial	· Utilities
· Manufacturing	

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 Group Secretary. This includes visits to the Group's major divisions and meetings with directors and senior management. 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:

Core meetings	Tailored elements
Group Chairman	Divisional Chief Executives
Group Chief Executive	Divisional visits (UK and overseas)
Group Finance Director	Group Finance
Senior Independent Director	Group Risk
Board committee Chairs	Group Internal Audit
Group Secretary	Group Tax
Group Chief Risk Officer	Investor Relations
Head of Conduct and Regulatory Affairs	Group Strategy
Group Treasurer	Group Communications
General Counsel	
External Auditor	

External Counsel	Institutional Investors

Ross McEwan and Nathan Bostock joined the Board on 1 October 2013. Mr Bostock has since confirmed his resignation, although his leaving date is still to be agreed. Robert Gillespie joined the Board on 2 December 2013. Both Mr McEwan and Mr Bostock were serving executives in the Group prior to their appointment to the Board and as such their induction has been focussed on enhancing their knowledge of Board matters and continuing to build relationships with Board members. A comprehensive induction programme was prepared for Mr Gillespie and is underway.

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Corporate governance

The Group Secretary advises directors of appropriate external training and professional development opportunities and internal training is also provided which is relevant to the business of the Group. 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 56 and 63) 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 2013, the directors received updates on a range of subjects to enhance their knowledge, including:

- Parliamentary Commission on Banking Standards - Recommendations;
- Banking Reform Bill;
- Department for Business, Innovation and Skills (BIS) Proposals on Transparency and Trust;
- BIS review of Voluntary Code of Conduct for Executive Search Firms;
- Fourth Capital Requirements Directive (CRD IV);
- Competition Commission's investigation into statutory audit services;
- Government reforms on executive remuneration and reporting; and
- Developments in European company law and corporate governance.

The Group Secretary 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 Group Secretary. 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. The Board is aware of the other commitments of the Chairman and the other directors 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. The notice of Annual General Meeting sent to shareholders separately includes details of the proposed resolutions for the election and re-election of directors.

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, 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; reviewing board and executive succession planning; introducing further enhancements to Board information packs; and implementing an expanded remit for the Group Sustainability Committee. These topics will be kept under regular review as a matter of good practice. However, the 2013 evaluation concluded that the recommendations from the 2012 evaluation were being appropriately addressed.

In 2013, the Board and committee evaluation process was conducted internally by the Group Secretary.

Performance evaluation process
The Group Secretary undertook a formal and rigorous evaluation by:

- preparing a detailed framework of key themes for discussion and questions which was used to structure individual meetings held 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 (including diversity), strategy, risk management, Board meetings and processes, external relationships, and the quality of support and information provided to the Board.

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Corporate governance

Outcomes of the 2013 performance evaluation

The 2013 performance evaluation concluded that the Board was strong and operated effectively and within its terms of reference throughout 2013. Key strengths identified included the following:

- the Board performed strongly during a challenging 2013, both as individuals and collectively;
- the dynamic between Board members was good, the Chairman successfully steered the Board through a very difficult and complex agenda, and the directors dedicated a significant amount of time and effort to their role; and
- the Board's committees undertook their complex work well throughout the year, providing strong support to the Board.

A summary of the key themes arising from the 2013 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 2014, to ensure balance of skills, experience, independence, knowledge and diversity remains appropriate.
Strategic oversight	Ensure that Board agendas for 2014 allocate sufficient time for Board oversight of key areas of strategic focus.
Risk reporting	Consideration to be given to the Board Risk Committee leading a review of risk reporting at Board and Board committee level to further enhance the format and content of risk reports.
External relationships	Ensure regular contact with key external stakeholders in order to maintain effective working relationships at Board level.

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 the Group 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 or can submit written questions in advance. Directors including the chairs of the Board Committees are available to answer questions at the Annual General Meeting. The Senior Independent Director is also available.

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

- the Group Chief Executive and Group Finance Director 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 Group Chief Executive and Group Finance Director also undertake an extensive annual programme of meetings with the company’s largest institutional shareholders.

- the Chairman independently meets with the Group’s largest institutional shareholders annually to hear their feedback on management, strategy, business performance and corporate governance. Additionally, the Chairman, Senior Independent Director and chairs 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 Chair of the Group Performance and Remuneration Committee consults extensively with major shareholders in respect of the Group’s remuneration policy.

In 2013, the Group introduced a 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, Group Chief Executive, Group Finance Director and Chair 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 Group’s Investor Relations programme also includes communications aimed specifically at its fixed income (debt) investors. The Group Finance Director and/or Group Treasurer give regular presentations to fixed income investors to discuss strategy and financial performance. There is also a separate section on the Group’s website for fixed income investors which includes information on credit ratings, securitisation programmes and securities documentation. Further information is available at rbs.com/ir.

Report of the Group Nominations Committee

Dear Shareholder,

As Chairman of the Board, I also chair the Group Nominations Committee and I am pleased to present our report on the committee's activity during 2013.

Role and responsibilities

The Group Nominations Committee is responsible for:

- reviewing the structure, size and composition of the Board and making recommendations to the Board on any appropriate changes;
- assisting the Board in the formal selection and appointment of directors (executive and non-executive) having regard to the overall balance of skills, knowledge, experience and diversity on the Board;
- reviewing membership and chairmanship of Board committees;
- considering succession planning for the Chairman and the executive and non-executive directors, taking into account the skills and expertise which will be needed on the Board in the future. No director is involved in decisions regarding his or her own succession; and
- making recommendations to the Board concerning the election and re-election by shareholders of directors under the provisions of the Code. In so doing, they will have due regard to their performance and ability to continue to contribute to the Board in light of the knowledge, skills and experience required and the need for progressive refreshing of the Board.

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

Membership and meetings
All non-executive directors are members of the Group Nominations Committee which is chaired by the Chairman of

the Board. The Group Chief Executive is 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 2013, five meetings of the Group Nominations Committee were held and the following table illustrates members' attendance at these meetings.

	Attended/ scheduled
Philip Hampton (Chairman)	5/5
Sandy Crombie	5/5
Alison Davis	5/5
Tony Di lorio	5/5
Robert Gillespie (1)	1/1
Penny Hughes	5/5
Brendan Nelson	5/5
Baroness Noakes	5/5
Philip Scott	5/5
Former members	
Joe MacHale (2)	1/1
Art Ryan (3)	4/4

Notes:

(1)	Appointed to the Board on 2 December 2013.
(2)	Retired from the Board on 14 May 2013.
(3)	Retired from the Board on 30 September 2013.

Principal activity during 2013

The Committee continues to monitor succession planning on an ongoing basis taking into account business requirements and industry developments. In 2013 discussions focused principally on executive director succession and the search for new non-executive directors. The Board also held a separate session on succession planning for the Executive Committee in June 2013.

Group Chief Executive succession

On 12 June 2013, it was announced that Stephen Hester would step down as Group Chief Executive and the search for his successor commenced immediately, led by the Chairman on behalf of the Board. MWM Consulting was engaged to support the recruitment process for the new Group Chief Executive and conducted a global search for potential external candidates as well as engaging fully with internal candidates. This enabled the internal candidates to be benchmarked against the very best in the market. The Committee held a number of discussions on potential candidates (internal and external) and agreed that Ross McEwan was the strongest candidate on the basis of his extensive experience in banking, the leadership he had already demonstrated during his time as CEO Retail at RBS and his strong focus on serving our customers. Ross McEwan was announced as the new Group Chief Executive on 2 August 2013 and took over from Stephen Hester on 1 October 2013. MWM Consulting does not provide services to any other part of the Group.

Consideration of new non-executive directors

Egon Zehnder International continued to support the search for new non-executive directors during 2013. Egon Zehnder International were tasked with identifying suitable candidates both to fill existing vacancies (e.g. replacements for Joe McHale and Art Ryan who both retired from the Board during 2013) and to support future Board succession planning. The Committee considered a number of potential candidates during 2013 and Robert Gillespie was appointed to the Board on 2 December 2013. Robert was appointed on the basis of his strong background in finance and banking and his experience of business and regulatory environments in the UK, US and Europe. The search for future potential candidates is continuing. Egon Zehnder International does not provide services to any other part of the Group.

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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
The Committee reviewed the membership of the Group Sustainability Committee during 2013 following feedback from the 2012 evaluation. It was agreed that an additional non-executive director should be appointed to the Group Sustainability Committee and Penny Hughes was appointed as a member in July 2013.

Boardroom diversity
The Board remains supportive of Lord Davies' recommendations and currently meets 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.

The Group 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 (including gender 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 the Group's approach to diversity can be found on page 99.

Philip Hampton
Chairman of the Group Nominations Committee
26 February 2014

Report of the Group Audit Committee

Letter from Brendan Nelson,
Chairman of the Group Audit Committee

Dear Shareholder,

2013 has been a year of significant change for the Group, presenting a number of challenges to the Group Audit Committee. The priority of the Committee has been to ensure the quality and transparency of disclosure and the integrity of the Group's financial statements. Most notably the Committee supported the Board in its decision to release a trading statement in advance of announcing the Group's full year results prompted by the recognition of further provisions relating to conduct and litigation, primarily relating to mortgage-backed securities litigation and past conduct issues. These provisions are substantial and have had a significant impact on the Group's performance for the year.

During 2013, the Committee also scrutinised the disclosures relating to management actions to accelerate the rebuild of capital strength and to focus on core businesses (including the creation of RCR), included in the Group's Q3 2013 Interim Management Statement.

A key aspect of the Committee's responsibilities is to satisfy itself that the key accounting decisions, risks and significant management judgements that underlie the financial statements are appropriate through discussion and deliberation with management. The Committee reviewed the conclusions of the External Auditor and, where applicable, other experts and has concluded that disclosures in the financial statements about these judgements and estimates are transparent and appropriate.

Progress on remediating known control issues has remained a focus of the Committee during 2013. On behalf of the Board, the Committee has overseen the Controls and Culture Remediation Programmes within the Markets division and has questioned management in relation to 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 programmes were progressing according to plan; that issues were being remediated to industry standard; and that internal reporting accurately reflected progress. On behalf of the Committee I discussed progress and prioritisation with the Prudential Regulatory Authority (PRA). The progress made by management during the course of 2013 was encouraging. However, we will continue to exercise oversight of the areas remediated to ensure improvements are sustained and that further progress is made during 2014.

The Markets Controls and Culture Remediation Programmes have served to underline the importance of an effective three lines of defence model. This was a priority in 2013 and the Committee received regular reports on embedding the model within divisions and functions and articulating the responsibilities and capabilities of the business. Embedding the model and maintaining standards of internal control will continue to be a key priority for the Group during 2014 as the organisational changes announced following the strategic review are implemented. The Committee will monitor this closely.

The Committee has also monitored the progress of various regulatory investigations and claims based on allegations that the Group had inappropriately tried to influence benchmark interest rates. Working closely with the Group Performance and Remuneration Committee, recommendations were made in relation to individual accountability. The Committee continues to consider the output of the review of certain high-risk rates which were not subject to investigation by external authorities.

The annual programme of joint visits by the Group Audit and Board Risk Committees to the Group's business divisions and control functions continued in 2013. The programme allows members of the Committees to spend additional time with areas of the business which the Committees judge would benefit from a more detailed review. Invitations to attend are extended to all non-executive directors. During 2013, the Committees undertook a total of eight visits, including a week long visit to the Group’s operations in Asia and a two-day visit to Ulster Bank. During these visits I took the opportunity to meet with local regulators to gain a better understanding of their perspectives and concerns on our business and key control issues.

In all our work we seek to strike the right balance between on the one hand providing independent oversight and on the other encouragement and support to management. It has been another demanding year for the Group Audit Committee and I would like to extend my thanks to my fellow Committee members for their continued dedication and support throughout 2013.

Brendan Nelson
Chairman of the Group Audit Committee
26 February 2014

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Report of the Group Audit Committee

Report of the Group Audit Committee

Meetings and visits

A total of seven scheduled meetings of the Group Audit Committee were held in 2013, including meetings held immediately before the annual and interim financial statements and the quarterly Interim Management Statements were considered by the Board. The Group Audit Committee also held two ad hoc meetings. Group Audit Committee meetings are attended by relevant executive directors, the Internal and External Auditor and Finance 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 Group Audit Committee meets privately with the External Auditor. The Committee also meets privately with Internal Audit management.

As in previous years, the Committee has undertaken a programme of visits to those business areas which it considers merit additional focus. During 2013, the Committee spent a week in Asia to review the Markets, International Banking, Wealth, Business Services and Group Finance operations in the region. Internal Audit management made presentations to the Committee at two separate visits, covering functional strategy, bench-strength and capability. Internal Audit Technology resources and capability were discussed during these meetings and over the course of the year the Committee has monitored progress in strengthening capability through recruitment and co-sourcing strategies. The Committee also spent time in Ireland to gain better insight into the issues facing Ulster Bank and held additional in depth meetings with the Markets, International Banking and Wealth divisions in the UK.

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
Tony Di Iorio	7/7
Baroness Noakes	7/7
Philip Scott	7/7

All members of the Group Audit Committee are also members of the Board Risk Committee facilitating effective governance of finance and risk issues. The Group Audit and Board Risk Committees have strong links with the Group Performance and Remuneration Committee ensuring that compensation decisions reflect relevant finance and risk considerations.

The members of the Group Audit Committee are selected with a view to the expertise and experience of the Group Audit Committee as a whole. The Board is satisfied that all Group 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 (“Exchange Act Rules”) and the applicable New York Stock Exchange standards (“NYSE Standards”). The Board has further determined that each of Mr Brendan Nelson, Committee Chairman, Baroness Noakes and Philip Scott are “financial experts” for the purposes of compliance with the Exchange Act Rules and NYSE Standards. Full biographical details of the Committee members are set out on pages 42 to 45.

Performance evaluation

An external evaluation of the effectiveness of the Group Audit Committee takes place every three to five years with internal reviews by the Board in the intervening years. An internal review of the Board and its senior committees took place during 2013 following an external review in 2012. Overall, the review concluded that the Group Audit Committee continued to operate effectively.

The role and responsibilities of the Group Audit Committee

The Group Audit Committee's primary responsibilities are shown below and 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 Group's website rbs.com.

Report of the Group Audit Committee

Financial reporting and policy

The Group Audit Committee focused on a number of salient judgements and reporting issues in the preparation of the 2013 accounts. In particular, the Committee considered:

- the evidence (including in relation to the Group's capital, liquidity and funding position) to support the directors' going concern conclusion. Further information is set out on page 100;

- the adequacy of loan impairment provisions, with special emphasis on exposures in Global Restructuring Group (GRG) and Ulster Bank in light of the creation of RCR which resulted in increased impairment provisions being recognised in the fourth quarter of 2013. The Committee was satisfied that the Group loan impairment provisions and underlying assumptions and methodologies are robust;

- the level of provisions held for outstanding litigation and regulatory investigations, including Payment Protection Insurance redress, LIBOR, Interest Rate Hedging Products and US RMBS litigation. Following review, the Committee was satisfied that overall the level of provision held is appropriate and that disclosure is sufficiently transparent. However, these issues will be kept under close review by the Committee in 2014, as matters develop;

- valuation methodologies and assumptions for financial instruments carried at fair value including the Group's credit market exposures;

- the appropriateness of the carrying value of goodwill and other intangible assets, placing particular focus on International Banking and RBS Citizens Financial Group, Inc. Following an impairment review at year end, goodwill allocated to International Banking of £1.1 billion was impaired in full;

· the judgements that had been made by management in assessing the recoverability of the Group's deferred tax assets The deferred tax asset relating to tax losses recognised in The Royal Bank of Scotland plc has been written down by £0.7 billion;

· 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 accounting treatment of businesses that the Group has committed to sell, in particular the classification of Direct Line Insurance Group plc in light of the sale of tranches of shares in 2013 and the loss of control by the Group;

· the assessment by management of the adequacy and effectiveness of internal controls over financial reporting which had identified weaknesses in the Group's privileged access and user entitlement controls within Technology Services. The Committee considered the potential impact of those issues upon financial reporting systems and requested assurance directly from management regarding prioritisation of remediation and compensating controls. The Committee will continue to monitor delivery of the required remediation programme in 2014;

° the form and content of the newly introduced Strategic Report contained within the Annual Report and Accounts. 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 Group Audit Committee and ultimately the Board in reaching their conclusion:-

° the production of the Annual Report and Accounts is co-ordinated centrally by the Group Chief Accountant with guidance on requirements being provided to individual contributors;

° The Annual Report and Accounts are reviewed by the Group Disclosure Committee prior to consideration by the Group Audit Committee;

° 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; and

° Directors are given sufficient time to consider the Annual Report and Accounts.

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

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Report of the Group Audit Committee

Systems of internal control

In addition to the Markets Control and Culture Remediation Programmes, oversight of the three lines of defence model and consideration of accountability in relation to inappropriate rate setting activity (all as more fully described in the letter from the Committee Chairman), the Committee reviewed the progress of the Finance and Risk Transformation Programme. The Committee challenged management on the pace of delivery, cost, prioritisation and benefits. Management is considering the delivery and direction of the programme in light of the organisational changes announced following the strategic review and the Committee will exercise close oversight of the revised programme in 2014.

The Committee has also tracked progress in relation to other mandatory and remedial projects and has challenged individual business areas on the ability to meet regulatory expectations, responsibilities and required resource. The Committee has considered ongoing regulatory reviews and investigations and has monitored the Group's relationship with its principal regulators. It has received reports from the Sensitive Investigations Unit and has considered the appropriateness of action being taken by management in relation to identified issues. The Committee has considered the Group's compliance with the requirements of the Sarbanes-Oxley Act of 2002 and was advised of whistle-blowing events which occurred within the Group. The Committee has requested that Internal Audit consider how whistle-blowing processes can be audited and will seek to identify enhancements to the process.

The Committee also reviewed the effectiveness of the internal Notifiable Event Process during the year; alerts on each event are received by the Chairman of the Committee, and the Chairman of the Board Risk Committee.

Regular reports were received by the Committee on wholesale credit quality assurance testing and consumer credit quality assurance testing. The Committee reviewed the Group's various pension obligations and discussed the status of funding and triennial valuation discussions underway with the RBS Group Pension Fund. The Committee will monitor the investment strategy, capital impact and funding of the scheme during 2014, as negotiations progress.

As discussed in the report of the Board Risk Committee, changes to the Divisional Risk and Audit Committee structure, designed to enhance the effectiveness and transparency of the consideration of risk and audit issues at a divisional level are currently under consideration. Detailed proposals will be presented to the Committee in the first quarter of 2014.

Internal audit

The Group Audit Committee oversaw the work of Internal Audit throughout 2013. Through regular reports and opinions, the Committee obtained insights into Internal Audit's assessment of the control environment across all divisions and of management's level of awareness. The reports from Internal Audit enabled the Committee to monitor internal control within the Group by reporting on areas where improvements to the control environment were needed.

In response to Internal Audit findings during the latter half of 2013, the Committee received at its request a presentation from executives of the Markets division on controls relating to trade and transaction reporting and actions underway to address identified weaknesses. The Committee has asked for regular updates on remediation progress to be provided during 2014.

Internal Audit also highlighted that the volume of change underway across the organisation and some specific regulatory remediation efforts, are key risk areas for the Group. The Committee will focus on these areas in 2014, particularly as the recently announced strategic changes are executed.

During bi-annual visits with Internal Audit, the Committee considered the bench-strength and capability of the function and areas where enhancement was required, including Technology and Markets. Plans in place to make improvements, including strategies to externally co-source certain activities and to accelerate recruitment were discussed to ensure that risks were appropriately covered. The Committee also reviewed Internal Audit's budget and succession-planning.

The Head of Internal Audit continues to report to the Chairman of the Group Audit Committee. In 2013, his secondary reporting line was changed and he now also reports directly to the Group Chief Executive (previously the Group Finance Director). Consideration was given to the presence of the Head of Internal Audit and divisional Heads of Audit at Executive Committee and other senior meetings. The Committee will continue to monitor the participation and influence of Internal Audit at senior level meetings during 2014.

The Committee considered and approved enhancements to the reporting methodology in Internal Audit reports and agreed that the changes to the criteria underlying ratings would improve transparency and provide additional evidence about culture and attitude. These improvements to reporting will be introduced in 2014. Proposed improvements to the evaluation of risk and enhancement to the audit universe, that will enable scoping and prioritisation of the work of Internal Audit that better reflects the scale and complexity of the business, were also considered by the Committee. The impact of assurance work initiated by the Group's regulators on risk coverage was discussed and the annual plan of audit activity was approved.

An external review of the effectiveness of Internal Audit takes place every three to five years, with internal reviews continuing in intervening years. In December 2013, the Group Audit Committee undertook an internal evaluation of Group Internal Audit. The evaluation concluded that Group Internal Audit had operated effectively throughout 2013. Minor observations and recommendations will be progressed. Benchmarking of Internal Audit against the Chartered Institute of Internal Auditors “Effective Internal Audit in the Financial Services Sector” guidance recommendations was explicitly included in the evaluation of effectiveness. Internal Audit currently meets these recommendations in the majority of areas and has incorporated actions within its strategic plan to address identified shortcomings.

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Report of the Group Audit Committee

Oversight of the Group's relationship with its regulators

The Group Audit Committee has a responsibility to monitor the Group's relationship with the Prudential Regulatory Authority (PRA), Financial Conduct Authority (FCA) and other regulators. During 2013, it received regular reports on the Group's relationship with all its regulators highlighting significant developments. It received reports on regulatory actions and investigations. Over the course of the year the Chairmen of the Group's senior Board committees met with the PRA and the FCA on an individual basis and also participated in Regulatory College meetings with the Group's primary regulators. The Chairman of the Group Audit Committee also met with the PRA and with the External Auditor on a trilateral basis.

The Committee closely monitored the Group's relationship with its international regulators and significant time was dedicated in particular to understanding the regulatory requirements in the US and their implications for the Group's US operations and structure. The Committee Chairman also met with the Japanese Financial Services Authority, the Central Bank of Ireland and the Federal Reserve Bank of Boston during local visits.

External audit

During 2013, the External Auditor provided the Group Audit Committee with reports summarising their main observations and conclusions arising from their year end audit, half year review and work in connection with the first and third quarters' financial results and their recommendations for enhancements to the Group's reporting and controls. The External Auditor also presented for approval to the Committee their audit plan and audit fee proposal and engagement letter, as well as confirmation of their independence and a comprehensive report of all non-audit fees.

The Group 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 annual evaluation is carried out in two stages. An initial review was carried out in early 2014. In assessing the effectiveness of the Group's External Auditor, the Group Audit Committee had regard to:

· the experience and expertise of the senior members of the engagement team;

· the proposed scope of the audit work planned and executed;

· the quality of dialogue between the External Auditor, the Committee and senior management;

· the clarity, quality and robustness of written reports presented to the Committee setting out the External Auditor' findings arising from the audit;

· the quality of observations provided by the External Auditor on the Group's systems of internal control;

· the views of management on the performance of the External Auditor; and

· the findings of any reviews of the work of the External Auditor by relevant regulators and the actions taken, where appropriate, to address any matters raised.

The second phase of the review will be conducted following completion of the 2013 audit and will involve targeted interviews with individuals based on outputs from the initial phase and their level of interaction with the External Auditor.

In addition to the annual evaluation performed by the Group Audit Committee, the External Auditor will also conduct their own annual review of audit quality. Twelve service criteria for the audit have been defined by them to measure their performance against the quality commitments set out in their annual audit plan. Feedback will be obtained and discussed with relevant internal stakeholders. The results of this exercise will be presented to the Group Audit Committee, with actions defined and agreed to address any areas where performance has fallen below expected standards.

The Group Audit Committee is responsible for making recommendations to the Board in relation to the appointment, re-appointment and removal of the External Auditor. In order to make a recommendation to the Board, the Group 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 Group Audit Committee's recommendations to shareholders for their approval at the Annual General Meeting.

Deloitte LLP has been the company’s auditor since March 2000. There are no contractual obligations restricting the company's choice of External Auditor. The revised UK Corporate Governance Code, issued by the Financial Reporting Council in September 2012 provides that companies should put the external audit contract out to tender at least every ten years. The Competition Commission following their investigation into the supply of statutory audit services also concluded that FTSE 350 companies should tender the audit engagement every ten years. The Group Audit Committee has considered the requirements and emerging developments in the EU and currently intends to put the contract for the 2016 (and future periods) audit of the Group out to tender later this year. In the interim, the Board has endorsed the Group Audit Committee's recommendation that shareholders be requested to approve the reappointment of Deloitte LLP as External Auditor at the Annual General Meeting in 2014.

The Group 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.

Audit and non-audit services

The Group 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.

In particular, the Group does not engage the External Auditor to provide any of the following non-audit services:

- bookkeeping or other services related to the accounting records or financial statements;

- financial information systems design and implementation;

- appraisal or valuation services, fairness opinions or contribution-in-kind reports;

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Report of the Group Audit Committee

- actuarial services;

- internal audit outsourcing services;

- management functions or human resources;

- broker or dealer, investment adviser, or investment banking services;

- legal services and expert services unrelated to the audit; and

- other services determined to be impermissible by the US Public Company Accounting Oversight Board.

The Group Audit Committee reviews the policy annually and prospectively approves the provision of audit services and certain non-audit services by the External Auditor. Annual audit services include all services detailed in the annual engagement letter including the annual audit and interim reviews (including US reporting requirements) and
periodic profit verifications.

Annual audit services also include statutory or non-statutory audits required by Group companies that are not incorporated in the UK. Terms of engagement for these audits are agreed separately with management, and are consistent with those set out in the audit engagement letter to the extent permitted by local regulations. During 2013, prospectively approved non-audit services included the following classes of service:

- capital raising, including consents, comfort letters, reviews of registration statements and similar services in respect of documents that incorporate or include the audited financial statements of the Group;

- accounting opinions, including accounting consultations and support related to generally accepted accounting principles and financial reporting matters relating to the financial statements of the Group and its subsidiaries;

· any reports that, according to law or regulation in the relevant jurisdiction, must be (and may only be) rendered by the External Auditor;

· reports providing assurance to third parties over certain of the Group's internal controls prepared under US Statement of Auditing Standards 70 "Service Organisations" or similar auditing standards in other jurisdictions; and

· reports and letters providing assurance to the Group in relation to a third party company where the Group is acting as equity/ debt underwriter in a transaction, in the ordinary course of business.

For all other permitted non-audit services, Group Audit Committee approval must be sought, on a case-by-case basis, in advance. The Group Audit Committee reviews and monitors the independence and objectivity of the External Auditor when it approves non-audit work, taking into consideration relevant legislation, ethical guidance and the level of non-audit services relative to audit services. The approval process is rigorously applied to prevent the External Auditor from functioning as management, auditing their own work, or serving in an advocacy role.

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 Group Chief Accountant and Group Procurement. Where the engagement is tax related, approval must also be obtained from the Head of Group Taxation. Ad hoc approvals of non-audit services are ratified by the Group Audit Committee each quarter. During 2013, the External Auditor were approved to undertake certain significant engagements which are categorised and explained more fully below:

Regulatory requests and attestations (three engagements)
Regulators, both UK-based and overseas, requested certain work be undertaken by the Group during 2013 to provide assurances and meet certain requirements. In all three such engagements undertaken by the External Auditor, their existing knowledge of the Group was highlighted as a strong benefit. It allowed the work to commence quickly and with minimal disruption in all instances. The benefits of maintaining consistency between similar engagements was also highlighted.

Tax advisory and compliance services (one engagement)
Tax advisory services were provided to a subsidiary established by RBS and Blackstone. The External Auditor had been involved in establishing the subsidiary company and so had an in-depth understanding of its structure and tax liabilities.

Membership of a company acquired by Deloitte (one engagement)
Bersin has provided an annual membership to the RBS Group since 2010. This has allowed our HR and Learning & Talent Practitioners to access extensive online research libraries. Bersin was acquired by Deloitte in December 2012 and so at the point the Group's Bersin membership was due for renewal ad hoc approval by the Group Audit Committee was sought.

Non-statutory audit of full year accounts (one engagement)
As part of the disposal of certain UK branches, it has been necessary to prepare audited accounts for the business for 2012 and 2013. The External Auditor was selected to provide audit services based on its extensive experience of the Group's systems and process, as well as its specific knowledge of the project. In addition, following the completion of the banking licence application for the business, the new legal entity would be a wholly-owned subsidiary of the Group; it is the Group's policy to use the Group's External Auditor to audit the accounts of all subsidiaries except in exceptional circumstances.

In addition, the External Auditor is engaged from time to time by the Group to perform services in relation to the restructuring of loans and other financing. The Group is not liable for these fees, and often has a limited role in the selection process. As an additional governance control, these engagements are subject to the ad hoc approval process. 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 395.

Brendan Nelson
Chairman of the Group Audit Committee
26 February 2014

Report of the Board Risk Committee

Letter from Philip Scott,
Chairman of the Board Risk Committee

Dear Shareholder,

Throughout 2013, the Board Risk Committee has sought to continue to provide assurance that the Group is operating in a safe and controlled manner and within the agreed risk appetite framework approved by the Board. This has been done against a backdrop of difficult external market conditions and increased regulatory scrutiny by the Prudential Regulatory Authority (PRA) and Financial Conduct Authority (FCA) and the Group's overseas regulators.

In particular, the Committee has focussed on market risk, operational risk, credit risk, conduct and regulatory risk and reputational risk. In its consideration of each area of risk, culture has been the priority and the Committee has emphasised the importance of instilling the correct behaviours within the organisation, alongside processes and tools designed with the customer at the fore. It is vital that the business is able to get these things right in order to meet its target of becoming a 'really great bank'. The Committee is working hard to drive cultural change and increase accountability throughout the organisation.

Oversight of risk has been enhanced in the period, through the separation of the Risk Management and Conduct and Regulatory Affairs functions. The restructure of the Risk function has enabled the Committee to achieve clearer and more effective oversight of conduct and regulatory issues, which will have long-lasting benefits. The Committee dedicates substantial time each year to the oversight of the risk operating model and succession planning and will continue to monitor these changes during 2014 as the respective functions continue to strengthen and embed.

Conduct risk standards continue to be communicated to employees using the four pillars of conduct risk: employee conduct; market conduct; corporate conduct; and conduct towards customers. These standards have been applied in the Committee's consideration of issues including the review of the sale of interest rate hedging products to SME customers. The Committee has also placed renewed focus on the quality of advice provided to customers, particularly in relation to mortgages, investment products and private client products.

In response to the allegations set out in the Tomlinson Report that the Group's restructuring division systemically set out to make profit at the expense of distressed customers, an independent review by the law firm Clifford Chance was commissioned to investigate these claims fully. The Group's regulators will also undertake their own review. While no evidence has been produced that supports the claims set out in the Tomlinson Report, the allegations have damaged our reputation and threaten to undermine our ability to build trust with customers and to increase lending to businesses in the UK economy. Therefore it is essential that the Group verifies the facts as quickly as possible. The Board Risk Committee has undertaken to review the outputs of both investigations, in depth, on behalf of the Board and make recommendations as to action required.

During 2013, the Board Risk Committee has continued to oversee the remediation activity following the major IT incident in 2012 and the ongoing effort to ensure the Group is more resilient in this respect in future. The Committee has also considered other potential single points of failure and how these can be identified and prevented or mitigated. This focus will continue in 2014 and the Committee will continue to liaise with its principal regulators during the first quarter of the year as the investigation of the IT incident concludes.

The Committee has considered reports on data quality, information security and corporate security with a particular focus on cyber security. This continues to be a significant issue for the banking industry as a whole and will remain a priority for the Committee in 2014.

Consideration of the case for RCR and substantiation of the capital plan was a major undertaking for the Group in the latter half of 2013. Given the fundamental strategic importance of this review, consideration, analysis and approval was undertaken collectively by the Group Board rather than at Committee level, which I consider to be appropriate. As a priority in 2014, the Board Risk Committee will monitor the risks in execution of this plan and also execution of the measures announced following the strategic review.

While 2013 has presented significant challenges, there has also been significant progress in the oversight of risk and control in many areas. In particular I would highlight the following:

- the Committee has continued to enhance its relationship with other Committees, in particular the Group Performance and Remuneration Committee. It has advised on matters such as assessing risk performance of both divisions and individuals, reviewing the risk objectives of members of the Executive Committee and considering the accountability of individuals in relation to specific matters;

- the role of Divisional Risk and Audit Committees has been reviewed in conjunction with the Group Audit Committee to ensure that they provide more transparency and more effective consideration of risk at a divisional level. Proposed changes to the existing model will be considered by the Committee in Q1 2014;

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Report of the Board Risk Committee

- the Committee has overseen the refinement and further embedding of the Group’s risk appetite framework into the business divisions;

- the Committee considered the outputs of stress testing and approved a reverse stress test trigger framework to further assist the risk management team in assessing how the business is positioned to respond to various potential scenarios; and

- an economic capital framework was presented and the Committee considered how this would be transitioned into business as usual.

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

2013 was a challenging year for the Board Risk Committee and I would like to extend my gratitude to my fellow members and to the Group’s senior leadership team for the additional time that they have dedicated to the business of the Committee.

Philip Scott,
Chairman of the Board Risk Committee
26 February 2014

Report of the Board Risk Committee

Report of the Board Risk Committee

Meetings and visits

The Board Risk Committee held seven scheduled meetings in 2013. Meetings are held alongside Group Audit Committee meetings to ensure that the work of the two Committees is coordinated and consistent. Board Risk Committee meetings are attended by relevant executive directors, risk management, finance and internal audit executives. External advice may be sought by the Board Risk Committee where considered appropriate. During 2013, the members of Board Risk Committee, in conjunction with the members of the Group Audit Committee, took part in an annual programme of visits to the Group's business divisions and control functions. This programme included two in depth sessions with the Risk Management function to consider key risk areas and the risk strategy and operating model. Full details about the programme of visits is set out in the Report of the Group Audit Committee on page 56.

Membership of the Board Risk Committee

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

	Attended/ scheduled
Philip Scott (Chairman)	7/7
Sandy Crombie	7/7
Tony Di Iorio (1)	6/7
Brendan Nelson	7/7
Baroness Noakes	7/7
Former director	
Joe MacHale (2)	2/4

Notes:

(1)	Missed one meeting due to travel disruption.
(2)	Retired from the Board on 14 May 2013.

Philip Scott, Tony Di Iorio, Brendan Nelson and Baroness Noakes are also members of the Group Audit Committee. Sandy Crombie is also a member of the Group Performance and Remuneration Committee. This common membership ensures effective governance across all finance, risk and remuneration issues, and that agendas are aligned and overlap is avoided, where possible.

Performance evaluation

A review of the effectiveness of the Board and senior committees, including the Board Risk Committee, during 2013 was conducted internally. 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, the conclusions and the recommendations for action. Overall, the review concluded that the Board Risk Committee continued to operate effectively but some areas where further enhancements could be made, were identified. The outcomes of the evaluation have been reported to the Board, and during 2014, the Committee will place focus on driving further improvements to risk reporting and prioritisation of Committee time.

The role and responsibilities of the Board Risk Committee

The Board Risk Committee’s primary responsibilities are shown below and 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.

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Report of the Board Risk Committee

Risk strategy and policy

RBS has a clear risk strategy supported by well defined strategic risk objectives. The members of the Board Risk Committee provide input to the overarching strategy for the business on an ongoing basis.

During 2013, the Board Risk Committee reviewed the implementation of the Group Policy Framework across the organisation. It also reviewed the output of control environment certifications which provided the Committee with an assessment of the effectiveness of the Group's internal control environment. Particular focus was placed on how the operational risk framework was structured to identify single points of failure and "black swan" events, being those events that were difficult to predict but would have a high impact. The Committee agreed that Risk Management should reinforce with divisions that risk assessments and scenario analysis should extend to these events and that consideration should also be given to resilience.

Together with the Group Audit Committee, throughout 2013, the members placed particular focus on the implementation and embedding of the three lines of defence model across divisions. While progress has been made, the Committee recognises that additional work is required to fully delineate responsibilities across front line management, risk and internal audit. The Committee has emphasised that it considers effective operation of the model to be a priority and will closely monitor progress in 2014 alongside strategic and organisational change.

The Committee also considered management's plans to deliver a holistic Enterprise Risk Management (ERM) framework, intended to deliver an increase in effectiveness and make risk more relevant to the operation of the business. This would involve rationalising existing risk management tools and making them integral to business as usual. The Committee noted its emphatic support to the accelerated programme of work planned for 2013/2014 which including the development of outcome-focused principles of business and the use of tools such as the “yes check” to align values with customer outcomes based on integrity, safety, soundness, reputation and standards.

The members closely reviewed implementation plans and delivery of solutions to meet the requirements of the Single European Payments Area. The Committee in particular has monitored the relationship with the Central Bank of Ireland in this regard.

The Committee has received reports on plans underway to enhance data quality across the organisation. It has also considered information security, corporate security and cyber risk.

Risk profile

Reporting
The Committee received a detailed report on key risks and metrics at each meeting and the Group Chief Risk Officer provided a verbal update on the key risks to the organisation. Following his appointment, the Head of Conduct and Regulatory Affairs also provided a verbal update on current pertinent matters to the Committee at each meeting. These reports enabled the Committee to identify the key risk areas where additional focus was required.

During 2013, the Committee has continued to focus on enhancing risk reporting and some improvements have been made, including the creation of a risk report at entity level of National Westminster Bank Plc. However, the annual Committee performance evaluation has highlighted that more work is required to rationalise the reports that are received by the Committee; to ensure that key risks are conveyed succinctly and prominently; and to standardise and simplify presentations. This will be taken forward in 2014.

The Committee reported to the Board following each meeting on its consideration of the risk profile of the business and made recommendations as appropriate.

Risk Incidents and Regulatory reviews and investigations

As in previous years, regulatory risk featured highly on the agenda of the Committee during 2013. Most significantly, as highlighted above, in the letter from the Committee Chairman, the Committee continued to play a central role in the oversight and remediation of the Group’s 2012 IT incident. It received regular reports on the work being undertaken to enhance resilience and address root causes of the issue and has challenged management on the robustness of plans and in relation to capability across the three lines of defence. Significant progress has been made to address the deficiencies highlighted by the incident. However, longer term investment in further enhancement to the Group’s infrastructure is ongoing. The Committee will continue to oversee the remediation activity and wider enhancement required to systems and resilience during 2014. The Committee will also work with its regulators to address findings as their investigation of the incident concludes and will ensure accountability is fully considered and learnings are adopted, across the organisation.

The Committee was dismayed to learn of the most recent system outage in late 2013 and will ensure that this matter and any correlation with the earlier IT incident is fully understood.

The allegations set out in the Tomlinson Report have been taken very seriously by the Group and while there is no evidence of systemic wrongdoing in the way distressed customers were treated by the Group’s restructuring division, an independent review by Clifford Chance has been commissioned. The FCA has separately appointed a skilled person to undertake a review under section 166 of the Financial Services and Markets Act. The Board Risk Committee will review the outputs of these investigations and will liaise with its regulators as required.

Report of the Board Risk Committee

A number of other internal and regulatory investigations arose or continued throughout 2013. During the period, the Committee received reports on;

· the investigation of the alleged mis-selling of interest rate hedging products to small and medium sized enterprises and considered the appropriateness of remediation activity;

· the investigation of allegations of inappropriate rate setting activity in particular foreign exchange rates;

· anti-money laundering remediation including divisional remediation plans, prioritisation and resource requirements;

· the sale of complex products and the quality of investment advice to customers. In particular, it received reports on required enhancements to the mortgage sales process. The sales and product design and approvals process were also reviewed;

· 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.

Where appropriate, the Committee oversaw liaison with regulators; made recommendations regarding required remediation, training and process controls and enhancements; and made recommendations to the Group Performance and Remuneration Committee in relation to accountability. Progress to address identified weaknesses will be closely monitored throughout 2014.

In 2013, the Balcony Oversight Committee was established in acknowledgment of the volume of ongoing conduct issues, particularly in the Markets division. The aim of the Balcony

Oversight Committee chaired by the Head of Conduct and Regulatory Affairs, is to provide independent oversight, identify common themes and to share lessons learned. The Balcony Oversight Committee reports to the Board Risk Committee and regular updates were provided on the status of ongoing investigations and emerging themes.

Capital and liquidity

The Committee reviewed the capital and liquidity position of the business regularly in light of external conditions.

The Committee made recommendations to the Board concerning the Individual Liquidity Adequacy Assessment, the Internal Capital Adequacy Assessment Process (ICAAP) and the Contingency Funding Plan, in line with the Group's commitments to its regulators.

Risk appetite framework and limits

The risk appetite framework for the Group was reviewed in 2013 to ensure it remained fit for purpose in light of internal restructuring, market positioning and changes to regulation. Consideration was given to how risk appetite linked to strategic objectives and how quantitative risk appetite targets had been set. The Committee discussed earnings volatility, including the impact of diversification benefit on the targets. Following detailed discussion, the Committee recommended the framework to the Board for approval and noted its support to management as the framework was embedded across the Group at divisional level. The Board Risk Committee separately reviewed the country risk appetite and Group Market Risk Control Framework and noted new market risk caps and changes to the existing limits.

In the second half of 2013 the Committee reviewed proposed changes to the Single Name Concentration framework for Banks and a new Single Name Concentration grid for Large Corporates.

The Committee also considered the Economic Capital model, which had been under delivery since 2010. It was noted that the model was now being transitioned to business as usual activity and had been used to assess credit concentration risk for Pillar 2 capital as part of the 2011 ICAAP, resulting in a more accurate capital calculation. The Committee is confident that the model will provide management with a clearer understanding of risk.

The Committee continued to review the output of stress testing and discussed the stress scenarios and underlying assumptions. In the second half of 2013, the Committee noted the output of a reverse stress testing exercise and recommended it for approval to the Board.

Risk management operating model

During the course of two separate visits to Risk Management, the Committee reviewed the risk management operating model to ensure the function had the appropriate structure and resources in place to deliver its strategic plan. Bench-strength of the risk function was reviewed and consideration was give to succession-planning, resource and budget.

The strengthening of the Conduct and Regulatory Affairs function during the second half of the year resulted in various changes to the risk management operating model which were discussed in detail with the Committee. Further developments to Risk Management, Conduct and Regulatory Affairs and the risk committee framework that underpins the Board Risk Committee will continue to be progressed in 2014 and the Committee will remain involved in the discussions and changes as appropriate.

As referenced in the Group Audit Committee report on pages 56 to 60, a framework of Divisional Risk and Audit Committees is responsible for reviewing the business of each division and reporting to the Group Audit Committee and Board Risk Committee. During 2013, the Committee reviewed the operation of the committees and requested that management consider alternative mechanisms that could more effectively provide a line of sight into divisional risk issues and activity. The output of that review, will be more fully discussed in Q1 2014.

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Report of the Board Risk Committee

Risk architecture

The Committee reviewed the preparations underway to ensure compliance with the new best practice principles that had been defined by the Basel Committee of Banking Supervision (BCBS) for internal risk reporting and data aggregation practices, which would be effective in 2016. Consideration was given to how these requirements reaffirmed priorities and direction of travel with the Finance and Risk Transformation (FiRST) Programme and it was noted that work was in progress to both accelerate usage of the FiRST strategic solution by Risk and enhance existing capabilities. In conjunction with the Group Audit Committee, the Board Risk Committee will closely monitor delivery of the FiRST programme in 2014 and any required changes as a result of the strategic review.

Remuneration

The Committee recognises that embedding the correct conduct and culture in the organisation requires an emphasis on performance management and conduct standards. The Board Risk Committee has continued to work closely with the Group Chief Executive and Group Performance and Remuneration Committee to consider the risk aspects of Executive Committee members' objectives and remuneration arrangements as appropriate.

The Committee considered the risk performance of divisions in light of known risk and control issues and under advice from Risk Management and Internal Audit. It made recommendations regarding appropriate adjustments, to the Group Chief Executive and Group Performance and Remuneration Committee.

The Committee has reviewed specific accountability cases as required and made recommendations accordingly.

Philip Scott
Chairman of the Board Risk Committee
26 February 2014

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Report of the Group Sustainability Committee

Letter from Sandy Crombie
Chairman of the Group Sustainability Committee

Dear Shareholder,

Early in 2013 the remit of the Group Sustainability Committee was increased to include broader sustainability issues including conduct, culture, reputation and most importantly, how the Group serves its customers.

Membership was strengthened with an additional non-executive director and meeting frequency was also increased, all underlining our commitment to the sustainability agenda.

While 2013 presented significant challenges, progress was made by the Committee in overseeing and challenging how management was addressing sustainability and reputation issues relating to all stakeholder groups. Key areas of work during the year included:

- oversight of the introduction and embedding of the purpose, vision and values work intended to promote behavioural change and strengthen our culture Group-wide. This included the introduction of the Code of Conduct which lays out the standard of conduct that supports the Group's values of serving customers, working together, doing the right thing and thinking long term;

- oversight of how the Group is balancing the needs of all its stakeholder groups including customers, investors, employees, regulators and communities/society and alignment with the Group's strategic intent;

- ongoing commitment to the stakeholder engagement programme through regular face to face sessions with advocacy groups on key issues of concern. This has been a key area of progress for the Committee allowing for challenge and debate in an open and collaborative environment (more details on next page);

- oversight of development of Environmental, Social and Ethical (ESE) policies to ensure increased transparency and disclosure and more responsible management of risks in sensitive and high risk sectors. ESE policies reviewed in 2013 included Mining and Metals, Oil and Gas and Gambling;

- receiving reports on the sustainability activities across the company including supporting enterprise, employee engagement, citizenship, environment, safety and security;

- improved reporting through the annual Sustainability Report which provides a review of our activities and details future commitments, goals and priorities. We adhere to best practice standards for our reporting, following a principles framework of inclusivity, materiality and responsiveness. Deloitte LLP undertake independent assurance of our reporting and were able to provide an unqualified assurance statement in respect of the 2012 Sustainability Report which was published in May 2013;

- receiving reports on people issues including health and safety, diversity and inclusion, employee wellbeing and employee opinion; and

- receiving reports on legal issues and legislative changes that impact the sustainability agenda.

Other areas supported by the Committee included the adoption of a number of internationally accepted voluntary codes notably the Equator Principles, United Nations Global Compact and Natural Capital Declaration (see pages 35 to 37 for more detail).

Although much still has to be done, it is pleasing that the efforts to build a sustainable and responsible business have been recognised through independent and external measures such as inclusion in the Dow Jones Sustainability World Index with our highest score to date in 2013. We have also been included in the FTSE4Good Index Series which measures the performance of companies that meet globally recognised corporate responsibility standards (see pages 35 to 37 for more information on these external commitments).

To continue the progress made in 2013, a priority for the Committee will be to ensure that its strategic direction is aligned with business priorities and that sustainability is embedded in everything that we do.

Finally I would like to thank my fellow Committee members for their expertise and guidance and all those who have supported us, whether inside or outside RBS, for their contribution to our work.

More detailed information on the Committee and the Group's approach to sustainability is found on pages 35 to 37.

Sandy Crombie
Chairman of the Group Sustainability Committee
26 February 2014

Report of the Group Sustainability Committee

Report of the Group Sustainability Committee
Meetings
The Group Sustainability Committee held six Committee meetings in 2013 in addition to seven stakeholder engagements sessions. Both were attended by senior representatives from the customer facing divisions as well as Human Resources, Sustainability, Risk Management, Communications, Legal, Strategy and Corporate Services. The Chairman of the Board regularly attends the meeting as well as internal and external specialists who may be requested to attend for specific items.

Stakeholder Engagement Sessions
Balancing the needs of stakeholders means understanding the views of all those who have an interest in our business. In addition to ongoing engagement throughout RBS with internal and external stakeholders, during the year, the Group Sustainability Committee participated in seven stakeholder engagement sessions covering the following topics:

- Fair Banking;
- Safety and Security;
- Citizenship;
- Supporting Enterprise;
- Sustainability priorities in the USA;
- Investor Perspective; and
- Employee Engagement.

These stakeholder engagement discussions help inform decision making across the Group, shape future polices and influence strategic priorities and will continue to play a key role. For more information see pages 35 to 37.

In 2013, a programme of UK based events aimed at individual shareholders was introduced. These events provided an opportunity for shareholders to meet directors and senior management to learn more about the business.

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

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

Notes:
(1) One meeting missed due to time zone differences.
(2) Appointed to the Committee with effect from 30 July 2013.

Performance evaluation
An internal review of the effectiveness of the Group Sustainability Committee took place in 2013. Overall the review concluded that the Group Sustainability Committee continued to operate effectively. An ongoing challenge will be to ensure that the Group's strategy covers the long term needs of all stakeholders and that the work of the Group Sustainability Committee is fully aligned with that strategy.

Role and responsibilities of the Group Sustainability Committee
The Group Sustainability Committee is responsible for overseeing and challenging how management is addressing sustainability and reputation issues relating to all stakeholder groups, except where such issues have already been dealt with by another Board committee.

Authority is delegated to the Group Sustainability Committee by the Board and the Committee will report and make recommendations to the Board as required. The terms of reference of the Group Sustainability Committee are available on the Group's website rbs.com and these are considered annually by the Group Sustainability Committee and approved by the Board. A report on the activities of the Group Sustainability Committee in fulfilling its responsibilities is provided to the Board following each Committee meeting. The principal responsibilities of the Group Sustainability Committee are shown below aligned to the Group's values.

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Directors' Remuneration Report

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

Dear Shareholder,

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

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

2013 performance – a challenging year

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

Continuing pay reform

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

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

- The Group bonus pool has fallen between 2012 and 2013 in line with the fall in pre-RCR operating profit.

- The underlying reduction is significantly greater when taking account of the deduction made last year for LIBOR.

- The percentage of staff receiving no bonuses has increased over the last year from 40% to 43% as we continue to target high performers.

- In our UK retail business, incentive schemes for customer facing staff have minimum standards relating to customer and risk measures which must be met before any payments can be considered.

-

Performance related pay is linked to a combination of performance measures covering financial and non-financial metrics.

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

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

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

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Directors' Remuneration Report

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

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

CRD IV

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

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

New Share Plan

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

Review of year and Group performance

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

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

Performance considerations for 2013

- Group Operating Profit, excluding the impact of RBS Capital Resolution (RCR) of £2,520 million, a reduction of 15% on 2012.

- Loss before tax of £8,243 million, due in part to the impact of RCR which will help to remove uncertainty associated with legacy issues.

- Markets division making strategic progress, staff costs are down 19% and RWAs are down 36%.
- Core Tier 1 capital ratio improved to 10.9% from 10.3% at the end of 2012.
- Reduction in Non-Core assets to £28 billion.
- RBS offered £58.5 billion of loans and facilities to UK businesses in 2013 of which £31.5 billion was to SMEs. RBS also helped UK companies, universities and housing associations to raise £24.7 billion through bond issues in 2013.
- Employee engagement is strong and clear evidence that key values are being embedded across the Group.

Decisions made on pay

- Full details of decisions for both current and former directors are set out in this report.
- Ross McEwan's salary on appointment as Group Chief Executive represented a 17% reduction to his predecessor.
- In line with existing policy, Ross McEwan will receive a long-term incentive award in March 2014.
- Nathan Bostock has announced his departure and all outstanding share awards will lapse.
- Total compensation, both on an overall and per employee level, has been reduced for 2013.
- Total variable compensation reduced again for 2013, down 15% at a Group level and 17% for Markets compared to 2012. This includes a £25 million reduction as part of the committed LIBOR related actions.
- Total Group variable compensation as a percentage of operating profit (pre-RCR and before variable compensation), a key ratio, has remained at 19%.
- The proportion of deferred variable compensation delivered in shares has increased significantly for 2013, representing 63% for Group and 81% for Markets. Further details on the bonus pool can be found in Note 3 to the accounts on page 389.
- Incentive awards continue to be targeted towards high performers. 43% of employees who are eligible will not receive a bonus.

Directors' Remuneration Report

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

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

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

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

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

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

Directors’ Remuneration Policy

Directors’ Remuneration Policy

Future policy table for executive directors (EDs)

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

Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics and period
Base salary	To aid recruitment and retention of high performing individuals whilst paying no more than is necessary. To provide a competitive level of fixed cash remuneration, reflecting the skills and experience required, and to discourage excessive risk-taking.	Paid monthly and reviewed annually. The rates for 2014 are as follows: Group Chief Executive - £1,000,000 Group Finance Director - £765,000 Further details on remuneration arrangements for the year ahead are set out on pages 85 to 87 of 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.	No performance conditions are directly applicable although any future salary increases will take into account performance rating during the year.
Fixed share allowance	To provide fixed pay that reflects the skills and experience required for the role. This will be delivered in shares and held for the long term.	A fixed allowance, paid entirely in shares. Individuals will receive shares that vest immediately subject to any deductions required for tax purposes and a retention period will apply. Shares will be released in equal tranches over a five year period. The fixed share allowance will be paid in arrears, initially at six monthly intervals, and in the event of termination, only in respect of service completed(1).	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

Explanation of Responses:

	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. 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 multiple 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 any such allowances being delivered in shares, then the company reserves the right to provide the value of the allowance in cash instead in order to comply.

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Directors' Remuneration Policy

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

Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics and period
Variable pay award (long-term incentive)	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 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 deferral and performance-based requirements. A minimum three year performance period will apply. As a minimum, shares will be subject to deferral and retention periods as required under the PRA Remuneration Code. The award will have an overall five year vest period, vesting in equal tranches in years four and five. Provision for clawback prior to and post vesting of awards. The award will be delivered under the RBS 2014 Employee Share Plan, subject to shareholder approval 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. If shareholder approval is sought and obtained at the 2014 AGM, this will be 200% of fixed pay (i.e. base salary, fixed share allowance, benefits and pension). For these purposes awards will be valued in line with the European Banking Authority rules, including any available discount for long-term deferral. Our intention is that awards for executive directors will be maintained at a maximum of 300% of base salary in line with past practice(1). The vesting level of the award could vary between 0% and 100% dependent on the	Any award made will be subject to future performance conditions over a minimum three year period. Typical measures may fall under the following categories (weighted 25% each): ·Economic Profit ·Relative Total Shareholder Return (TSR) ·Safe and Secure Bank ·Customers and People A financial and risk performance underpin provides discretion to vary the vesting outcome if the Committee considers this does not reflect underlying performance. These or similar measures and weightings will be applied to reflect the strategy going forward. Details of the award and performance measures for each year will be set out in the annual report on remuneration.

achievement of performance conditions. Between 20% - 25% will vest at threshold for each performance measure.

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

Directors' Remuneration Policy

Other pay elements

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

Notes to policy table

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

- Clawback - An accountability review process is operated that allows the Committee to respond in instances where new information would change the variable pay decisions made in previous years and/or the decisions to be made in the current year. As a result, clawback can be applied to reduce or lapse any unvested awards as well as reducing any current year's variable pay. The Committee will also consider its approach to the operation of post vesting clawback in light of emerging market practice and regulatory requirements. Further details can be found on page 92.

- Remuneration for EDs broadly follows the policy for all employees but with greater emphasis on delivery in shares and a significant element of variable performance-related pay. This is to ensure that total remuneration to EDs is more aligned with the long-term interests of shareholders and dependent on specific performance measures being met. Further details on the remuneration policy for all employees can be found on page 91 and 92.

Changes for Executive Directors

- EDs will no longer be eligible to receive annual bonuses.

- The new structure outlined in the policy table introduces a fixed share allowance for EDs which will be released in equal tranches over a five year period. However, the Group Chief Executive will not receive a fixed share allowance for 2014.

- Future long-term incentive awards will be subject to an overall five year vest period, with a three year performance period and vesting in equal tranches in years four and five.

- The new structure results in a reduction of 16% of maximum remuneration opportunity, maintaining significant exposure to shares and clawback but with increased holding periods.

- The policy reflects our objective of moderating total remuneration while providing strong alignment with shareholders over the longer-term.

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Directors' Remuneration Policy

Fees for non-executive directors				
Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance metrics and period
Fees	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 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 for non-executive directors reflects their responsibility and time commitment and the level of fees paid to directors of comparable major UK companies. Non-executive directors do not participate in any incentive or performance plan. Non-executive directors' fees are reviewed regularly.	The rates for the year ahead are set out in the annual report on remuneration on page 85 Any future increases to fees will be considered against non-executive directors at comparable companies and will not normally be greater than the average inflation rate over the period under review, taking into account that any change in responsibilities, role or time commitment may merit a larger increase. Fees have not yet been set for the recently established RCR Board Oversight Committee. Our policy is that additional fees may be paid for new Board Committees provided these are not greater than fees payable for the existing Board Committees as detailed in the annual report on remuneration.	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	The value of the private medical cover provided to the Chairman will be in line with market rates and disclosed in the	N/A

	also receives private medical cover in line with the scheme rules.	annual report on remuneration.

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Directors' Remuneration Policy

Policy start date

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

Recruitment remuneration policy

- The approach to recruitment of directors is to consider both internal and external candidates and to pay no more than is required to attract the most suitable candidate for the role.

- The policy on the recruitment of new directors aims to structure pay in line with the framework and quantum applicable to current directors, competitive in a market context and including the components detailed in the policy table, taking into account that some variation may be necessary to secure the preferred candidate.

- Consideration will be given to the skills and experience held by the individual being recruited as well as the incumbent's position. The present circumstances of the company will also be taken into account.

- In the event of an internal promotion, existing contractual commitments can continue to be honoured.

- Any awards granted on recruitment may be made as part of the company's share plans from time to time or under the provisions provided by Section 9.4.2 of the Listing Rules and will need to comply with the requirements of the PRA Remuneration Code. No sign-on awards or payments will be offered over and above the normal buy-out policy to replace awards forfeited or payments foregone. The Committee will seek to minimise buy-outs wherever possible and will seek to ensure they are no more generous than, and on substantially similar terms to, the original awards or payments they are replacing.

- The maximum level of variable pay which may be granted to new executive directors is the same as that applicable to existing executive directors, excluding any buy-out arrangements. Non-executive directors do not receive variable pay. Full details will be disclosed in the next remuneration report following recruitment.

Discretion

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

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

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

Consideration of employment conditions elsewhere in the company

The Committee retains oversight of remuneration policy for all employees to ensure there is a fair and consistent approach throughout the organisation. This includes the use of deferral and clawback to promote effective risk management and alignment with shareholders. Further details on our remuneration policy for all employees are set out on pages 91 and 92.

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

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

Directors' Remuneration Policy

Service contracts and policy on payments for loss of office – directors		
Provision	Policy	Details
Payments for loss of office	Payment in lieu of notice only	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 on base salary only (with no payment in respect of any other benefits, including pension) and is released in monthly instalments. During the period when instalments are being paid, the executive director must take all reasonable steps to find alternative work and any remaining instalments will be reduced as appropriate to offset income from any such work.
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 clawback, competitive activity and detrimental activity. Existing long-term incentive awards normally lapse on leaving unless the termination is for one of a limited number of specified 'good leaver' reasons or the Committee exercises its discretion to prevent lapsing. The Committee may exercise this discretion where it believes this is an appropriate outcome in light of the contribution of the participant and shareholders' interests. Where awards do not lapse on termination, any vesting will normally take place on the original vesting dates, subject to the performance conditions being met and pro-rating to reflect the proportion of the period that has elapsed at the date of termination. Clawback provisions will also apply. These provisions will also apply to variable remuneration delivered under the RBS 2014 Employee Share Plan, subject to shareholder approval at the 2014 AGM.
Fixed share allowances	Treatment in line with the plan rules as approved by shareholders	Any shares already received under fixed share allowances will not be forfeited on termination but must continue to be held for the original retention periods. In leaver circumstances executive directors will also be eligible to receive a pro-rated fixed share allowance.

Other provisions	Standard contractual terms in line with market practice	Contracts include standard clauses covering remuneration arrangements and discretionary incentive plans (as set out in the main policy table above), reimbursement of reasonable out-of-pocket expenses incurred in performance of duties, redundancy terms and sickness absence, the performance review process, the disciplinary procedure and terms for dismissal in the event of personal underperformance or breaches of RBS policies.
Other payments	Discretionary	The Committee retains the discretion to make payments (including but not limited to professional and outplacement fees) to mitigate against legal claims, subject to any payments being made pursuant to a settlement or release agreement.
Provisions for non-executive directors (NEDs) and the Group Chairman		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 in 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 annual election or re-election by shareholders at the company's Annual General Meetings.

Directors' Remuneration Policy

Illustration of the potential application of the remuneration policy

- Salary + Benefits + Pensions delivered in cash. The benefits include standard benefit funding as outlined in the policy but exclude exceptional items such as relocation allowances, the value of which will be disclosed in the total remuneration table each year.

- Fixed share allowance = an allowance of 100% of salary, paid in shares and released in equal tranches over a five year period.

- Target = Fixed remuneration and assuming payout of long-term incentive vesting at 45% of maximum (135% of salary).

- Maximum = Fixed remuneration and assuming full payout of long-term incentive vesting at 300% of salary.

- The graphs above illustrate the application of policy to executive directors for the first full year as the Group Chief Executive will not receive a fixed share allowance in 2014.

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

Shareholders views and their impact on remuneration policy

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

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

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

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

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

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

Annual report on remuneration

Annual report on remuneration

Total remuneration paid to directors

The sections as indicated on pages 79 to 84 have been audited.

Total remuneration for executive directors (£000s) (audited)

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

Notes:

(1) Stephen Hester stepped down from the Board on 30 September 2013 and did not receive any annual bonus entitlement for the 2013 performance year. See page 82 for details of termination arrangements and payment in lieu of notice.

(2) Bruce Van Saun stepped down from the Board on 30 September 2013 to become CEO and Chairman of RBS Citizens Financial Group and Head of RBS Americas. Mr Van Saun also stepped down as a non-executive director of Direct Line Insurance Group plc and Worldpay (Ship Midco Limited), for which he did not receive any fees. He is a non-executive director of Lloyd's of London Franchise Board for which he received fees of £51,750 for the period to 30 September 2013. The amounts included in the table in respect of Mr Van Saun's pension relates to contributions that would have been made to his Unfunded Unapproved Retirement Benefit Scheme ("UURBS") (if it had been funded) comprising a pension allowance of 35% of salary, together with additional amounts through a salary sacrifice arrangement plus an investment return at a rate of 4.7% for 2013 (6.2% for 2012).

(3) Ross McEwan and Nathan Bostock were appointed to the Board on 1 October 2013 and the table reflects their pay for the period as Group Chief Executive and Group Finance Director respectively since appointment.

(4) Benefits figure includes standard benefit funding of £26,250 per annum with the remainder being relocation expenses provided to Bruce Van Saun (housing allowance) and Ross McEwan (housing and flight allowances).

(5) The zero value reflects awards granted to executive directors under the Long-term Incentive Plan in 2010 that did not vest in May 2013. See page 81 for details of subsequent LTIP assessments.

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

Remuneration of non-executive directors, excluding the Chairman, was reviewed in 2013. Basic board fees were last increased in 2008 and Committee fees were last increased in 2010. It was recognised that time commitment at RBS had increased significantly over the period. This increased time commitment was due to a number of factors including an intense regulatory agenda, the extended remit of Board Committees, wider engagement with the business and the executive team and efforts to drive cultural change. Consideration was also given to evidence of market increases in Board fees over the period. For the current non-executive directors, the Board, excluding non-executive directors, approved a revised fee structure applicable from 1 April 2013 as set out on page 85.

	Board and	Benefits and	2013 Total	2012 Total

	Committee fees	other fees		
Philip Hampton (1)	750	1	751	750
Sandy Crombie	186	—	186	150
Alison Davis	132	—	132	114
Tony Di Iorio (2)	136	—	136	128
Robert Gillespie (3)	7	—	7	n/a
Penny Hughes	154	—	154	150
Brendan Nelson	164	—	164	150
Baroness Noakes	136	—	136	124
Philip Scott	164	—	164	150
Former non-executive directors				
Joe MacHale (4)	49	—	49	133
Art Ryan (5)	80	—	80	93

Notes

(1) Philip Hampton is entitled to private medical cover and the value is shown in the benefits column.

(2) Tony Di Iorio became a non-executive director of RBS Citizens Financial Group, Inc on 15 January 2014, the fees for which will be reported in future years.

(3) Robert Gillespie was appointed to the Board with effect from 2 December 2013.

(4) Joe MacHale retired from the Board with effect from 14 May 2013. Board Committee fee included membership of the Asset Protection Scheme Senior Oversight Committee.

(5) Art Ryan is a non-executive director of RBS Citizens Financial Group, Inc. for which he received fees of US$131,000 for the period to 30 September 2013, the date he retired from the Group Board.

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

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Annual report on remuneration

Total Pension Entitlements – Bruce Van Saun (audited)

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

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

Executive directors' annual bonus for 2013 (audited)

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

Stephen Hester

As part of the exit arrangements detailed on page 82, no annual bonus award is payable to Stephen Hester for 2013.

Bruce Van Saun

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

Ross McEwan

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

Nathan Bostock

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

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

Performance measure	Performance requirements	Vesting outcome
Economic profit (50%)	Maximum vesting triggered by early delivery of Core business profitability, well ahead of the range implied by the published Strategic Plan targets and also in excess of the cost of capital.	The LTIP awarded in 2010 was due to vest in May 2013. The number of shares under award is set out in the table on page 83. Awards did not vest in May 2013 as a result of the threshold performance requirements not being met and the awards lapsed.
Relative TSR (25%)	20% vesting if TSR is at the median rising to 100% vesting if TSR is at the upper quartile of the companies in the comparator group.	
Absolute TSR (25%)	20% vesting if RBS share price reaches £5.75. 100% vesting if RBS share price reaches £7.75.	

Share plan interests awarded under the LTIP during 2013 (audited)

	Grant date	Face value of	Performance

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

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

Annual report on remuneration

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

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

Performance measure	Weighting	Rationale	Vesting	2011 LTIP Current assessment of performance	2012 and 2013 LTIP Current assessment of performance
Core Bank economic profit	25%	Ensures that performance reflects risk adjusted enduring earnings.	Threshold: 25% vesting for meeting minimum economic profit targets. Maximum: 100% vesting for performance ahead of the Strategic Plan.	Continued difficult conditions mean that the economic profit target has not been met.	Excluding the impact of the 2013 RCR action performance is currently broadly in line with expectations. The Committee notes the impact of the RCR impairment and will determine at the point of vesting how this should be taken into account.
Relative TSR	25%	Ensure alignment with shareholders.	Threshold: 20% vesting if TSR is at median of the comparator group. Maximum: 100% vesting if TSR is at upper quartile of the comparator group. Pro rata vesting in between.	Based on share price performance up to 31 December 2013, the threshold target is unlikely to be met by the vesting date.	Based on share price performance up to 31 December 2013, the threshold targets have not yet been met.
Balance sheet and risk	25%	Ensure alignment with the advancement of the strategic position and capability of the organisation and	Vesting will be qualified by Committee discretion. Indicative vesting levels are:	All targets – including Non-Core run down, Core Tier 1 capital, wholesale funding, liquidity, leverage ratio, loan to deposit ratio and funded	Majority of Balance Sheet and Risk measures are currently on track or ahead of target.

Strategic Scorecard	25%	the building of a sustainable business.	· 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%.	assets - have been met or exceeded. Credit rating condition was not met, but given over-achievement on other measures, the Committee determined that the Balance Sheet and Risk element would vest in full. For the Strategic Scorecard, the cost:income ratio target has been missed driven by income shortfall. Overall the Committee determined that fewer than half of the objectives have been met and also took into account the extent of the shortfall on cost:income ratio and determined that this element should not vest.	Cost:income ratio remains challenging to achieve largely due to market-driven income pressures. Positive performance to date on some of the other Strategic Scorecard measures would result in some level of vesting for this element if continued over the performance period.

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

Annual report on remuneration

Payments to past directors (audited)
No payments were made to former directors during the year ended 31 December 2013.

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

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

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

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

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

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

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

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

As at 31 December 2013 (or date of cessation if earlier)			
	% of issued	Value(1)	

	Shares beneficially owned	share capital	(£)	% of shareholding requirement met	Unvested LTIP awards (subject to performance conditions)	Unvested Deferral Plan awards
Stephen Hester	761,218	0.01227	2,740,385	91%	2,064,638	—
Bruce Van Saun	148,421	0.00239	501,663	49%	2,163,680	466,947
Ross McEwan	516,336	0.00832	1,745,216	70%	1,259,081	56,395
Nathan Bostock	375,969	0.00606	1,270,775	133%	2,151,234	289,536
Philip Hampton	27,630	0.00045		n/a		
Sandy Crombie	20,000	0.00032		n/a		
Alison Davis	20,000	0.00032		n/a		
Tony Di lorio (2)	30,000	0.00048		n/a		
Robert Gillespie	nil	—		n/a		
Penny Hughes	562	0.00001		n/a		
Joe MacHale	28,431	0.00046		n/a		
Brendan Nelson	12,001	0.00019		n/a		
Baroness Noakes	21,000	0.00034		n/a		
Art Ryan	5,000	0.00008		n/a		
Philip Scott	50,000	0.00081		n/a		

Notes:

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

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

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

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

Long-Term Incentive Plan (LTIP) awards

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

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

Deferred awards

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

	Awards held at 1 January 2013 (or date of appointment if later)	Awards granted in 2013	Award price £	Awards vested in 2013	Market price on vesting £	Value on Vesting £	Awards held at 31 December 2013 (or date of cessation)	End of period for qualifying conditions to be fulfilled
Stephen Hester	229,254		4.45	229,254	3.06	701,517	—	—
Bruce Van Saun	151,544		4.45	151,544	3.06	463,725	—	—
	300,000		2.80	150,000	3.06	459,000	150,000	09.03.13 – 09.03.14

		(6)						08.03.14 –
		316,947	3.09				316,947	08.03.15
	451,544	316,947		301,544			466,947	
								08.03.14 -
Ross McEwan	56,395		3.09				56,395	08.03.16
	454,106		2.14	454,106	3.40	1,543,960	—	—
	510,501			454,106			56,395	
Nathan Bostock(5)	28,657		4.45				28,657	07.03.14
								09.03.14 -
	125,045		2.80				125,045	09.03.15
								08.03.14 -
	135,834		3.09				135,834	08.03.16
	289,536						289,536	

Notes:

(1) Stephen Hester and the Committee agreed that the maximum number of shares available for vesting would be capped at 65% (a total of 1,342,014 shares). The actual number of shares will depend on the performance assessment and may be less.

(2) Stephen Hester and Bruce Van Saun stepped down from the Board on 30 September 2013.

(3) Ross McEwan and Nathan Bostock were appointed to the Board on 1 October 2013.

(4) This relates to an award made to Ross McEwan on joining RBS as CEO UK Retail in September 2012, in recognition of awards forfeited on leaving Commonwealth Bank of Australia.

(5) In accordance with the plan rules, Nathan Bostock's outstanding LTIP, Deferred awards and MPP award have subsequently been lapsed and the Executive Share Option will lapse on his final date of employment.

(6) This relates to a bonus award in respect of the 2012 performance year, awarded in March 2013.

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Share options

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

Medium-Term Performance Plan (MPP)

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

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

Total Shareholder Return (TSR) performance

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

Historic Group Chief Executive pay over same period

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

Note:

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

Change in Group Chief Executive pay compared to employees

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

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

Note:

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

Annual report on remuneration

Relative importance of spend on pay

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

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

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

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

Notes:
(1) Remuneration paid to all employees represents total staff expenses per Note 3 to the Financial statements, exclusive of social security and other staff costs.
(2) Income statement charge for social security costs per Note 3 to the Financial Statements.
(3) Input VAT and other indirect taxes unable to be recovered by the Group due to it being partially exempt.

Implementation of remuneration policy in 2014

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

Executive directors

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

Notes:
(1) Fixed Share Allowance will be payable in arrears and the shares will be released in equal tranches over a five year period.
(2) The search for a new Group Finance Director is underway and the remuneration package will be consistent with the recruitment policy as set out on page 76.
(3)

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

Chairman and non-executive directors' fees

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

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

Annual report on remuneration

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

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

Core objectives	Summary of objectives and targets (1)
Customer & Stakeholder (25%)	· Customer Strategy and Experience - clearly articulate customer strategy; effective customer experience framework and measurement approach. · Customer Relationships - develop stronger and deeper customer relationships. · Corporate reputation - enhance and support the company's reputation with all stakeholders.
Financial & Business Delivery (25%)	· Common Equity Tier 1 Ratio - deliver fully loaded Common Equity Tier 1 ratio in line with strategic targets, including successful execution of RCR reduction. · Return on Equity (2) - improve return on equity through reduction of cost:income ratio; deliver income growth in line with strategic targets. · Cost:Income Ratio (2) - reduce cost:income ratio in line with strategic targets.
People & Culture (25%)	· Operating Model - deliver first phase of efficient and effective bank-wide operating model. · Values & Engagement - embed and role model the Group's values, setting the tone from the top, and building the pride and engagement of our people. · Diversity - promote gender diversity in senior talent pools.
Risk & Control (25%)	· Risk Appetite - further progress on embedding enhanced risk appetite and risk frameworks. · Governance & Control - maintain an effective control environment and deliver key systems and processes. · Conduct - embed the agreed conduct risk framework across the business. · End to End Risk Management Framework - maintain an effective risk management framework across the business.

Notes:
(1) Details of targets that are deemed to be commercially sensitive will be disclosed retrospectively.
(2) Excluding RBS Capital Resolution.

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Annual report on remuneration

LTIP awards granted in 2014 – Performance criteria

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

Economic profit (25%)

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

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

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

Relative Total Shareholder Return (25%)

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

Relative TSR Comparator Group

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

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

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

Safe & Secure Bank (25%)

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

Customers & People (25%)

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

Performance measures and weightings

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

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

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

Risk underpin and clawback

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

Annual report on remuneration

Consideration of matters relating to directors' remuneration

The role and responsibilities of the Committee

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

The Committee is also responsible for approving remuneration and severance arrangements for members of the Group's Executive and Management Committees and overseeing arrangements for PRA 'Code Staff'. Details of the PRA Remuneration Code can be found at www.bankofengland.co.uk/pra. A definition of RBS Code Staff along with details of how risk is taken into account in the remuneration process is provided on pages 91 and 92.

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

Summary of the principal activity of the Committee during 2013

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

First quarter

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

Second quarter

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

Third quarter

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

Fourth quarter

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

Performance evaluation process

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

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

Membership of the Group Performance and Remuneration Committee

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

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

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

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Advisers to the Group Performance and Remuneration Committee

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

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

Statement of Shareholding Voting

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

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

Shareholder dilution

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

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

Other Remuneration Disclosures

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

All figures shown below are in GBP.

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

Notes

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

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

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Other Remuneration Disclosures

Our Group-wide Remuneration Policy

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

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

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

Element of pay	Objective	Operation
Base salary	To attract and retain employees by being competitive in the specific market in which the individual works.	Base salaries are reviewed annually and should reflect the talents, skills and competencies that the individual brings to the business.
Role-based allowance	To provide fixed pay that reflects the skills and experience required for, and the responsibilities of, the role.	From 2014 onwards, allowances will be provided to certain employees in key roles and reviewed at appropriate intervals, to reflect the skills, experience and competencies required for the role. They will be delivered in cash and/or shares depending on the level of the allowance and the seniority of the recipient. Shares will be subject to an appropriate retention period, not less than six months.
Benefits (including pension)	To provide a range of benefits and give employees an opportunity to provide for their retirement.	In most jurisdictions, employee benefits or a cash equivalent are provided from a flexible benefits account.
Annual incentives	To support a culture where employees recognise the importance of serving customers well and are rewarded for superior performance.	The annual incentive pool is based on a balanced scorecard of measures including customer, financial, risk and people measures. Allocation from the pool depends on divisional, functional and individual performance. Individual performance assessment is supported by a structured performance management framework. Guaranteed awards are only used in very limited circumstances in accordance with the PRA Remuneration Code. Immediate cash awards are limited to a maximum of £2,000. Under the deferral arrangements a significant proportion of annual incentive awards for our more senior employees are deferred over a three year period. Deferred awards are subject to clawback. For Code Staff, a minimum 50% of any annual incentive is delivered in the form of RBS shares and subject to an additional six month retention period post vesting. Under the deferral arrangements for the 2013

		performance year, the vast majority of any annual incentive award to Code Staff is delivered in shares. In certain circumstances, formulaic short-term incentive arrangements are used to align the objectives of employees with the strategy of the relevant division in which they work.
Long-term incentive awards	To encourage the creation of value over the long term and to align further the rewards of the participants with the returns to shareholders.	RBS provides certain employees in senior roles with long-term incentive awards. Awards are structured as performance-vesting shares. Vesting may occur after a three year period and will typically be based partly on divisional or functional performance and partly on performance across the business. The amount of the award that vests may vary between 0-100% depending on the performance achieved. All awards are subject to clawback and an additional six month retention period applies to Code Staff post vesting.
Other share plans	To offer employees in certain jurisdictions the opportunity to acquire RBS shares.	Employees in certain countries are eligible to contribute to share plans which are not subject to performance conditions.

Note:
(1) The following groups of employees have been identified as meeting the PRA's criteria for Code Staff:
- Members of the Board and Executive and Management Committees
- Staff performing a Significant Influence Function within RBS
- Employees who have approval authorities such that their decision-making could have a material impact on the income statement
- Employees who are responsible for a business or businesses whose performance could have a material impact on the income statement; and
- Key control function roles

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

Other Remuneration Disclosures

How risk is reflected in our remuneration process

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

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

Variable pay pool determination

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

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

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

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

Accountability review process

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

A summary of the accountability review process is as follows:

- Exists to enable RBS to respond in instances where current and/or new information would change the annual bonus and/or LTIP decisions made in previous years, and/or the decisions to be made in the current year.

- The process for review assessments (which consider material risk management, control and general policy breach failures, accountability for those events and appropriate action against individuals) is operated across divisions and functions.

- Divisional reviews are undertaken on a quarterly basis.

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Decisions must take into account not only any financial losses, but also behavioural issues and reputational or internal costs.

- Clawback may be up to 100% of unvested awards and can be applied regardless of whether or not disciplinary action has been undertaken.
- A key principle is that clawback quantum should not be formulaic.
- Collective responsibility may be considered where a committee or group of employees are deemed to have not appropriately discharged their duties.

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

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

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

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

Other Remuneration Disclosures

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

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

Markets	Rest of RBS Group
£m	£m
78.5	135.0

2. Amounts and form of fixed and variable remuneration

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

Senior management	Others
£m	£m
56.9	42.9

Variable remuneration for 2013 performance
Consisted of deferred awards payable over a three year period. Cash awards were limited to a maximum of £2,000 per employee.

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

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

Senior management	Others
£m	£m
18.5	6.9

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

Category of deferred remuneration	Senior management	Others

	£m	£m
Unvested from prior year	110.0	131.7
Awarded during the financial year	47.9	57.6
Paid out	33.0	59.4
Reduced from prior years	16.8	28.6
Unvested at year end	107.8	98.2

4. Sign-on and severance payments

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

Notes on the presentation of remuneration

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

All staff total remuneration

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

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

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

Notes:

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

(2) Excludes executive directors.

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

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

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

Compliance report

Statement of compliance

The company is committed to high standards of corporate governance, business integrity and professionalism in all its activities.

Throughout the year ended 31 December 2013, the company has complied with all of the provisions of the UK Corporate Governance Code issued by the Financial Reporting Council dated September 2012 (the "Code") except in relation to provision (D.2.2) that the Group Performance and Remuneration Committee should have delegated responsibility for setting remuneration for the Chairman and executive directors. The company considers that this is a matter which should rightly be reserved for the Board and this is an approach the company has adopted for a number of years. Remuneration for the Chairman and executive directors is first considered by the Group Performance and Remuneration Committee which then makes recommendations to the Board for consideration. This approach allows all non-executive directors, and not just those who are members of the Group Performance and Remuneration Committee, to participate in decisions on the executive directors' and the Chairman's remuneration and also allows the executive directors to input to the decision on the Chairman's remuneration. The Board believes this approach is very much in line with the spirit of the Code and no director is involved in decisions regarding his or her own remuneration. We do not anticipate any changes to our approach on this aspect of the Code. Information on how the company has applied the main principles of the Code can be found in the Corporate governance report on pages 38 to 93. A copy of the Code can be found at www.frc.org.uk

The company has also implemented the recommendations arising from the Walker Review. The company has also complied in all material respects with the Financial Reporting Council Guidance on Audit Committees issued in September 2012.

Under the US Sarbanes-Oxley Act of 2002, specific standards of corporate governance and business and financial disclosures apply to companies with securities registered in the US. The company complies with all applicable sections of the US Sarbanes-Oxley Act of 2002.

Internal control

Management of The Royal Bank of Scotland Group plc is responsible for implementing a system of internal control that is designed to facilitate effective and efficient operations and to ensure the quality of internal and external reporting and compliance with applicable laws and regulations. In devising internal controls, management has regard to the nature and extent of the risk, the likelihood of it crystallising and the cost of controls. A system of internal control is designed to manage, but not eliminate, the risk of failure to achieve business objectives and can only provide reasonable, and not absolute, assurance against the risk of material misstatement, fraud or losses.

Management's report on internal control over financial reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Group.

The Group's internal control over financial reporting is a component of an overall system of internal control and is designed to provide reasonable assurance regarding the preparation, reliability and fair presentation of financial statements for external purposes in accordance with International Financial Reporting Standards ("IFRS") and it includes:

- Policies and procedures that relate to the maintenance of records that, in reasonable detail, fairly and accurately reflect the transactions and disposition of assets.

- Controls providing reasonable assurance that transactions are recorded as necessary to permit the preparation of financial statements in accordance with IFRS, and that receipts and expenditures are being made only as authorised by management.
- Controls providing reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use or disposition of assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. In addition, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or because the degree of compliance with policies or procedures may deteriorate.

Management assessed the effectiveness of the Group's internal control over financial reporting as of 31 December 2013 based on the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission in the 1992 publication of "Internal Control – Integrated Framework".

Based on its assessment, management believes that, as of 31 December 2013, RBS Group's internal control over financial reporting is effective.

The effectiveness of RBS Group's internal control over financial reporting as of 31 December 2013 has been audited by Deloitte LLP, the Group's independent registered public accounting firm. The report of the independent registered public accounting firm to the directors of the Royal Bank of Scotland Group plc expresses an unqualified opinion on the effectiveness of the Group's internal control over financial reporting as of 31 December 2013.

Compliance report

Report of Independent Registered Public Accounting Firm to the members of The Royal Bank of Scotland Group plc
We have audited the internal control over financial reporting of The Royal Bank of Scotland Group plc and subsidiaries (‘’the Group”) as of 31 December 2013, based on criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

The Group’s management is responsible for maintaining effective internal control over financial reporting and for assessing its effectiveness as described in Management’s Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Group's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk of whether a material weakness existed, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company’s internal control over financial reporting is a process designed by, or under the supervision of, the company’s principal executive and principal financial officers, or persons performing similar functions, and effected by the company’s board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company’s internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorisations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorised acquisition, use, or disposition of the company’s assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, the Group maintained, in all material respects, effective internal control over financial reporting as of 31 December 2013, based on the criteria established in Internal Control—Integrated Framework (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended 31 December 2013 of the Group and our report dated 26 February 2014 (27 March 2014 as to the consolidating financial information included in Note 43 of the financial statements) expressed an unqualified opinion on those financial statements.

/s/ Deloitte LLP
London, United Kingdom
26 February 2014

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Compliance report

Disclosure controls and procedures

Management, including our Chief Executive Officer and our Group Finance Director, conducted an evaluation of the effectiveness and design of our disclosure controls and procedures (as such term is defined in Exchange Act Rule 13a-15(e)). Based on this evaluation, our Chief Executive Officer and our Group Finance Director concluded that our disclosure controls and procedures were effective as of the end of the period covered by this annual report.

Changes in internal control

There was no change in the company's internal control over financial reporting that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

The New York Stock Exchange

As a foreign issuer with American Depository Shares representing ordinary shares, preference shares and debt securities listed on the New York Stock Exchange (the "NYSE"), the company is not required to comply with all the NYSE standards applicable to US domestic companies (the "NYSE Standards") provided that it follows home country practice in lieu of the NYSE Standards and discloses any significant ways in which its corporate governance practices differ from the NYSE Standards. As a foreign private issuer, the company must, however, comply fully with the provisions of the NYSE Standards that relate to the composition, responsibilities and operation of audit committees. These provisions incorporate the relevant rules concerning audit committees of the Exchange Act.

The company has reviewed its corporate governance arrangements and is satisfied that these are consistent with the NYSE Standards, with the exception that the Chairman of the Board is also the Chairman of the Group Nominations Committee, which is permitted under the Code (since the Chairman was considered independent on appointment). In addition, although the members of the Group Performance and Remuneration Committee are deemed independent in compliance with the provisions of the Code, the Group Board has not assessed the independence of the members of the Group Performance and Remuneration Committee and of its compensation committee advisers in accordance with the independence tests prescribed by the NYSE standards. The company's Group Audit, Board Risk, Group Sustainability and Group Nominations Committees are otherwise composed solely of non-executive directors deemed by the Group Board to be independent. In addition, the NYSE Standards require that a compensation committee has direct responsibility to review and approve the Group Chief Executive's remuneration. As stated at the start of this Compliance report, in the case of the company, the Group Board, rather than the Group Performance and Remuneration Committee, reserves the authority to make the final determination of the remuneration of the Group Chief Executive.

The Group Audit Committee complies with the provisions of the NYSE Standards that relate to the composition, responsibilities and operation of audit committees. In April 2013, the company submitted its required annual written affirmation to the NYSE confirming its full compliance with those and other applicable provisions. More detailed information about the Group Audit Committee and its work during 2013 is set out in the Group Audit Committee report on pages 55 to 60.

This Compliance report forms part of the Corporate governance report and the Report of the directors.

Report of the directors

The directors present their report together with the audited accounts for the year ended 31 December 2013.

Group structure

The company is a holding company owning the entire issued ordinary share capital of The Royal Bank of Scotland plc, the principal direct operating subsidiary undertaking of the company. The Group comprises the company and all its subsidiary and associates, including the Royal Bank and NatWest.

Following placing and open offers in December 2008 and in April 2009, HM Treasury (HMT) owned approximately 70.3% of the enlarged ordinary share capital of the company. In December 2009, the company issued a further £25.5 billion of new capital to HMT. This new capital took the form of B shares, which do not generally carry voting rights at general meetings of ordinary shareholders but are convertible into ordinary shares and qualify as Core Tier 1 capital. Following the issuance of the B shares, HMT's holding of ordinary shares of the company remained at 70.3%, although its economic interest rose to 84.4%.

At 31 December 2013, HMT's holding in the company's ordinary shares was 63.9% and its economic interest was 80.2%.

Results and dividends

The loss attributable to the ordinary and B shareholders of the company for the year ended 31 December 2013 amounted to £8,995 million compared with a loss of £6,055 million for the year ended 31 December 2012, as set out in the consolidated income statement on page 362.

The company did not pay a dividend on ordinary shares in 2012 or 2013.

On 26 November 2009, RBS entered into a State Aid Commitment Deed with HMT containing commitments and undertakings that were designed to ensure that HMT was able to comply with the commitments to be given by it to the European Commission for the purposes of obtaining approval for the State aid provided to RBS. As part of these commitments and undertakings, RBS agreed not to pay discretionary coupons and dividends on its existing hybrid capital instruments for a period of two years. This period commenced on 30 April 2010 for RBS Group instruments and ended on 30 April 2012; the two year deferral period for RBS Holdings N.V. instruments commenced on 1 April 2011 and ended on 1 April 2013.

The Group has now resumed payments on all discretionary non-equity capital instruments. Future coupons and dividends on hybrid capital instruments will only be paid subject to, and in accordance with, the terms of the relevant instruments.

In the context of prior macro-prudential policy discussions, the Board decided to partially neutralise any impact on Core Tier 1 capital of coupon and dividend payments in respect of 2013 Group hybrid capital instruments through equity issuances of c.£300 million. Consequently during the year, approximately £255 million was raised through the issue of new ordinary shares and a further £44 million was raised in connection with equity funding of employee incentive awards through the sale of surplus shares held by the Group's Employee Benefit Trust.

For 2014, the Board has decided to continue partially neutralising the Core Tier 1 impact of Group hybrid capital instruments. It is expected that £300 million of new equity will be issued during the course of 2014 to achieve this aim.

Business review

Activities

The Group is engaged principally in providing a wide range of banking and other financial services. Further details of the organisational structure and business overview of the Group, including the products and services provided by each of its divisions and the competitive markets in which they operate, are contained in the Business review on pages 106 to 108. Details of the strategy for delivering the company’s objectives can be found in the Strategic report.

Risk factors

The Group’s future performance and results could be materially different from expected results depending on the outcome of certain potential risks and uncertainties. Certain risk factors the Group faces are summarised in the Business review on pages 109 and 110. Fuller details of these and other risk factors are set out on pages 513 to 526.

The reported results of the Group are also sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. Details of the Group’s critical accounting policies and key sources of accounting judgments are included in Accounting policies on pages 378 to 381.

The Group’s approach to risk management, including its financial risk management objectives and policies and information on the Group’s exposure to price, credit, liquidity and cash flow risk, is discussed in the Business review:risk and balance sheet management.

Financial performance

A review of the Group's performance during the year ended 31 December 2013, including details of each division, and the Group's financial position as at that date is contained in the Business review on pages 111 to 166.

RBS Holdings N.V. (formerly ABN AMRO Holding N.V.)

In 2007, RFS Holdings B.V., which was jointly owned by the Group, the Dutch State (successor to Fortis) and Santander (together, the “Consortium Members”) completed the acquisition of ABN AMRO Holding N.V.

On 1 April 2010, the businesses acquired by the Dutch State were transferred to ABN AMRO Group N.V., itself owned by the Dutch State. In connection with the transfer ABN AMRO Holding N.V. was renamed RBS Holdings N.V. and its banking subsidiary was renamed The Royal Bank of Scotland N.V. (“RBS N.V.”).

In October 2011, the Group completed the transfer of a substantial part of the UK activities of RBS N.V. to the Royal Bank. Substantially all of the Netherlands and EMEA businesses were transferred to the Royal Bank in September 2012. Russia, Korea and the North American businesses were transferred to the Royal Bank in 2013. Certain assets of RBS N.V. continue to be shared by the Consortium Members.

Report of the directors

Business divestments

To comply with the European Commission State Aid requirements the Group agreed a series of restructuring measures to be implemented over a four year period from December 2009. These include the divestment of Direct Line Insurance Group plc (DLG), the sale of 80.01% of the Group's Global Merchant Services business (completed in 2010) and the sale of substantially all of the RBS Sempra Commodities joint venture business (largely completed in 2010), as well as the divestment of the RBS branch-based business in England and Wales and the NatWest branches in Scotland, along with the direct SME customers across the UK ("UK branch-based businesses").

In October 2012, Santander UK plc withdrew from its agreed purchase of the UK branch-based businesses. In September 2013, the Group reached an agreement with an investor consortium led by Corsair Capital and Centerbridge Partners for an investment in these businesses ahead of a stock market flotation. This includes 308 RBS branches in England and Wales and 6 NatWest branches in Scotland. The new bank will be called Williams & Glyn, the brand RBS used for its branches in England and Wales before 1985.

The Group sold a first tranche of ordinary shares representing 34.7% of the ordinary issued share capital of Direct Line Group (DLG) in October 2012 through an initial public offering. On 13 March 2013, the Group sold a further 16.8% of the ordinary issued share capital in DLG and ceded control. This fulfilled the Group's plan to cede control of DLG by the end of 2013. On 20 September 2013, the Group sold a further 20% of the ordinary issued share capital in DLG.

On 26 February 2014 the Group announced that it had entered into a placing agreement to complete the sale of its remaining interest in DLG (except for 4.2 million shares held to satisfy long term incentive plan awards granted by the Group to DLG management). Accordingly, on settlement of the placing, the Group will have completed the disposal of DLG as required by the European Commission.

Strategic plan

Citizens Financial Group

In February 2013, the Group announced that it would commence work on a partial flotation of RBS Citizens Financial Group, Inc and in November 2013 confirmed that a partial initial public offering is now planned for 2014. The Group intends to fully divest the business by the end of 2016. The sale of RBS Citizens Financial Group, Inc is the cornerstone of the Group's new capital plan. The Group has appointed advisers and this is on schedule for later this year.

RBS Capital Resolution

In November 2013, the Group announced the creation of RBS Capital Resolution (RCR), to manage a pool of assets with particularly high long term capital intensity and/or potentially volatile outcomes in stressed environments. RCR became operational on 1 January 2014 with a portfolio of £29 billion assets. The RCR Board Oversight Committee has been established to provide oversight of RCR's progress against, and compliance with, its primary objective and asset management principles. It reports to the Board on its own activities and recommends changes, where appropriate, to RCR strategy.

Strategic review

In November 2013, the Group announced that it was undertaking a comprehensive business review of its customer-facing businesses, IT and operations and organisational and decision making structures. As described on pages 10 and 11, the Group has announced the results of its Strategic review, resulting in it being realigned into three businesses: Personal & Business Banking, Commercial & Private Banking, and Corporate & institutional Banking. In addition, the Group will be rationalising and simplifying its systems, based on a target architecture with improved resilience.

Employees

As at 31 December 2013, the Group employed 118,600 (full-time equivalent basis) throughout the world. Details of employee related costs are included in Note 3 on the consolidated accounts.

The Group operates certain employee share plans in which eligible employees are able to participate and which align the interests of employees with those of shareholders.

Employee learning and development

The Group maintains a strong commitment to providing all its employees with the opportunity to grow through learning and development, which in turn helps to achieve business objectives and drive excellent customer service. Supporting the professionalisation of our front line staff, just over 18,000 customer facing employees are now part of accreditation programmes aligned to the Chartered Banker professional standards. This helps our employees deliver the best service to our customers whilst working towards a recognised professional standard.

Employee communication

Employee engagement is encouraged through a range of communication channels, at both local and Group level. These channels provide access to news and information in a number of ways, including the intranet, magazines, video, team meetings led by line managers, briefings held by senior managers and regular dialogue with employees and employee representatives.

The Group Chief Executive and other senior Group executives regularly communicate with, and encourage feedback from, employees across a range of channels.

Employee feedback

Every year since 1999, through the Your Feedback survey, employees in all our businesses have shared their thoughts about what it’s like working for RBS. In 2013, we renamed the survey Our View, reflecting the emphasis we place on a shared responsibility to build a better bank. The survey enables the business to monitor levels of employee satisfaction and engagement and how these compare with other companies. It also provides a further mechanism for RBS to track employee perception of the progress we are making in strengthening our culture. Insights from Our View inform what the business needs to do to improve the way it works, whether it’s a local issue or something that affects everyone.

Report of the directors

Employee consultation
The Group recognises employee representatives such as trade unions and work councils in a number of businesses and countries.

The Group has a European Employee Council that provides an opportunity for elected representatives and management to discuss developments in the Group's European operations.

Diversity and inclusion
During 2013, the Group executive continued its commitment to making workplace policies, processes and experiences inclusive for staff, customers and stakeholders.

Inclusion is built into various policy areas and people management processes. For example: the business continues to support disabled persons, ensuring there are equal opportunities in recruitment, employment, promotion and training.

The business also supports employee-led networks, with three being introduced this year relating to the areas of disability, multi-culturalism and carers. These new networks run alongside existing ones, such as Focused Women and Rainbow, who provide personal and career development opportunities through networking and training events.

This commitment to inclusion extends to supporting and participating in positive action programmes outside of the Group aimed at cultivating future leaders, including ‘An Inspirational Journey’ and FTSE-100 cross-company mentoring programmes. The Group continues to maintain its involvement with external charitable networks and events such as Manchester Pride.

This approach to inclusion also extends to the marketplace with the RBS Women in Business specialists supporting and guiding more and more women to take the step of starting their own business.

Performance on gender diversity is monitored and reviewed at Group and local level and RBS remains supportive of the recommendations of Lord Davies’ Report. There are currently three female directors on the Board out of a total of eleven, which exceeds Lord Davies’ aspirational target of 25 per cent female Board representation. Further information on male/female representation at various levels of employment in the Group is included in the Strategic report on page 37.

Further details on the Board diversity policy can be found at rbs.com>about us.

This year the business has been recognised for its work on Equality, Diversity and Inclusion by achieving platinum ranking from Opportunity Now (gender), one of only a few organisations to achieve this; achieving Silver for Race for Opportunity (race); and securing a position in the Working Families Top 10.

Wellbeing
Ensuring the wellbeing of employees is an important responsibility for the Group.

A wide range of health benefits and services is in place to help employees maintain good physical and psychological health, and support them if they do become unwell. We continue to enhance and promote these services, targeting those issues that we know affect our employee's ability to bring the best of themselves to work. In 2013, we made Lifematters, the Group's Employee Assistance Programme, even more accessible with the introduction of our Lifematters mobile App.

Code of conduct
The code of conduct was fundamentally revised in 2013. How we behave forms the character of our company and dictates how others see us. "Our Code" reflects our values and applies to everyone who works for RBS. It lets everyone know what to expect of each other, what to do when unsure of a decision, and where to go for advice when needed.

The code of conduct is available at rbs.com>sustainability>governance> reporting and engagement. It will also be provided to any person without charge, upon request, by contacting RBS Secretariat at the telephone number listed on page 561.

Sustainability
Sustainability at RBS means building our future on long term thinking that focuses on our customers and supporting the communities in which they live. Our core duty is to be safe and strong. This underpins everything that RBS does and enables people to run their daily lives and businesses. This, in turn, supports economic growth and brings wider benefits to society. The final strand to building a sustainable business centres on how we choose to operate and how we can go further to shape the world in a positive way.

Sustainability is therefore not just about the many responsibilities and obligations that the Group has in a legal sense, but is about broad issues that need to be addressed to ensure that the Group is a healthy and respected business operating on a sustainable basis.

The Group Sustainability Committee is responsible for overseeing and challenging how management is addressing sustainability and reputation issues relating to all stakeholder groups and reports to the Board. For more information on the Committee, see pages 67 and 68.

Greenhouse gas emissions
Disclosures relating to greenhouse gas emissions are included in the Strategic report on page 36.

Report of the directors

Going concern

The Group's business activities and financial position, the factors likely to affect its future development and performance and its objectives and policies in managing the financial risks to which it is exposed and its capital are discussed in the Business review. The risk factors which could materially affect the Group's future results are set out on pages 513 to 526. The Group's regulatory capital resources and significant developments in 2013 and anticipated future developments are detailed on pages 187 to 203. The liquidity and funding section on pages 204 to 221 describes the Group's funding and liquidity profile, including changes in key metrics, the build up of liquidity reserves and the outlook for 2014.

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group and the company will continue in operational existence for the foreseeable future. Accordingly, the financial statements of the Group and of the company have been prepared on a going concern basis.

BBA disclosure code

The Group's 2013 financial statements have been prepared in compliance with the principles set out in the Code for Financial Reporting Disclosure published by the British Bankers' Association in 2010.The Code sets out five disclosure principles together with supporting guidance. The principles are that the Group and other major UK banks will provide high quality, meaningful and decision-useful disclosures; review and enhance their financial instrument disclosures for key areas of interest to market participants; assess the applicability and relevance of good practice recommendations to their disclosures acknowledging the importance of such guidance; seek to enhance the comparability of financial statement disclosures across the UK banking sector; and clearly differentiate in their annual reports between information that is audited and information that is unaudited.

Corporate governance

The company is committed to high standards of corporate governance. Details are given in the Corporate governance report on pages 38 to 93. The Corporate governance report and compliance report (pages 94 to 96) form part of this Report of the directors.

Share capital

Details of the ordinary and preference share capital at 31 December 2013 and movements during the year are shown in Note 26 on the consolidated accounts.

During 2013, the company allotted and issued a total of 78.6 million new ordinary shares of £1 each for the purposes of ensuring 2013 coupon payments on discretionary hybrid capital securities were partly neutralised from a Core Tier 1 capital perspective. The shares were allotted to UBS AG at the subscription prices and determined by reference to the average market prices during the sale periods set out below.

Number of shares sold	Subscription price	Sale period	Gross proceeds	Share price on allotment
42,967,903	314.188p	3 May 2013 - 17 July 2013	£135 million	321.6p
20,473,967	341.898p	2 August 2013 - 12 September 2013	£70 million	360.4p
15,091,674	331.309p			336.8p

1 November 2013 - 9 December 2013	£50 million

In addition, the company issued 53.7 million ordinary shares of £1 each in connection with employee share schemes.

Additional information
Where not provided elsewhere in the Report of the directors, the following additional information is required to be disclosed by Part 6 of Schedule 7 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008.

The rights and obligations attaching to the company's ordinary shares and preference shares are set out in the company's Articles of Association, copies of which can be obtained from Companies House in the UK or can be found at rbs.com>about us.

On a show of hands at a general meeting of the company every holder of ordinary shares and cumulative preference shares present in person or by proxy and entitled to vote shall have one vote. On a poll, every holder of ordinary shares or cumulative preference shares present in person or by proxy and entitled to vote shall have four votes for every share held. The notices of Annual General Meetings and General Meetings specify the deadlines for exercising voting rights and appointing a proxy or proxies to vote in relation to resolutions to be passed at the meeting.

The cumulative preference shares represent less than 0.015% of the total voting rights of the company, the remainder being represented by the ordinary shares.

There are no restrictions on the transfer of ordinary shares in the company other than certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws). Pursuant to the Listing Rules of the FCA, certain employees of the company require the approval of the company to deal in the company's shares.

Report of the directors

The rules governing the powers of directors, including in relation to issuing or buying back shares and their appointment are set out in the company's Articles of Association. It will be proposed at the 2014 Annual General Meeting that the directors be granted authorities to allot shares under the Companies Act 2006. The company's Articles of Association may only be amended by a special resolution at a general meeting of shareholders.

A number of the company's share plans include restrictions on transfers of shares while shares are subject to the plans or the terms under which the shares were awarded.

The rights and obligations of holders of non-cumulative preference shares are set out in Note 26 on the consolidated accounts.

Except in relation to the Dividend Access Share, the company is not aware of any agreements between shareholders that may result in restrictions on the transfer of securities and/or voting rights. There are no persons holding securities carrying special rights with regard to control of the company.

Under the rules of certain employee share plans, eligible employees are entitled to acquire shares in the company, and shares are held in trust for participants by The Royal Bank and Ulster Bank Dublin Trust Company as Trustees. Voting rights are exercised by the Trustees on receipt of participants' instructions. If a participant does not submit an instruction to the Trustee no vote is registered.

The Royal Bank of Scotland plc 1992 Employee Share Trust, The Royal Bank of Scotland Group plc 2001 Employee Share Trust and The Royal Bank of Scotland Group plc 2007 US Employee Share Trust hold shares on behalf of the Group's employee share plans. The voting rights are exercisable by the Trustees, however, in accordance with investor protection guidelines, the Trustees abstain from voting. The Trustees would take independent advice before accepting any offer in respect of their shareholdings for the company in a takeover bid situation.

Awards granted under the company's employee share plans may be met through a combination of newly issued shares and shares acquired in the market by the company's employee benefit trusts.

A change of control of the company following a takeover bid may cause a number of agreements to which the company is party to take effect, alter or terminate. All of the company's employee share plans contain provisions relating to a change of control. Outstanding awards and options may vest and become exercisable on change of control, subject where appropriate to the satisfaction of any performance conditions at that time and pro-rating of awards. In the context of the company as a whole, these agreements are not considered to be significant.

Directors

The names and brief biographical details of the current directors are shown on pages 42 to 45.

Sandy Crombie, Alison Davis, Tony Di Iorio, Philip Hampton, Penny Hughes, Brendan Nelson, Baroness Noakes and Philip Scott all served throughout the year and to the date of signing of the financial statements.

Joe MacHale and Art Ryan stepped down from the Board on 14 May 2013 and 30 September 2013 respectively.

Stephen Hester and Bruce Van Saun stepped down from the Board on 30 September 2013.

Ross McEwan and Nathan Bostock were appointed to the Board on 1 October 2013. Nathan has since confirmed his resignation although his leaving date is still to be agreed.

Robert Gillespie was appointed to the Board on 2 December 2013.

All directors of the company are required to stand for election or re-election annually by shareholders at the Annual General Meeting.

Directors' interests

The interests of the directors in the shares of the company at 31 December 2013 are shown on page 82. None of the directors held an interest in the loan capital of the company or in the shares or loan capital of any of the subsidiary undertakings of the company, during the period from 1 January 2013 to 26 February 2014.

Directors' indemnities

In terms of section 236 of the Companies Act 2006 (the "Companies Act"), Qualifying Third Party Indemnity Provisions have been issued by the company to directors, members of the Group's Executive and Management Committees, PRA/FCA Approved Persons and certain directors and/or officers of the Group's subsidiaries.

In terms of section 236 of the Companies Act, Qualifying Pension Scheme Indemnity Provisions have been issued to all trustees of the Group's pension schemes.

Post balance sheet events

Other than those matters detailed in Note 42 on the consolidated accounts, there have been no significant events between the year end and the date of approval of these accounts which would require a change to or disclosure in the accounts.

Report of the directors

Shareholdings
The table below shows shareholders that have notified the Group that they hold more than 3% of the total voting rights of the company at 31 December 2013.

Solicitor For The Affairs of Her Majesty's Treasury as Nominee for Her Majesty's Treasury	Number of shares (millions)	% of share class held	% of total voting rights held
Ordinary shares	3,964	63.9	63.9
B shares (non-voting)	51,000	100	—

On 8 January 2014, the Group was notified that Her Majesty's Treasury's shareholding of ordinary shares as at 31 December 2013 represented 63.9% of the total voting rights. The decrease was as a result of a change in the total voting rights.

Political donations
At the Annual General Meeting in 2013, shareholders gave authority under Part 14 of the Companies Act, for a period of one year, for the company (and its subsidiaries) to make political donations and incur political expenditure up to a maximum aggregate sum of £100,000. This authorisation was taken as a precaution only, as the company has a longstanding policy of not making political donations or incurring political expenditure within the ordinary meaning of those words. During 2013, the Group made no political donations, nor incurred any political expenditure in the UK or EU and it is not proposed that the Group's longstanding policy of not making contributions to any political party be changed. Shareholders will be asked to renew this authorisation at the Annual General Meeting in 2014.

Directors' disclosure to auditors
Each of the directors at the date of approval of this report confirms that:

(a) so far as the director is aware, there is no relevant audit information of which the company's auditors are unaware; and

(b) the director has taken all the steps that he/she ought to have taken as a director to make himself/herself aware of any relevant audit information and to establish that the company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act.

Auditors
The auditors, Deloitte LLP, have indicated their willingness to continue in office. A resolution to re-appoint Deloitte LLP as the company's auditors will be proposed at the forthcoming Annual General Meeting.

By order of the Board

Aileen Taylor
Secretary
26 February 2014

The Royal Bank of Scotland Group plc
is registered in Scotland No. SC45551

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Statement of directors' responsibilities

This statement should be read in conjunction with the responsibilities of the auditor set out in their report on page 361.

The directors are responsible for the preparation of the Annual Report and Accounts. The directors are required by Article 4 of the IAS Regulation (European Commission Regulation No 1606/2002) to prepare Group accounts, and as permitted by the Companies Act 2006 have elected to prepare company accounts, for each financial year in accordance with International Financial Reporting Standards as adopted by the European Union. They are responsible for preparing accounts that present fairly the financial position, financial performance and cash flows of the Group and the company. In preparing those accounts, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent; and
- state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the accounts.

The directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the Annual Report and Accounts complies with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors confirm that to the best of their knowledge:

- the financial statements, prepared in accordance with International Financial Reporting Standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the company and the undertakings included in the consolidation taken as a whole; and
- the Strategic Report and Directors' report (incorporating the Business review) include a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, the directors are of the opinion that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

By order of the Board

Philip Hampton	Ross McEwan	Nathan Bostock
Chairman	Group Chief Executive	Group Finance Director

26 February 2014

Board of directors

Chairman	Executive directors	Non-executive directors
Philip Hampton	Ross McEwan	Sandy Crombie
	Nathan Bostock	Alison Davis

Tony Di Iorio
Robert Gillespie
Penny Hughes
Brendan Nelson
Baroness Noakes
Philip Scott

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Business review

Revisions

Direct Line Group
The Group sold the first tranche of ordinary shares representing 34.7% of the share capital of DLG in October 2012 via an Initial Public Offering. On 13 March 2013, the Group sold a further 16.8% of ordinary shares in DLG and ceded control. This fulfilled the Group’s plan to cede control of DLG by the end of 2013. On 20 September 2013, the Group sold a further 20% of ordinary shares in DLG which is a step toward complete disposal by the end of 2014, as required by the European Commission. At 31 December 2013, the Group held 28.5% of the share capital in DLG.

In accordance with IFRS 5, DLG was classified as a discontinued operation in 2012. From 13 March 2013, DLG was classified as an associate and at 31 December 2013, the Group’s interest in DLG was transferred to disposal groups.

Revised allocation of Business Services costs
In 2013, the Group reclassified certain costs between direct and indirect expenses for all divisions. Comparatives have been restated accordingly; the revision did not affect total expenses or operating profit.

Implementation of IAS 19 ‘Employee Benefits’ (revised)
The Group implemented IAS 19 with effect from 1 January 2013. IAS 19 requires: the immediate recognition of all actuarial gains and losses; interest cost to be calculated on the net pension liability or asset at the long-term bond rate, such that an expected rate of return will no longer be applied to assets; and all past service costs to be recognised immediately when a scheme is curtailed or amended. Implementation of IAS 19 resulted in an increase in the loss after tax of £84 million for the year ended 31 December 2012 and £154 million for the year ended 31 December 2011. This also resulted in an increase in the loss per ordinary and B share of 0.8p for the year ended 31 December 2012 and 1.4p for the year ended 31 December 2011. Prior periods have been restated accordingly.

Implementation of IFRS 10 ‘Consolidated Financial Statements’
The Group implemented IFRS 10 with effect from 1 January 2013. IFRS 10 adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity so as to vary returns for the reporting entity. IFRS 10 requires retrospective application. Following implementation of IFRS 10, certain entities that have trust preferred securities in issue are no longer consolidated by the Group. As a result there has been a reduction in non-controlling interests of £0.5 billion with a corresponding increase in Owners’ equity (Paid-in equity); prior periods have been restated accordingly.

Glossary
A glossary of terms is provided on pages 549 to 556.

Business review

Description of business

Introduction

The Royal Bank of Scotland Group plc is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, the Group operates in the United Kingdom, the United States and internationally through its principal subsidiaries, the Royal Bank and NatWest. Both the Royal Bank and NatWest are major UK clearing banks. In the United States, the Group's subsidiary RBS Citizens is a large commercial banking organisation. Globally, the Group has a diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

Following the placing and open offers in December 2008 and in April 2009, HM Treasury owned approximately 70.3% of the enlarged ordinary share capital of the company. In December 2009, the company issued a further £25.5 billion of new capital to HM Treasury. This new capital took the form of B shares, which do not generally carry voting rights at general meetings of ordinary shareholders but are convertible into ordinary shares and qualify as Core Tier 1 capital. Following the issuance of the B shares, HM Treasury's holding of ordinary shares of the company remained at 70.3% although its economic interest rose to 84.4%.

At 31 December 2013, HM Treasury’s holding in the company’s ordinary shares was 63.9% and its economic interest was 80.2%.

The Group had total assets of £1,028 billion and owners' equity of £59 billion at 31 December 2013. The Group's risk asset ratios at 31 December 2013 were a Total capital ratio of 16.5%, a Core Tier 1 capital ratio of 10.9% and a Tier 1 capital ratio of 13.1%.

Organisational structure

The Group’s activities during 2013 were organised on a divisional basis as follows:

UK Retail offers a comprehensive range of banking products and related financial services to the personal market. It serves customers through a number of channels including: the RBS and NatWest network of branches and ATMs in the United Kingdom, telephony, online and mobile. UK Retail is committed to serving customers well, making banking easier and convenient whilst ensuring that we do business in an open, honest and sustainable manner.

UK Corporate is a leading provider of banking, finance and risk management services to the corporate and SME sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, and also through telephone and internet channels. The product range includes invoice finance through the RBSIF brand and asset finance through the Lombard brand.

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

International Banking serves the world’s largest companies with a leading client proposition focused on financing, risk management and transaction services. It serves as the delivery channel for Markets products to international corporate clients. The division also serves international subsidiaries of clients from other RBS Group divisions (e.g. UK Corporate, Ulster Bank and US Retail & Commercial) through its international network.

Ulster Bank is a leading retail and commercial bank in Northern Ireland and the Republic of Ireland. It provides a comprehensive range of financial services through both its Retail Banking division, which provides loan and deposit products through a network of branches and direct channels, and its Corporate Banking division, which provides services to businesses and corporate customers.

US Retail & Commercial provides financial services primarily through the Citizens and Charter One brands. US Retail & Commercial is engaged in retail and corporate banking activities through its branch network in 12 states in the United States and through non-branch offices in other states.

In February 2013, the Group announced that it would commence work on a partial flotation of RBS Citizens and in November 2013 confirmed that a partial initial public offering is now planned for 2014. The Group intends to fully divest the business by the end of 2016.

The divisions discussed above are collectively referred to as Retail & Commercial.

Markets is a leading origination, sales and trading business across debt finance, fixed income and currencies. The division offers a unified service to the Group’s corporate and institutional clients. The Markets’ origination, sales and research teams build strong ongoing client partnerships, provide market perspective and access, and work with the division’s trading and structuring teams to meet the client’s objectives across financing, risk management, investment, securitisation and liquidity.

A new strategy for the Markets division was announced in June 2013 enabling RBS to concentrate on its core customers’ needs where the Markets business is strongest. Markets is now focused on our core fixed income capabilities across rates, foreign exchange, asset backed products, credit and debit capital markets, while de-emphasising some more capital intensive structured product areas.

Central Functions comprises Group and corporate functions, such as treasury, finance, risk management, compliance, legal, communications and human resources. The Centre manages the Group's capital resources and Group-wide regulatory projects and provides services to the operating divisions.

Non-Core Division managed separately assets that the Group intended to run off or dispose of. The division contained a range of businesses and asset portfolios primarily from the legacy GBM businesses, higher risk profile asset portfolios including excess risk concentrations, and other illiquid portfolios. It also included a number of other portfolios and businesses including regional markets businesses that the Group had concluded were no longer strategic.

Business review
Description of business continued

Business Services supports the customer-facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services. Business Services drives efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group's purchasing power and is the Group's centre of excellence for managing large-scale and complex change. For reporting purposes, Business Services costs are allocated to the divisions above. It is not deemed a reportable segment.

Business divestments

To comply with the European Commission State Aid requirements the Group agreed a series of restructuring measures to be implemented over a four year period from December 2009. These include the divestment of Direct Line Insurance Group plc, the sale of 80.01% of the Group’s Global Merchant Services business (completed in 2010) and the sale of substantially all of the RBS Sempra Commodities joint venture business (largely completed in 2010), as well as the divestment of the RBS branch-based business in England and Wales and the NatWest branches in Scotland, along with the direct SME customers across the UK (“UK branch-based businesses”).

In October 2012, Santander UK plc withdrew from its agreed purchase of the UK branch-based businesses. In September 2013, the Group reached an agreement with an investor consortium led by Corsair Capital and Centerbridge Partners for an investment in these businesses ahead of a stock market flotation. This includes 308 RBS branches in England and Wales and 6 NatWest branches in Scotland. The new bank will be called Williams & Glyn, the brand RBS used for its branches in England and Wales before 1985.

In March 2013 and September 2013, the Group sold a further 16.8% and 20% respectively of the total issued share capital in Direct Line Insurance Group plc (DLG). This followed the sale in October 2012 via an initial public offering of 520.8 million ordinary shares representing 34.7% of the total issued share capital. At 31 December 2013, the Group held 28.5% of the issued ordinary share capital of DLG.

On 26 February 2014 RBS announced that it had entered into a placing agreement to complete the sale of its residual interest in DLG (except for 4.2 million shares held to satisfy long term incentive plan awards granted by RBS to DLG management). Accordingly, on settlement of the placing, the Group will have completed the disposal as required by the European Commission.

RBS Capital Resolution (RCR)

In response to a recommendation by the Parliamentary Commission on Banking Standards, RBS worked closely with HM Treasury (HMT) and its advisers on a ‘good bank/bad bank’ review and identified a pool of c.£38 billion of assets with particularly high long-term capital intensity, credit risk and/or potentially volatile outcomes in stressed environments.

The review concluded that the effort, risk and expense involved in the creation of an external bad bank could not be justified and consequently RBS decided to create an internal ‘bad bank’, RBS Capital Resolution (RCR), to manage these assets down so as to release capital. RCR brings assets under common management and increases focus on the run down.

RCR became fully operational on 1 January 2014 with a pool of c.£29 billion of assets, down from the forecast of c.£38 billion due to accelerated disposals and increased impairments. Whilst RCR is of a similar size to the Non-Core division, the assets have been selected on a different basis and no direct comparisons can be drawn.

Strategic review

In November 2013, the Group announced that it was undertaking a comprehensive business review of its:
Customer-facing business,
IT and operations and Organisational and decision making structures.

The aim of the review is to improve the bank's performance and effectiveness in serving its customers, shareholders and wider stakeholders.

The Group has announced the results of its Strategic review, resulting in it being realigned into three businesses: Personal & Business Banking, Commercial & Private Banking, and Corporate & institutional Banking. In addition, the Group will be rationalising and simplifying its systems, based on a target architecture with improved resilience.

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Business review

Competition

The Group faces strong competition in all the markets it serves. Banks' balance sheets have strengthened whilst loan demand remains subdued as many customers continue to deleverage even as the UK economy begins to show signs of recovery. Competition for retail deposits has eased somewhat as institutions have made progress towards building strong and diverse funding platforms for their balance sheets.

Competition for corporate and institutional customers in the UK and abroad is from UK banks and from large foreign universal banks that offer combined investment and commercial banking capabilities. In addition, the Group's Markets division faces strong competition from dedicated investment banks. In asset finance, the Group competes with banks and specialist asset finance providers, both captive and non-captive. In European and Asian corporate and institutional banking markets the Group competes with the large domestic banks active in these markets and with the major international banks.

In the small business banking market, the Group competes with other UK clearing banks, specialist finance providers and building societies.

In the personal banking segment, the Group competes with UK clearing banks and building societies, major retailers and life assurance companies. In the mortgage market, the Group competes with UK clearing banks and building societies. Increasingly, the ambitions of non-traditional players in the UK market are gaining credibility, with new entrants active and seeking to build their platforms by acquiring businesses made available through restructuring of incumbents. The Group distributes life assurance products to banking customers in competition with independent advisors and life assurance companies.

In the UK credit card market large retailers and specialist card issuers are active in addition to the UK banks. In addition to physical distribution channels, providers compete through direct marketing activity and the internet.

In Wealth Management, The Royal Bank of Scotland International competes with other UK and international banks to offer offshore banking services. Coutts and Adam & Company compete as private banks with UK clearing and private banks, and with international private banks. Competition in wealth management remains strong as banks maintain their focus on competing for affluent and high net worth customers.

In Ireland, Ulster Bank competes in retail and commercial banking with the major Irish banks and building societies, and with other UK and international banks and building societies active in the market. The challenging conditions in the Irish economy persist and many of the domestic Irish banks have required State support and are engaged in significant restructuring actions.

In the United States, RBS Citizens competes in the New England, Mid-Atlantic and Mid-West retail and mid-corporate banking markets with local and regional banks and other financial institutions. The Group also competes in the US in large corporate lending and specialised finance markets, and in fixed-income trading and sales. Competition is principally with the large US commercial and investment banks and international banks active in the US. The economic recovery in the US is proving weaker than expected and loan demand is weak in Citizens' markets.

Business review

Risk factors
Summary of our Principal Risks and Uncertainties
Set out below is a summary of certain risks which could adversely affect the Group; it should be read in conjunction with the Risk and Balance Sheet management section on pages 169 to 359. This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. A fuller description of these and other risk factors is included on pages 513 to 526.

- The Group's ability to implement its new strategic plan and achieve its capital goals depends on the success of its efforts to refocus on its core strengths and the timely divestment of RBS Citizens. The Group has undertaken since 2009 an extensive restructuring, including the disposal of non-core assets as well as businesses as part of the State Aid restructuring plan approved by the EC. The Group recently created RBS CRG to manage the run down of problem assets with the goal of removing such assets from the balance sheet over the next three years. The Group has also taken steps to strengthen its capital position and established medium term targets which will require the timely divestment of RBS Citizens to achieve. The Group is also undertaking a new strategic direction which will result in a significant downsizing of the Group, including simplifying the Group by replacing the current divisional structure with three customer segments. The level of structural change required to implement the Group's strategic and capital goals together with other regulatory requirements such as ring fencing are likely to be disruptive and increase operational risks for the Group. There is no assurance that the Group will be able to successfully implement its new strategy on which its capital plan depends or achieve its goals within the time frames contemplated or at all.

- Despite the improved outlook for the global economy over the near to medium-term, actual or perceived difficult global economic conditions and increased competition, particularly in the UK, create challenging economic and market conditions and a difficult operating environment for the Group's businesses. Uncertainties surrounding the referendum on Scottish independence and the implications of an affirmative outcome for independence are also likely to affect the Group. These factors, together with additional uncertainty relating to the recovery of the Eurozone economy where the Group has significant exposure and the risk of a return of volatile financial markets, in part due to the monetary policies and measures carried out by central banks, have been and will continue to adversely affect the Group's businesses, earnings, financial condition and prospects.

- The Group is subject to substantial regulation and oversight, and any significant regulatory or legal developments such as that which has occurred over the past several years could have an adverse effect on how the Group conducts its business and on its results of operations and financial condition. Certain regulatory measures introduced in the UK and in Europe relating to ring-fencing of bank activities may affect the Group's borrowing costs, may impact product offerings and the viability of certain business models and require significant restructuring with the possible transfer of a large number of customers between legal entities.

- The Group could fail to attract or retain senior management, which may include members of the Group Board, or other key employees, and it may suffer if it does not maintain good employee relations.

- The Group is subject to a number of regulatory initiatives which may adversely affect its business, including the UK Government's adoption of the Financial Services (Banking Reform) Act 2013, the US Federal Reserve's new rules for applying US capital, liquidity and enhanced prudential standards to certain of the Group's US operations and ongoing reforms in the European Union with respect to capital requirements, stability and resolution of financial institutions, including CRD IV and other currently debated proposals such as the Resolution and Recovery Directive.

- The Group's ability to meet its obligations including its funding commitments depends on the Group's ability to access sources of liquidity and funding. The inability to access liquidity and funding due to market conditions or otherwise or to do so at a reasonable cost due to increased regulatory constraints, could adversely affect the Group's financial condition and results of operations. Furthermore, the Group’s borrowing costs and its access to the debt capital markets and other sources of liquidity depend significantly on its and the UK Government’s credit ratings which would be likely to be negatively impacted by political events, such as an affirmative outcome of the referendum for the independence of Scotland.

- The Group’s business performance, financial condition and capital and liquidity ratios could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity requirements, including those arising out of Basel III implementation (globally or by European, UK or US authorities) as well as structural changes that may result from the implementation of ring-fencing under the Financial Services (Banking Reform) Act 2013 or proposed changes of the US Federal Reserve with respect to the Group’s US operations. The Group’s ability to reach its target capital ratios in the medium term will turn on a number of factors including a significant downsizing of the Group in part through the sale of RBS Citizens.

- The Group is, and may be, subject to litigation and regulatory and governmental investigations that may impact its business, reputation, results of operations and financial condition. Although the Group settled a number of legal proceedings and regulatory investigations during 2013, the Group is expected to continue to have a material exposure to legacy litigation and regulatory matter proceedings in the medium term. The Group also expects greater regulatory and governmental scrutiny for the foreseeable future particularly as it relates to compliance with new and existing laws and regulations such as anti-money laundering and anti-terrorism laws.

- Operational and reputational risks are inherent in the Group’s businesses.

Business review

Risk factors continued

- The Group is highly dependent on its information technology systems and has been and will continue to be subject to cyber attacks which expose the Group to loss of customer data or other sensitive information, and combined with other failures of the Group's information technology systems, hinder its ability to service its clients which could result in long-term damage to the Group's business and brand.

- The Group or any of its UK bank subsidiaries may face the risk of full nationalisation or other resolution procedures, including recapitalisation of the Group or any of its UK bank subsidiaries, through bail-in which has been introduced by the Financial Services (Banking Reform) Act 2013 and will come into force on a date stipulated by HM Treasury. These various actions could be taken by or on behalf of the UK Government, including actions in relation to any securities issued, new or existing contractual arrangements and transfers of part or all of the Group's businesses.

- As a result of the UK Government's majority shareholding in the Group it may be able to exercise a significant degree of influence over the Group including on dividend policy, the election of directors or appointment of senior management or limiting the Group's operations. The offer or sale by the UK Government of all or a portion of its shareholding in the company could affect the market price of the equity shares and other securities and acquisitions of ordinary shares by the UK Government (including through conversions of other securities or further purchases of shares) may result in the delisting of the Group from the Official List.

- The actual or perceived failure or worsening credit of the Group's counterparties or borrowers, including sovereigns in the Eurozone, and depressed asset valuations resulting from poor market conditions have led the Group to realise and recognise significant impairment charges and write-downs which have adversely affected the Group and could continue to adversely affect the Group if, due to a deterioration in economic and financial market conditions or continuing weak economic growth, it were to recognise or realise further write-downs or impairment charges.

- The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate.

- Recent developments in regulatory or tax legislation and any further significant developments could have an effect on how the Group conducts its business and on its results of operations and financial condition, and the recoverability of certain deferred tax assets recognised by the Group is subject to uncertainty.

- The Group is required to make planned contributions to its pension schemes and to compensation schemes in respect of certain financial institutions, either of which, independently or in conjunction with additional or increased contribution requirements may have an adverse impact on the Group's results of operations, cash flow and financial condition.

Business review

Key financials

for the year ended 31 December	2013 £m	2012* £m	2011* £m
Total income	19,757	17,941	24,651
Profit before impairment losses	189	2	7,311
Impairment losses	(8,432)	(5,279)	(8,707)
Operating (loss)/profit	(8,243)	(5,277)	(1,396)
Loss attributable to ordinary and B shareholders	(8,995)	(6,055)	(2,151)
Cost:income ratio	99%	100%	70%
Basic loss per ordinary and equivalent B share from continuing operations (pence)	(81.3p)	(54.5p)	(22.7p)

*Restated – see page 105.

At 31 December	2013 £m	2012 £m	2011 £m
Funded balance sheet (1)	739,839	870,392	977,249
Total assets	1,027,878	1,312,295	1,506,867
Loans and advances to customers	440,722	500,135	515,606
Deposits (2)	534,859	622,684	611,759
Owners' equity	58,742	68,678	75,367
Risk asset ratios - Core Tier 1	10.9%	10.3%	10.6%
- Tier 1	13.1%	12.4%	13.0%
- Total	16.5%	14.5%	13.8%

Notes:
(1) Funded balance sheet represents total assets less derivatives.
(2) Comprises deposits by banks and customer accounts.

Business review

Summary consolidated income statement for the year ended 31 December 2013

	2013	2012*	2011*
	£m	£m	£m
Net interest income	10,981	11,402	12,303
Fees and commissions receivable	5,460	5,709	6,379
Fees and commissions payable	(942)	(834)	(962)
Other non-interest income	4,258	1,664	6,931
Non-interest income	8,776	6,539	12,348
Total income	19,757	17,941	24,651
Operating expenses	(19,568)	(17,939)	(17,340)
Profit before impairment losses	189	2	7,311
Impairment losses	(8,432)	(5,279)	(8,707)
Operating loss before tax	(8,243)	(5,277)	(1,396)
Tax charge	(382)	(441)	(1,075)
Loss from continuing operations	(8,625)	(5,718)	(2,471)
Profit/(loss) from discontinued operations, net of tax			
- Direct Line Group	127	(184)	301
- Other	21	12	47
Profit/(loss) from discontinued operations, net of tax	148	(172)	348
Loss for the year	(8,477)	(5,890)	(2,123)
Non-controlling interests	(120)	136	(28)
Other owners' dividends	(398)	(301)	—
Loss attributable to ordinary and B shareholders	(8,995)	(6,055)	(2,151)
Basic loss per ordinary and equivalent B share from continuing operations	(81.3p)	(54.5p)	(22.7p)

*Restated - see page 105.

Business review

Results summary continued

2013 compared with 2012
Operating loss
Operating loss before tax for the year was £8,243 million compared with £5,277 million in 2012.

Total income
Total income increased 10% to £19,757 million in 2013 primarily reflecting a lower accounting charge for own credit partially offset by lower income in Markets.

Net interest income
Net interest income decreased by 4% to £10,981 million largely reflecting lower interest-earning asset balances partially offset by re-pricing initiatives. Group net interest margin improved by 10 basis points driven by moves to reprice deposits in a number of divisions, partially offset by a roll-off in higher yielding securities.

Non-interest income
Non-interest income increased to £8,776 million from £6,539 million in 2012. This included a loss on own credit adjustments of £120 million (2012 - £4,649 million), net gain on redemption of own debt of £175 million (2012 - £454 million) and movements in the fair value of the Asset Protection Scheme resulting in a £44 million charge in 2012. On a managed basis non-interest income decreased by 21% to £8,450 million in 2013 principally driven by lower income from trading activities in Markets as the division managed down the scale of the balance sheet and reduced risk. This was partially offset by a £506 million improvement in Non-Core trading losses. Operating lease and rental income fell by £392 million, largely reflecting the disposal of RBS Aviation Capital in 2012.

Within other operating income, Non-Core recorded a loss of £331 million excluding rental income, primarily related to fair value adjustments associated with investment properties.

The continuing, albeit modest, strengthening of RBS's credit profile resulted in a £120 million accounting charge in relation to own credit adjustments versus £4,649 million in 2012.

Liability management exercises undertaken by the Group during 2013 resulted in a net gain of £175 million (2012 - £454 million).

The Asset Protection Scheme, which the Group exited from in 2012, was accounted for as a credit derivative and movements in the fair value of the contract were taken as non-operating items. The APS fair value charge was £44 million in 2012.

The gain on strategic disposals of £161 million primarily relates to the disposal of the Group's remaining interest in WorldPay. In 2012 the gain of £113 million primarily related to the disposal of RBS Aviation Capital.

Operating expenses
Operating expenses increased to £19,568 million from £17,939 million in 2012. This included PPI costs of £900 million (2012 - £1,110 million), IRHP redress and related costs of £550 million (2012 - £700 million), regulatory and legal actions of £2,394 million (2012 - £381 million), integration and restructuring costs of £656 million (2012 - £1,415 million), write-down of goodwill of £1,059 million (2012 - £18 million) and write-down of other intangible assets of £344 million (2012 - £106 million). On a managed basis, total operating expenses fell by 4% to £13,313 million, with staff costs down 7% as headcount fell by 4,300 to 114,900, principally in UK Retail, Markets and Non-Core. Markets operating expenses decreased by 11% to £2,610 million and Non-Core by 36% to £605 million,

driven by exiting staff and lower central support requirements on run-down.

To reflect current experience of Payment Protection Insurance complaints received, the Group increased its PPI provision by £900 million in 2013 compared with £1,110 million in 2012, bringing the cumulative charge taken to £3.1 billion, of which £2.2 billion had been utilised at 31 December 2013.

Following an industry-wide review in 2012 conducted in conjunction with the Financial Services Authority, a charge of £700 million was booked for redress in relation to certain interest-rate hedging products sold to small and medium-sized businesses classified as retail clients under FSA rules. In 2013, a further charge of £550 million was booked reflecting both higher volumes and anticipated redress payments, recalibration of our methodology based on experience during 2013, and additional administration charges.

Charges relating to regulatory and legal actions totalled £2,394 million compared with £381 million in 2012. These charges primarily relate to various claims and conduct related matters affecting Group companies, primarily those related to mortgage-backed securities and securities related litigation, following recent litigation settlements and regulatory decisions.

Integration and restructuring costs were £656 million compared with £1,415 million in 2012 with most of the costs relating to the Retail transformation a reduction in the size of Markets and programme costs for the EC mandated disposal of certain UK branch-based businesses.

Write-down of goodwill was £1,059 million compared with £18 million in 2012 as the International Banking division was written off in 2013. Write-down of other intangible assets, including software, of £344 million related to Markets.

The UK bank levy is based on the total chargeable equity and liabilities as reported in the balance sheet at the end of a chargeable period. The cost of the levy to the Group for 2013 was £200 million compared with £175 million in 2012.

Business review

Impairment losses
Impairment losses increased by 60% to £8,432 million from £5,279 million in 2012 primarily due to increased charges resulting from the establishment of RCR. Excluding the impact of RCR (£4,490 million), impairment losses fell by 25% to £3,942 million with significant improvements in Non-Core, Ulster Bank and UK Retail partially offset by increases in International Banking, US Retail & Commercial and Markets. Loan impairments represented 2.0% of gross loans and advances to customers excluding reverse repos compared with 1.2% in 2012.

Risk elements in lending at 31 December 2013 represented 9.5% of loans and advances excluding reverse repos, compared with 9.1% a year earlier. Provision coverage was 64% compared with 52% at 31 December 2012.

Tax
The tax charge was £382 million in 2013 compared with £441 million in 2012. The tax charge for the year reflects losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland), a reduction in the carrying value of the deferred tax asset in respect of UK losses and the effect of the reduction of 3% in the rate of UK corporation tax enacted in July 2013.

Loss per share
Basic loss per ordinary and equivalent B share from continuing operations was 81.3p per share compared with 54.5p per share in 2012.

2012 compared with 2011
Operating loss
Operating loss before tax for the year was £5,277 million compared with £1,396 million in 2011.

Total income
Total income decreased 27% to £17,941 million in 2012, principally reflecting own credit adjustments partially offset by movements in the fair value of the Asset Protection Scheme (APS) and higher net gains on the redemption of own debt.

Net interest income
Net interest income decreased by 7% to £11,402 million largely reflecting lower interest-earning asset balances. Group net interest margin (NIM) increased slightly, despite very low interest rates and strong deposit competition.

Non-interest income
Non-interest income decreased to £6,539 million from £12,348 million in 2011. This included movements in the fair value of the Asset Protection Scheme resulting in a £44 million charge (2011 - £906 million), net gain on redemption of own debt of £454 million (2011 - £255 million) and a loss on own credit adjustments of £4,649 million (2011 - £1,914 million gain). On a managed basis, non-interest income decreased by £443 million in 2012 principally driven by lower net fees and commissions and a fall in insurance net premium income. Net fees and commissions fell largely due to weaker consumer spending volumes in the UK together with legislation changes in the US.

The Asset Protection Scheme, which the Group exited from during the year, was accounted for as a credit derivative and movements in the fair value of the contract were taken as non-operating items. The APS fair value charge was £44 million in 2012 bringing the cumulative charge for the APS to £2.5 billion.

Liability management exercises undertaken by the Group during 2012 resulted in a net gain of £454 million (2011 - £255 million).

The continuing strengthening RBS's credit profile resulted in a £4,649 million accounting charge in relation to own credit adjustments versus a gain of £1,914 million in 2011. This reflected a tightening of more than 340 basis points in the Group's credit spreads over the year.

Operating expenses

Operating expenses increased to £17,939 million from £17,340 million in 2011. This included PPI costs of £1,110 million (2011 - £850 million), IRHP redress and related costs of £700 million, regulatory fines of £381 million, integration and restructuring costs of £1,415 million compared with £1,016 million in 2011, and write-down of goodwill and other intangible assets of £124 million, principally as a result of exits from selective countries and lower revenue projections by Markets. On a managed basis, total operating expenses fell by 7% to £13,854 million, with staff costs down 6% as headcount fell by 8,300 to 119,200. The decline in expenses was largely driven by Non-Core run-down and lower variable compensation (particularly in Markets), including variable compensation award reductions and clawbacks following the settlements reached with UK and US authorities in relation to attempts to manipulate LIBOR. The run-off of discontinued businesses in Markets and International Banking, following the restructuring announced in January 2012, and simplification of processes and headcount reduction in UK Retail also yielded cost benefits.

To reflect current experience of Payment Protection Insurance complaints received, the Group increased its PPI provision by £1,110 million in 2012 compared with £850 million in 2011, bringing the cumulative charge taken to £2.2 billion, of which £1.3 billion (59%) in redress had been paid by 31 December 2012.

Following an industry-wide review conducted in conjunction with the Financial Services Authority, a charge of £700 million has been booked for redress in relation to certain interest-rate hedging products sold to small and medium-sized businesses classified as retail clients under FSA rules.

On 6 February 2013, RBS reached agreement with the Financial Services Authority, the US Department of Justice and the Commodity Futures Trading Commission in relation to the setting of LIBOR and other trading rates, including financial penalties of £381 million. The Group continues to co-operate with other bodies in this regard and expects it will incur some additional financial penalties.

Integration and restructuring costs of £1,415 million increased by £394 million versus £1,021 million in 2011, primarily driven by costs incurred in relation to the strategic restructuring of Markets and International Banking (M&IB) that took place during 2012.

Business review

Results summary continued

The UK bank levy is based on the total chargeable equity and liabilities as reported in the balance sheet at the end of a chargeable period. The cost of the levy to the Group for 2012 was £175 million compared with £300 million in 2011.

Impairment losses

Impairment losses were £5,279 million, compared with £8,707 million in 2011, with Core impairments falling by £464 million and Non-Core by £1,694 million, mostly in the Ulster Bank and commercial real estate portfolios. There was also the non-repeat of the sovereign debt impairment in 2011. On a managed basis, impairment losses fell to £5,279 million from £7,437 million in 2011

In 2011, the Group recorded an impairment loss of £1,099 million in respect of its AFS portfolio of Greek government debt. In 2012, the vast majority of this portfolio was exchanged for Greek sovereign debt and European Financial Stability Facility notes; the Greek sovereign debt received in the exchange was sold.

Risk elements in lending represented 9.1% of gross loans and advances to customers excluding reverse repos at 31 December 2012 (2011 - 8.6%).

Provision coverage of risk elements in lending was 52% (2011 - 49%).

Tax

The tax charge was £441 million in 2012, compared with £1,075 million in 2011. The high tax charge in the year reflects profits in high tax regimes (principally US) and losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland), the reduction in the carrying value of deferred tax assets in Ireland in view of continuing losses, the reduction in the carrying value of deferred tax assets in Australia following the strategic changes to the Markets and International Banking businesses announced in January 2012 and the effect of the two reductions of 1% in the rate of UK corporation tax enacted in March 2012 and July 2012 on the net deferred tax balance.

Loss per share

Basic loss per ordinary and equivalent B share from continuing operations was 54.5p per share compared with 22.7p per share in 2011.

Business review

Analysis of results

Net interest income

	2013	2012	2011
	£m	£m	£m
Interest receivable (1)	16,740	18,530	21,036
Interest payable	(5,759)	(7,128)	(8,733)
Net interest income	10,981	11,402	12,303
Yields, spreads and margins of the banking business	%	%	%
Gross yield on interest-earning assets of the banking business (2)	3.08	3.12	3.23
Cost of interest-bearing liabilities of the banking business	(1.42)	(1.54)	(1.68)
Interest spread of the banking business (3)	1.66	1.58	1.55
Benefit from interest-free funds	0.36	0.34	0.34
Net interest margin of the banking business (4)	2.02	1.92	1.89
Gross yield (2)			
- Group	3.08	3.12	3.23
- UK	3.54	3.49	3.57
- Overseas	2.33	2.56	2.77
Interest spread (3)			
- Group	1.66	1.58	1.55
- UK	1.99	1.83	1.82
- Overseas	1.25	1.56	1.22
Net interest margin (4)			
- Group	2.02	1.92	1.89
- UK	2.21	2.03	2.04
- Overseas	1.72	1.75	1.69
The Royal Bank of Scotland plc base rate (average)	0.50	0.50	0.50
London inter-bank three month offered rates (average)			
- Sterling	0.52	0.82	0.87
- Eurodollar	0.24	0.43	0.33
- Euro	0.27	0.53	1.36

*Restated - see page 105.

Notes:

(1) Interest receivable includes £798 million (2012 - £565 million; 2011 - £627 million) in respect of loan fees forming part of the effective interest rate of loans and receivables.

(2) Gross yield is the interest earned on average interest-earning assets of the banking book.

(3) Interest spread is the difference between the gross yield and the interest rate paid on average interest-bearing liabilities of the banking business.

(4) Net interest margin is net interest income of the banking business as a percentage of average interest-earning assets of the banking business.

(5) The analysis into UK and overseas has been compiled on the basis of location of office.

(6) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.

(7) Interest income includes amounts (unwind of discount) recognised on impaired loans and receivables. The average balances of such loans are included in average loans and advances to banks and loans and advances to customers.

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Business review

Average balance sheet and related interest continued

		2013			2012		
		Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets							
Loans and advances to banks	- UK	42,466	261	0.61	33,656	248	0.74
	- Overseas	32,240	169	0.52	40,342	245	0.61
Loans and advances to customers	- UK	256,692	11,060	4.31	277,631	11,326	4.08
	- Overseas	143,104	4,065	2.84	151,692	4,862	3.21
Debt securities	- UK	38,082	624	1.64	49,872	1,015	2.04
	- Overseas	30,792	561	1.82	40,077	834	2.08
Interest-earning assets	- UK	337,240	11,945	3.54	361,159	12,589	3.49
	- Overseas	206,136	4,795	2.33	232,111	5,941	2.56
Total interest-earning assets	- banking business (1)	543,376	16,740	3.08	593,270	18,530	3.12
	- trading business (6)	216,211			240,131		
Interest-earning assets		759,587			833,401		
Non-interest-earning assets		467,779			596,971		
Total assets		1,227,366			1,430,372		
Percentage of assets applicable to overseas operations		33.0%			37.8%		
Liabilities							
Deposits by banks	- UK	7,997	144	1.80	18,347	216	1.18
	- Overseas	15,654	262	1.67	20,129	384	1.91
Customer accounts: demand deposits	- UK	123,707	501	0.40	121,541	643	0.53
	- Overseas	35,733	169	0.47	35,087	210	0.60
Customer accounts: savings deposits	- UK	93,245	1,266	1.36	84,972	1,479	1.74
	- Overseas	28,864	101	0.35	26,989	133	0.49
Customer accounts: other time deposits	- UK	28,566	433	1.52	35,848	522	1.46
	- Overseas	20,092	361	1.80	23,776	504	2.12
Debt securities in issue	- UK	44,085	1,162	2.64	60,709	1,681	2.77
	- Overseas	5,239	145	2.77	22,294	342	1.53
Subordinated liabilities	- UK	17,387	649	3.73	15,629	435	2.78
	- Overseas	5,873	237	4.04	5,461	380	6.96
Internal funding of trading business	- UK	(24,041)	348	(1.45)	(21,140)	264	(1.25)
	- Overseas	4,477	(19)	(0.42)	11,992	(65)	(0.54)

Interest-bearing liabilities	- UK	290,946	4,503	1.55	315,906	5,240	1.66
	- Overseas	115,932	1,256	1.08	145,728	1,888	1.30
Total interest-bearing liabilities	- banking business	406,878	5,759	1.42	461,634	7,128	1.54
	- trading business (6)	223,264			248,647		
Interest-bearing liabilities		630,142			710,281		
Non-interest-bearing liabilities:							
Demand deposits	- UK	55,303			46,420		
	- Overseas	21,304			27,900		
Other liabilities		452,068			571,963		
Owners' equity		68,549			73,808		
Total liabilities and owners' equity		1,227,366			1,430,372		
Percentage of liabilities applicable to overseas operations		28.7%			33.9%		

For the notes to this table refer to page 116.

Business review

Average balance sheet and related interest continued

		2011		
		Average balance £m	Interest £m	Rate %
Assets				
Loans and advances to banks	- UK	29,852	277	0.93
	- Overseas	41,716	403	0.97
Loans and advances to customers	- UK	293,777	11,970	4.07
	- Overseas	171,938	5,857	3.41
Debt securities	- UK	55,074	1,258	2.28
	- Overseas	58,027	1,271	2.19
Interest-earning assets	- UK	378,703	13,505	3.57
	- Overseas	271,681	7,531	2.77
Total interest-earning assets	- banking business (1)	650,384	21,036	3.23
	- trading business (6)	278,975		
Interest-earning assets		929,359		
Non-interest-earning assets		605,796		
Total assets		1,535,155		
Percentage of assets applicable to overseas operations		40.2%		
Liabilities				
Deposits by banks	- UK	17,224	242	1.41
	- Overseas	47,371	740	1.56
Customer accounts: demand deposits	- UK	112,777	666	0.59
	- Overseas	43,177	483	1.12
Customer accounts: savings deposits	- UK	76,719	1,177	1.53
	- Overseas	25,257	130	0.51
Customer accounts: other time deposits	- UK	39,672	481	1.21
	- Overseas	33,971	594	1.75
Debt securities in issue	- UK	108,406	2,606	2.40
	- Overseas	42,769	765	1.79
Subordinated liabilities	- UK	16,874	470	2.79
	- Overseas	5,677	270	4.76
Internal funding of trading business	- UK	(40,242)	149	(0.37)
	- Overseas	(8,783)	(40)	0.46
Interest-bearing liabilities	- UK	331,430	5,791	1.75

	- Overseas	189,439	2,942	1.55
Total interest-bearing liabilities	- banking business	520,869	8,733	1.68
	- trading business (6)	307,564		
Interest-bearing liabilities		828,433		
Non-interest-bearing liabilities:				
Demand deposits	- UK	46,495		
	- Overseas	19,909		
Other liabilities		565,279		
Owners' equity		75,039		
Total liabilities and owners' equity		1,535,155		
Percentage of liabilities applicable to overseas operations		37.1%		

For the notes to this table refer to page 116.

Business review

Analysis of change in net interest income - volume and rate analysis

Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Changes due to a combination of volume and rate are allocated pro rata to volume and rate movements.

	2013 over 2012 Increase/(decrease) due to changes in:		
	Average volume £m	Average rate £m	Net change £m
Interest-earning assets			
Loans and advances to banks			
UK	60	(47)	13
Overseas	(44)	(32)	(76)
Loans and advances to customers			
UK	(883)	617	(266)
Overseas	(263)	(534)	(797)
Debt securities			
UK	(214)	(177)	(391)
Overseas	(177)	(96)	(273)
Total interest receivable of the banking business			
UK	(1,037)	393	(644)
Overseas	(484)	(662)	(1,146)
	(1,521)	(269)	(1,790)
Interest-bearing liabilities			
Deposits by banks			
UK	155	(83)	72
Overseas	78	44	122
Customer accounts: demand deposits			
UK	(12)	154	142
Overseas	(4)	45	41
Customer accounts: savings deposits			
UK	(133)	346	213
Overseas	(9)	41	32
Customer accounts: other time deposits			
UK	110	(21)	89
Overseas	72	71	143
Debt securities in issue			
UK	443	76	519
Overseas	364	(167)	197
Subordinated liabilities			
UK	(53)	(161)	(214)
Overseas	(27)	170	143
Internal funding of trading business			
UK	(39)	(45)	(84)
Overseas	(34)	(12)	(46)
Total interest payable of the banking business			

UK	471	266	737
Overseas	440	192	632
	911	458	1,369
Movement in net interest income			
UK	(566)	659	93
Overseas	(44)	(470)	(514)
	(610)	189	(421)

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Business review

Analysis of change in net interest income - volume and rate analysis continued

	2012 over 2011 Increase/(decrease) due to changes in:		
	Average volume £m	Average rate £m	Net change £m
Interest-earning assets			
Loans and advances to banks			
UK	32	(61)	(29)
Overseas	(13)	(145)	(158)
Loans and advances to customers			
UK	(673)	29	(644)
Overseas	(664)	(331)	(995)
Debt securities			
UK	(115)	(128)	(243)
Overseas	(376)	(61)	(437)
Total interest receivable of the banking business			
UK	(756)	(160)	(916)
Overseas	(1,053)	(537)	(1,590)
	(1,809)	(697)	(2,506)
Interest-bearing liabilities			
Deposits by banks			
UK	(15)	41	26
Overseas	495	(139)	356
Customer accounts: demand deposits			
UK	(49)	72	23
Overseas	78	195	273
Customer accounts: savings deposits			
UK	(133)	(169)	(302)
Overseas	(8)	5	(3)
Customer accounts: other time deposits			
UK	50	(91)	(41)
Overseas	200	(110)	90
Debt securities in issue			
UK	1,279	(354)	925
Overseas	325	98	423
Subordinated liabilities			
UK	33	2	35
Overseas	11	(121)	(110)
Internal funding of trading business			
UK	99	(214)	(115)
Overseas	13	12	25
Total interest payable of the banking business			
UK	1,264	(713)	551
Overseas	1,114	(60)	1,054

	2,378	(773)	1,605
Movement in net interest income			
UK	508	(873)	(365)
Overseas	61	(597)	(536)
	569	(1,470)	(901)

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Business review

Non-interest income
The following tables reconcile the managed basis results (a non-GAAP measure) to the statutory basis results.

	2013	2012	2011
	£m	£m	£m
Fees and commissions receivable – statutory basis	5,460	5,709	6,379
Fees and commissions payable			
- managed basis	(942)	(833)	(962)
- RFS Holdings minority interest	—	(1)	—
Statutory basis	(942)	(834)	(962)
Income from trading activities			
- managed basis	2,651	3,533	3,313
- own credit adjustments	35	(1,813)	293
- Asset Protection Scheme	—	(44)	(906)
- RFS Holdings minority interest	(1)	(1)	1
Statutory basis	2,685	1,675	2,701
Gain on redemption of own debt – statutory basis	175	454	255
Other operating income			
- managed basis	1,281	2,259	2,381
- own credit adjustments	(155)	(2,836)	1,621
- integration and restructuring costs	—	—	(3)
- strategic disposals	161	113	(25)
- RFS Holdings minority interest	111	(1)	1
Statutory basis	1,398	(465)	3,975
Total non-interest income – managed basis	8,450	10,668	11,111
Total non-interest income – statutory basis	8,776	6,539	12,348

*Restated - see page 105.

2013 compared with 2012
Non-interest income increased by £2,237 million to £8,776 million primarily due to the lower accounting charge for improved own credit of £120 million compared with £4,649 million in 2012.

Net fees and commissions fell by 7% principally reflecting declines in Markets, UK Corporate, International Banking and Non-Core.

The continuing strengthening of RBS’s credit profile, albeit modest, resulted in a £120 million accounting charge in relation to own credit adjustment compared with £4,649 million in 2012.

Income from trading activities increased by £1,010 million to £2,685 million principally due the lower charge in relation to own credit adjustment and increase in Non-Core partially offset by a decline in Markets, where income from trading activities declined by £1,048 million as the division managed down the scale of the balance sheet and reduced risk.

The increase in other operating income predominantly reflected lower accounting charges for own credit adjustments partially offset by losses on disposal and value adjustments in Non-Core. In addition, the disposal of RBS Aviation Capital in June 2012 resulted in a £392 million reduction in operating lease income.

2012 compared with 2011
Non-interest income was down 47% at £6,539 million primarily due to the accounting charge for improved own credit of £4,649 million compared with a credit of £1,914 million in 2011, offset by a lower fair value charge of £44 million compared with £906 million in 2011 on the Asset Protection Scheme.

Net fees and commissions fell by 10% largely due to a decline in UK Retail fees, as a result of weaker consumer spending volumes, and in Markets, primarily due to the run-off in the cash equity business.

Markets trading income was sustained, despite the significant reduction in trading assets following its restructuring early in 2012.

The decrease in other operating income predominantly reflected own credit adjustments and the disposal of RBS Aviation Capital in June 2012, which resulted in lower rental income in Non-Core, partially offset by a lower fair value charge on the Asset Protection Scheme.

The continuing strengthening of RBS's credit profile resulted in a £4,649 million accounting charge in relation to own credit adjustment versus a gain of £1,914 million in 2011. This reflected a tightening of more than 340 basis points in the Group's cash market credit spreads over the year.

APS is accounted for as a derivative and the movements in fair value are recorded each quarter. The fair value charge was £44 million in 2012 versus £906 million in 2011.

Business review

Operating expenses
The following tables reconcile the managed basis results (a non-GAAP measure) to the statutory basis results.

	2013 £m	2012* £m	2011* £m
Staff costs			
- managed basis	6,882	7,377	8,072
- integration and restructuring costs	280	812	464
- bonus tax	—	—	27
- RFS Holdings minority interest	1	(1)	(1)
Statutory basis	7,163	8,188	8,562
Premises and equipment			
- managed basis	2,233	2,096	2,246
- integration and restructuring costs	115	136	177
Statutory basis	2,348	2,232	2,423
Other administrative expenses			
- managed basis	2,947	2,899	2,922
- Payment Protection Insurance costs	900	1,110	850
- Interest Rate Hedging Products redress and related costs	550	700	—
- regulatory and legal actions	2,394	381	—
- integration and restructuring costs	255	325	364
- bank levy	200	175	300
- RFS Holdings minority interest	(2)	3	—
Statutory basis	7,244	5,593	4,436
Administrative expenses	16,755	16,013	15,421
Depreciation and amortisation			
- managed basis	1,251	1,482	1,606
- amortisation of purchased intangible assets	153	178	222
- integration and restructuring costs	6	142	11
Statutory basis	1,410	1,802	1,839
Write-down of goodwill	1,059	18	80
Write-down of other intangible assets	344	106	—
Operating expenses	19,568	17,939	17,340
Staff costs as a percentage of total income	36%	46%	35%

*Restated - see page 105.

2013 compared with 2012
Operating expenses increased by £1,629 million, or 9% primarily due to higher charges resulting from regulatory and legal actions, and write-down of goodwill and other intangible assets, primarily in International Banking. These were partially offset by lower charges on Payment Protection Insurance claims, Interest Rate Hedging Products redress and

integration and restructuring costs.

Staff expenses were down by 13%. Excluding integration and restructuring costs of £280 million (2012 - £812 million), staff costs were down 7%, as staff numbers (FTEs) fell by 4,100 to 118,400, principally in UK Retail, Markets and Non-Core.

Charges of £2,394 million of regulatory and litigation provisions were recorded during the year primarily relating to mortgage-backed and other securities litigation in the US.

Write-down of goodwill and other intangible assets was £1,403 million and includes £1,059 million relating to the International Banking division following an impairment review.

Charges for PPI redress and related costs totalled £900 million, down £210 million from 2012. Of the cumulative provision of £3.1 billion, £2.2 billion had been utilised at 31 December 2013. The remaining provision of £900 million covers approximately twelve months of redress and administrative expenses.

Charges of £550 million were booked for Interest Rate Hedging Product redress and administration costs, down £150 million from 2012. The cumulative provision was £1.25 billion at 31 December 2013.

Business review

Operating expenses continued

2012 compared with 2011
Operating expenses increased by £599 million, or 3% primarily due to charges resulting from legacy conduct issues partially offset by Non-Core run-down and run-off of exited businesses in Markets and International Banking, following the restructuring announced in January 2012. Simplification of processes and headcount reduction in UK Retail also yielded cost benefits.

Staff expenses were cut by 4%. Excluding integration and restructuring costs of £812 million (2011 - £464 million), staff costs were down 9%, as headcount fell by 10,200 to 118,700.

To reflect current experience of Payment Protection Insurance complaints received, RBS increased its PPI provision by £1,110 million in 2012, bringing the cumulative charge taken to £2.2 billion, of which £1.3 billion in redress had been paid by 31 December 2012.

On 31 January 2013, the Financial Services Authority announced the findings of its industry-wide review of the sale of Interest Rate Hedging Products to some small and medium-sized businesses that were classified as retail clients under FSA rules. As a result, RBS provided £700 million in 2012 to meet the costs of redress.

On 6 February 2013, RBS reached agreement with the Financial Services Authority, the US Department of Justice and the Commodity Futures Trading Commission in relation to the setting of LIBOR and other trading rates, including financial penalties of £381 million. The Group continues to co-operate with other bodies in this regard and expects it will incur some additional financial penalties.

Integration costs

	2013 £m	2012 £m	2011 £m
Staff costs	—	—	38
Premises and equipment	1	(2)	6
Other administrative expenses	1	2	51
Depreciation and amortisation	—	—	11
	2	—	106

Note:
(1) Integration costs in 2011 excluded a £2 million charge included within net interest income and a loss of £3 million within other operating income in respect of integration activities.

Integration costs of £106 million in 2011 primarily relate to RBS N.V. (formerly ABN AMRO) integration activity during the year, which is now largely complete.

Accruals in relation to integration costs are set out below.

	At 1 January 2013 £m	Charge to income statement £m	Utilised during the year £m	At 31 December 2013 £m
Premises and equipment	9	1	(10)	—
Other administrative expenses	5	1	—	6

	14	2	(10)	6

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Business review

Restructuring costs	2013	2012*	2011*
	£m	£m	£m
Staff costs	194	700	342
Premises and equipment	112	141	155
Other administrative expenses	177	261	268
Depreciation and amortisation	6	142	—
	489	1,244	765

*Restated - see page 105.

2013 compared with 2012
Restructuring costs were £489 million compared with £1,244 million in 2012. These costs primarily relate to the Retail transformation and the reduction in the size of Markets.

2012 compared with 2011
Restructuring costs were £1,244 million compared with £765 million in 2011. The increase was primarily driven by costs incurred in relation to the strategic restructuring of Markets and International Banking announced in January 2012.

Accruals in relation to restructuring costs are set out below.

	At 1 January 2013	Currency translation adjustments	Charge to income statement	Utilised during the year	At 31 December 2013
	£m	£m	£m	£m	£m
Staff costs - redundancy	434	4	137	(396)	179
Staff costs - other	111	1	57	(125)	44
Premises and equipment	289	—	112	(97)	304
Other administrative expenses	264	1	177	(228)	214
Depreciation and amortisation	—	—	6	(6)	—
	1,098	6	489	(852)	741

Divestment costs	2013	2012*	2011*
	£m	£m	£m
Staff costs	86	111	84
Premises and equipment	2	(2)	11
Other administrative expenses	77	62	50
	165	171	145

*Restated - see page 105.

Divestment costs of £165 million in 2013 (2012 - £171 million; 2011 - £145 million) relate to preparation for the European Commission mandated divestments.

Accruals in relation to divestment costs are set out below.

	At 1 January 2013 £m	Charge to income statement £m	Utilised during the year £m	At 31 December 2013 £m
Staff costs - redundancy	87	34	(104)	17
Staff costs - other	46	52	(96)	2
Premises and equipment	—	2	(2)	—
Other administrative expenses	73	77	(137)	13
	206	165	(339)	32

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Business review

Impairment losses
The following tables reconcile the managed basis results (a non-GAAP measure) to the statutory basis results.

	2013	2012	2011
	£m	£m	£m
New impairment losses	8,688	5,620	9,234
Less: recoveries of amounts previously written-off	(256)	(341)	(527)
Charge to income statement	8,432	5,279	8,707
Comprising:			
Loan impairment losses	8,412	5,315	7,241
Securities			
- managed basis	20	(36)	198
- sovereign debt impairment and related interest rate hedge adjustments	—	—	1,268
Statutory basis	20	(36)	1,466
Charge to income statement	8,432	5,279	8,707
Of which RCR related (1)	4,490	—	—

Note:
(1) Pertaining to the creation of RCR and related strategy.

RBS Capital Resolution ('RCR') was set up from 1 January 2014 and will manage a pool of £29 billion of assets with particularly high capital intensity or potentially volatile outcomes in stressed environments, aiming to accelerate the run-down of these exposures over a three year period to free up capital for the bank. This revised strategy to run down high risk loans faster resulted in an increased impairment charge relating to impaired or non-performing assets transferred to RCR, reflecting adverse changes in our estimates of future cash flows. Further details about RCR are set out on pages 158 to 161.

2013 compared with 2012
Group loan impairment losses rose by 58% to £8,412 million reflecting the increased provisions recognised in connection with the creation of RCR. Adjusting for this, impairment losses fell by £1,393 million (26%) to £3,922 million, driven by significant improvements in Non-Core, Ulster Bank and UK Retail, partially offset by increases in International Banking, US Retail & Commercial and Markets.

Additional loan impairments arising from the RCR accelerated asset recovery strategy totalled £4,490 million, of which £3,118 million related to Non-Core, £892 million to Ulster Bank, £410 million to UK Corporate, £52 million to International Banking and £18 million to Markets.

Excluding the impact of the creation of RCR, Core Ulster Bank loan impairments fell by £482 million (35%) to £882 million, mainly as a result of continued improvement in retail mortgage debt-flow and in recovery trends. UK Retail loan impairments fell by £210 million (40%), primarily from lower default levels.

Excluding the impact of the creation of RCR, Non-Core loan impairments fell by £792 million to £1,528 million, reflecting the continued reduction in the overall portfolio.

2012 compared with 2011
Total impairment losses declined by £3,428 million to £5,279 million which included the non-repeat of a sovereign debt impairment and related interest rate hedge adjustment of £1,268 million in 2011. Within the total impairment losses, loan impairment losses declined by £1,926 million to £5,315 million, primarily driven by a £1,518 million fall in Non-Core impairments, mostly in the Ulster Bank and commercial real estate portfolios.

Core loan impairments were down £408 million, or 12%, largely due to lower default rates in UK Retail and an improved credit environment for US Retail & Commercial, which helped drive impairment reductions of £259 million and £165 million respectively. Core Ulster Bank impairments stabilised, though still at a very high level (£1,364 million in 2012 versus £1,384 million in 2011).

Loan impairments as a percentage of gross loans and advances improved by 30 basis points, principally reflecting the improved credit profile in Non-Core and the better US credit environment.

Loan impairment provisions rose to £21.3 billion, increasing coverage of risk elements in lending to 52%, compared with 49% in 2011.

Business review

Tax

	2013	2012*	2011*
	£m	£m	£m
Tax charge	(382)	(441)	(1,075)
	%	%	%
UK corporation tax rate	23.25	24.50	26.50

*Restated – see page 105.

The actual tax charge differs from the expected tax credit computed by applying the standard rate of UK corporation tax as follows:

	2013	2012*	2011*
	£m	£m	£m
Expected tax credit	1,916	1,293	370
Sovereign debt impairment where no deferred tax asset recognised	—	—	(275)
Other losses in year where no deferred tax asset recognised	(879)	(511)	(530)
Foreign profits taxed at other rates	(196)	(383)	(417)
UK tax rate change impact	(313)	(149)	(112)
Unrecognised timing differences	(8)	59	(20)
Non-deductible goodwill impairment	(247)	—	—
Items not allowed for tax			
- losses on disposals and write-downs	(20)	(49)	(72)
- UK bank levy	(47)	(43)	(80)
- regulatory and legal actions	(144)	(93)	—
- employee share schemes	(11)	(9)	(113)
- other disallowable items	(202)	(246)	(285)
Non-taxable items			
- gain on sale of RBS Aviation Capital	—	26	—
- gain on sale of WorldPay (Global Merchant Services)	37	—	12
- other non-taxable items	171	104	242
Taxable foreign exchange movements	(25)	(1)	4
Losses brought forward and utilised	36	2	2
Reduction in carrying value of deferred tax asset in respect of losses in			
- UK	(701)	—	—
- Australia	—	(191)	—
- Ireland	—	(203)	—
Adjustments in respect of prior years	251	(47)	199
Actual tax charge	(382)	(441)	(1,075)

*Restated - see page 105.

2013 compared with 2012
The tax charge in the year ended 31 December 2013 reflects losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland), a reduction in the carrying value of the deferred tax asset in respect of UK losses and the effect of the reduction of 3% in the rate of UK corporation tax enacted in July 2013.

2012 compared with 2011
The high tax charge in 2012 reflects profits in high tax regimes (principally US) and losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland), the reduction in the carrying value of deferred tax assets in Ireland in view of continuing losses, the reduction in the carrying value of deferred tax assets in Australia following the strategic changes to the Markets and International Banking businesses announced in January 2012, and the effect of the two reductions of 1% in the rate of UK corporation tax enacted in March 2012 and July 2012 on the net deferred tax balance.

Business review

Divisional performance

Operating profit/(loss) by division	2013 £m	2012* £m	2011* £m
UK Retail	1,943	1,891	2,021
UK Corporate	1,060	1,796	1,924
Wealth	221	243	242
International Banking	279	594	755
Ulster Bank	(1,457)	(1,040)	(984)
US Retail & Commercial	647	754	537
Retail & Commercial	2,693	4,238	4,495
Markets	620	1,509	899
Central items	(89)	84	(34)
Core	3,224	5,831	5,360
Non-Core	(5,527)	(2,879)	(4,219)
Operating (loss)/profit - managed basis	(2,303)	2,952	1,141
Reconciling items			
Own credit adjustments	(120)	(4,649)	1,914
Payment Protection Insurance costs	(900)	(1,110)	(850)
Interest Rate Hedging Products redress and related costs	(550)	(700)	—
Regulatory and legal actions	(2,394)	(381)	—
Sovereign debt impairment and related interest rate hedge adjustments	—	—	(1,268)
Integration and restructuring costs	(656)	(1,415)	(1,021)
Gain on redemption of own debt	175	454	255
Write-down of goodwill	(1,059)	(18)	—
Asset Protection Scheme	—	(44)	(906)
Amortisation of purchased intangible assets	(153)	(178)	(222)
Strategic disposals	161	113	(105)
Bonus tax	—	—	(27)
Bank levy	(200)	(175)	(300)
Write-down of other intangible assets	(344)	(106)	—
RFS Holdings minority interest	100	(20)	(7)
Operating loss before tax - statutory basis	(8,243)	(5,277)	(1,396)

*Restated - see page 105.

Business review

Divisional performance continued

Impairment losses/(recoveries) by division	2013	2012	2011
	£m	£m	£m
UK Retail	324	529	788
UK Corporate	1,188	838	793
Wealth	29	46	25
International Banking	229	111	168
Ulster Bank	1,774	1,364	1,384
US Retail & Commercial	156	91	326
Retail & Commercial	3,700	2,979	3,484
Markets	92	37	38
Central items	64	40	(2)
Core	3,856	3,056	3,520
Non-Core	4,576	2,223	3,917
Managed basis	8,432	5,279	7,437
Reconciling items			
Sovereign debt impairment and related interest rate hedge adjustments	—	—	1,268
RFS Holdings minority interest	—	—	2
Statutory basis	8,432	5,279	8,707
Of which RCR related (1)	4,490	—	—

Net interest margin by division	2013	2012	2011
	%	%	%
UK Retail	3.57	3.58	3.95
UK Corporate	3.07	3.06	3.06
Wealth	3.56	3.73	3.23
International Banking	1.59	1.64	1.73
Ulster Bank	1.91	1.88	1.87
US Retail & Commercial	2.95	2.97	3.03
Retail & Commercial	2.94	2.92	2.96
Non-Core	(0.19)	0.31	0.60
Group net interest margin	2.02	1.92	1.89

Risk-weighted assets by division	2013	2012	2011
	£bn	£bn	£bn
UK Retail	43.9	45.7	48.4
UK Corporate	86.1	86.3	79.3
Wealth	12.0	12.3	12.9
International Banking	49.0	51.9	43.2
Ulster Bank	30.7	36.1	36.3
US Retail & Commercial	56.1	56.5	59.3
Retail & Commercial	277.8	288.8	279.4
Markets	64.5	101.3	120.3

Other	10.1	5.8	12.0
Core	352.4	395.9	411.7
Non-Core	29.2	60.4	93.3
Group before benefit of Asset Protection Scheme	381.6	456.3	505.0
Benefit of Asset Protection Scheme	—	—	(69.1)
Group before RFS Holdings minority interest	381.6	456.3	435.9
RFS Holdings minority interest	3.9	3.3	3.1
Group	385.5	459.6	439.0

Note:
(1) Pertaining to the creation of RCR and related strategy.

Business review

Divisional performance continued
Employee numbers at 31 December
(full time equivalents rounded to the nearest hundred)

	2013	2012	2011
UK Retail	23,700	26,000	27,700
UK Corporate	13,700	13,300	13,600
Wealth	4,800	5,100	5,500
International Banking	4,700	4,600	5,600
Ulster Bank	4,700	4,500	4,200
US Retail & Commercial	18,500	18,700	19,500
Retail & Commercial	70,100	72,200	76,100
Markets	10,300	11,300	14,000
Central items	7,400	6,800	6,200
Core	87,800	90,300	96,300
Non-Core	1,400	3,100	4,700
	89,200	93,400	101,000
Business Services	29,200	29,100	29,800
Integration and restructuring	200	500	1,100
Group	118,600	123,000	131,900

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Business review

UK Retail	2013	2012	2011
	£m	£m	£m
Net interest income	3,979	3,990	4,302
Net fees and commissions	919	884	1,066
Other non-interest income	39	95	140
Non-interest income	958	979	1,206
Total income	4,937	4,969	5,508
Direct expenses			
- staff	(707)	(811)	(853)
- other	(562)	(372)	(437)
Indirect expenses	(1,401)	(1,366)	(1,409)
	(2,670)	(2,549)	(2,699)
Profit before impairment losses	2,267	2,420	2,809
Impairment losses	(324)	(529)	(788)
Operating profit	1,943	1,891	2,021
Analysis of income by product			
Personal advances	923	916	1,089
Personal deposits	468	661	961
Mortgages	2,606	2,367	2,277
Cards	838	863	950
Other	102	162	231
Total income	4,937	4,969	5,508
Analysis of impairments by sector			
Mortgages	30	92	182
Personal	180	307	437
Cards	114	130	169
Total impairment losses	324	529	788
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Mortgages	—	0.1%	0.2%
Personal	2.2%	3.5%	4.3%
Cards	2.0%	2.3%	3.0%
Total	0.3%	0.5%	0.7%
Performance ratios			
Return on equity (1)	26.3%	24.4%	