RBS Directors' Remuneration Policy

Approved by Shareholders at the Annual General Meeting held on 11 May 2017

Key features of the new remuneration policy for executive directors

Key features	The new policy is focused on the long term, aimed at attracting and keeping the right people for RBS. The intent is a policy that aligns executives with shareholders predominantly through holding shares rather than formulaic and unpredictable performance conditions. As a result, shareholding requirements will be significantly increased under the new policy and performance testing of LTI awards will be based on factors that executive directors would reasonably be expected to achieve, encouraging executives to operate within risk appetite. The maximum quantum will be reduced in line with a growing consensus on the need to restrain executive pay. The intention is to create a construct that is more highly valued by executives, by assessing performance on factors considered to be more within the control of management and therefore providing greater certainty of outcomes. Combined with the removal of pro rating for good leavers, the expected value of remuneration delivered to executive directors over time is broadly maintained. Longer vesting and retention periods will apply to LTI awards, with the release of shares over an eight year period, helping to ensure decisions and outcomes reflect a truly long-term timeframe and are even further aligned with the experience of shareholders.

How will performance assessment work under the proposed LTI construct?

For each of the core performance areas of Finance, Risk & Operations, Customers and our People, the Committee will consider whether the executive director has over the relevant period achieved what would reasonably have been expected in the circumstances. The Committee will review performance against factors (examples are set out below) relevant to RBS's strategic objectives in each area, but will apply its judgement without reference to formulaic targets. Performance will be assessed taking into account circumstances applying over the period of assessment which may have affected the achievability of performance objectives. The majority of the performance variation will take place under a pre-grant test, with a pre-vest assessment representing a final check that, taking all circumstances into account, overall performance has been satisfactory. The achievement of reasonable or 'target' performance expectations will deliver full, or nearly full, payout of the LTI awards, reflecting the significantly reduced level of awards.

Each year, the performance factors will be determined in light of RBS's priorities for that year. The first awards will not be made under the proposed LTI construct until early 2018 and further details will be disclosed in the 2017 annual remuneration report.

Performance management framework

What areas will be assessed?	FINANCE *e.g. CET1 ratio, Return on Equity*	CUSTOMERS *e.g. factors aligned with the defined customer strategy, NPS scores*
	RISK & OPERATIONS *e.g. deliver on key operational priorities for the year and progress on risk culture*	PEOPLE *e.g. engagement index, progress against defined people objectives*
	Supported by Risk & Control and Stakeholder Perception underpins *to consider whether there are any other factors that would lead to a downwards adjustment (for example if the achievements within the areas above were not considered sustainable, or were achieved through excessive risk taking)*	

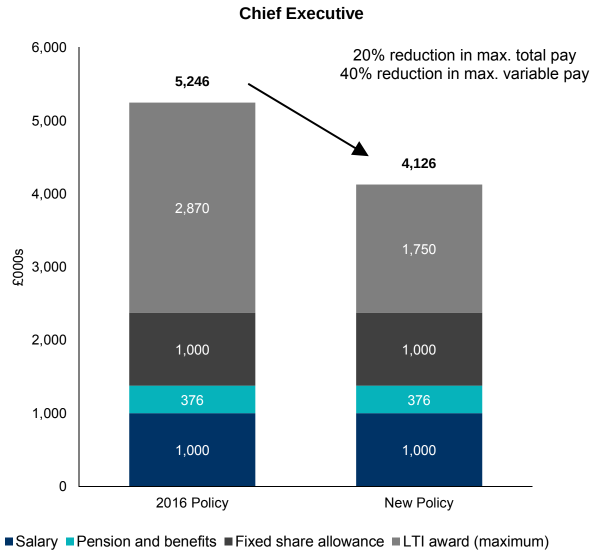
The pre-grant test will constitute a collective and individual view of performance over the prior year. No deduction will be made for target performance. Prior to vesting, a pre-vest test will be based on an assessment of collective performance for the year for which the award was made, knowing 'what we know now', and taking into account all circumstances. This is intended to carry a high degree of certainty, and to vest as long as a threshold level of sustainable performance has been delivered.

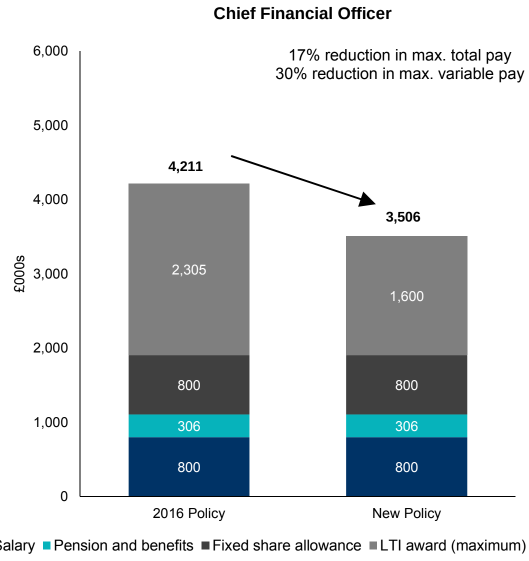
The aim is to reward sustained performance and, following the application of both the pre-grant and pre-vest assessment, executive directors should expect to receive 80% of the award on average over time provided that they deliver on the performance factors as determined by the Committee. Awards may be reduced, potentially down to zero, further to the application of either the pre-grant or pre-vest tests where there has been significant underperformance or risk management failings.

Comparison of the 2014 and 2017 remuneration policy for executive directors

	2014 policy	2017 policy
Fixed remuneration *overall, no change in quantum at this time*	Salary £1,000,000 for the Chief Executive £800,000 for the Chief Financial Officer Fixed share allowance 100% of salary, delivered in shares released over a five year retention period. Pension allowance 35% of salary, delivered in cash. Standard benefit funding £26,250	No changes to salary levels are proposed at this time. No change to the fixed share allowance amount but shares will be released over a three year retention period, to create a more even release structure between fixed and variable pay. No change to pension allowance for current executive directors. Policy for new executive directors to be reduced to 25% of salary. No changes to standard benefit funding level.
Variable remuneration *significant reduction in maximum potential*	Long-term incentive award Underlying award of 400% of salary but with pay-out capped by regulatory maximum which for performance year 2016 equates to 287% of salary. Pre-vest performance measures based on four categories: Economic Profit, Relative TSR, Safe & Secure Bank and Customers & People together with a risk and conduct underpin. A three year performance period and the award vests in equal amounts in years four and five. A six month retention period applies after vesting and the clawback period is seven years from the date of grant.	175% of salary for the current Chief Executive (currently £1.75 million) and 200% of salary for the current Chief Financial Officer (currently £1.6 million). Pre-grant and pre-vest tests, to consider performance in the round, against what would reasonably have been expected in the areas of Finance, Risk & Operations, Customers and our People. Risk & Control and Stakeholder Perception underpins will apply. Extension of the deferral period with vesting taking place in equal amounts over years three to seven. A 12 month retention period applies after vesting. The clawback period is extended to ten years from grant if events are under investigation at the end of the seven year period.
Other elements *better alignment with shareholders*	Shareholding requirement 250% of salary for the Chief Executive 125% of salary for the Chief Financial Officer A period of five years is allowed in which to build up shareholdings to the required level. Any unvested share awards are excluded from the calculation.	400% of salary for the Chief Executive 250% of salary for the Chief Financial Officer. Unvested LTI awards will count towards the requirement once any pre-vest performance has been assessed, three years after grant. The number of unvested shares that count will be reduced to reflect the estimated tax liability arising on vesting. Once shares are free from their respective retention periods, executive directors will be permitted to sell a maximum of 25% of such shares until the requirement is met. It is estimated that it would take a new Chief Executive five years to meet the 400% shareholding requirement. Executive directors will continue to hold significant shareholdings after leaving and a post-employment shareholding requirement is therefore not considered necessary. Depending on leaver circumstances, it would take between three and eight years for an executive director to fully dispose of RBS shares due to the long vesting and retention periods.
	Leaver treatment LTI awards held by good leavers are normally pro rated based on time served during the performance period.	Future LTI awards held by good leavers will not be subject to pro rating for time. Removal of pro rating is a key part of the construct in order to achieve the reduction in maximum opportunity while broadly maintaining expected value to executive directors over their typical tenure in role. It also helps to ensure that individuals retain an appropriate long-term focus right up to the point of departure, as well as providing greater shareholder alignment post employment.

Change in maximum remuneration opportunity



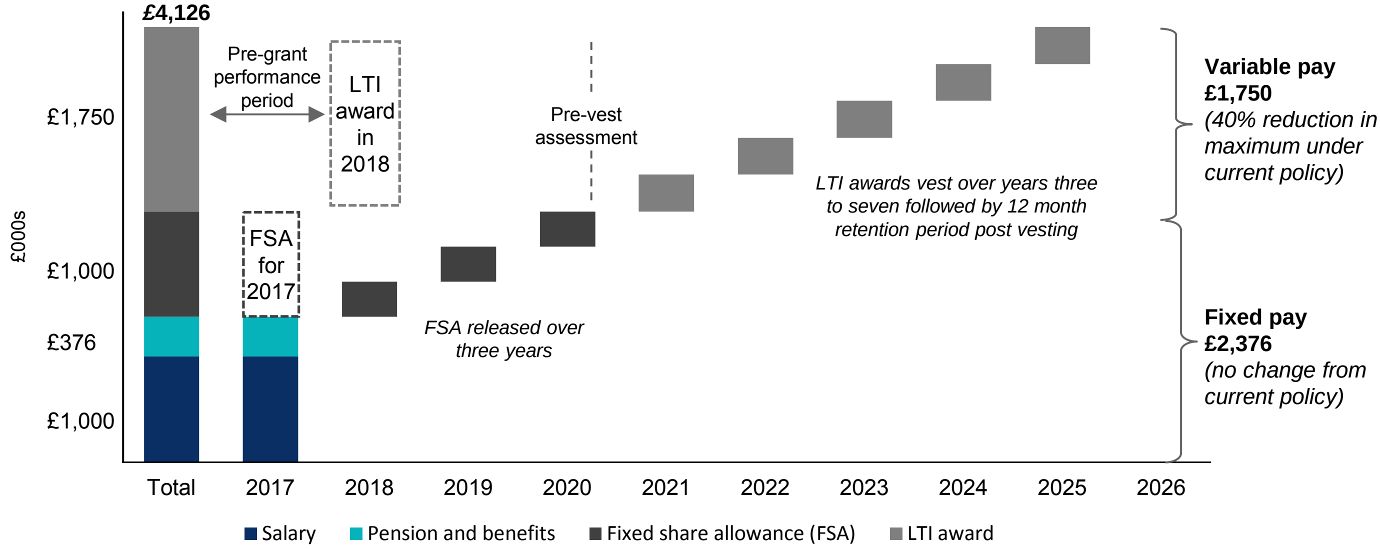


Expected target value of remuneration

The new remuneration policy promotes sustainable long-term performance by having a lower maximum LTI award level and performance tests that encourage individuals to operate within risk appetite. The release of shares will extend over an eight year period (vesting over seven years and one year post-vesting retention period), following a year of pre-grant assessment to determine the size of the award.

While the maximum and expected value of pay from a single year's remuneration is being reduced, the policy aims broadly to maintain the expected value of pay to executive directors over their typical tenure in role. The combination of reduced LTI award levels, offset by performance based on factors that the executive would reasonably be expected to achieve and the removal of pro rating for good leavers ensures this aim is achieved.

Timing of remuneration payments – based on the Chief Executive for the 2017 performance year



Questions and answers on the new remuneration policy

Why are changes being made to the policy at this time?
During 2016, the Committee took the opportunity to assess how the remuneration policy could best fit with RBS's culture and pay philosophy for employees.

What options did the Committee consider?
The Committee reviewed the current policy against a range of factors including the latest guidance from shareholders, regulatory requirements, the external environment and wider social considerations in determining executive pay.

Two main options were identified following the review:

- Adopting an alternative LTI construct to replace the current structure, based on reduced maximum quantum but with performance assessed on factors that the executive would reasonably be expected to achieve; or
- Keeping the current construct with changes limited to those required to comply with regulatory requirements.

After consultation with major shareholders, the Committee believes that the alternative LTI construct provides the best fit with RBS's ambitions as well as being strongly aligned to the creation of long-term shareholder value.

What material factors are taken into account when setting remuneration policy?
The intention is to create a remuneration policy that is specific to RBS and its particular circumstances rather than looking to follow standard market practice. The policy aims to reinforce our values and support the delivery of RBS's strategy. The views of shareholders are key in shaping the remuneration policy along with the need to comply with evolving regulatory requirements. The Committee also looks to ensure consistency, where possible, between the executive director policy and pay proposals for the broader employee population. This includes less reliance on variable pay and the use of deferral in shares, malus and clawback to ensure that any variable pay that is awarded is aligned with long-term performance.

What are the key features of the new policy?
RBS-driven features:
- Maximum potential LTI awards will be reduced;
- Performance assessment is based on factors considered to be more within the control of management;
- The policy encourages executive directors to operate within risk appetite and deliver safe and secure growth;
- Shareholding requirements will be increased;
- Fixed share allowances will be released over a three year rather than a five year retention period, in recognition of the impact of the extended deferral period for LTI awards;
- LTI awards held by executive directors who leave in 'good leaver' circumstances will not be subject to time pro rating, helping to maintain expected value and increasing post employment shareholder alignment; and
- The pension allowance under the recruitment policy for new executive directors will be reduced from 35% to 25% of salary, with a corresponding increase to other elements of fixed pay.

Regulatory-driven features:
- Pre-grant performance tests will be introduced;
- The pre-grant performance test has the effect of preventing the grant of an LTI award in the year of joining;
- The deferral period will be extended with awards vesting between years three to seven from the date of grant;
- The retention period that applies after the vesting date will be increased from six months to twelve months; and
- The clawback period is extended to ten years from grant if events are still under investigation after seven years.

Why will future LTI awards not be subject to pro rating?
The new policy takes into account the significant reduction in maximum opportunity and the regulatory restriction which has the effect of preventing the granting of LTI awards in the first year of employment. The Committee believes that removal of time pro rating for good leavers is fair in order to broadly maintain the expected value of pay over time and is appropriate in RBS's particular circumstances.

RBS is unusual in having no annual bonus element of pay and bonus awards would typically not be subject to pro rating. Under an LTI only construct, removal of pro rating helps to ensure that executive directors are motivated and retain an appropriate long-term focus right up to the point of departure, and also provides greater shareholder alignment and continued accountability for decisions post employment. The departing good leaver retains exposure to RBS shares for up to eight years post leaving due to the long vesting and retention periods that continue to apply.

The removal of pro rating places additional focus on good leaver definitions and further details on the circumstances that will qualify for good leaver treatment are set out on page 99.

When will the new policy be implemented?
The new policy will be effective from the date of the 2017 AGM. The changes will be implemented in a transitional period from 2017 to 2018. The fixed share allowance for 2017 will be awarded after the AGM, to be released over a three year retention period, and the first LTI awards under the new policy will be made in early 2018.

How will LTI awards be made in 2017?
The LTI award to be made in March 2017, for the 2016 performance year, will be the last award made under the 2014 remuneration policy. This award will include a longer deferral period, with 50% of the award vesting after four years and the remaining 50% vesting in years five to seven, along with an extended clawback period in line with regulatory requirements. A summary of the transitional arrangements is set out below.

Awarded in 2017	Awarded in 2018
2017 salary	2018 salary
2017 pension	2018 pension
2017 fixed share allowance (released over 2018-2020)	2018 fixed share allowance (released over 2019-2021)
Current policy LTI for 2016 performance year (vests 50% in 2021, 50% split over 2022-2024)	New policy LTI for 2017 performance year (vests pro-rata over 2021-2025)

Directors' Remuneration Policy

The policy will be effective from the date of the 2017 AGM. The policy will apply for three years, until the AGM in 2020, unless changes are required in which case a revised policy will be submitted to shareholders for approval. The objective of the policy is to support the business strategy and promote the long-term success of RBS.

Fixed pay elements for current executive directors

Fixed pay elements are intended to provide a level of competitive remuneration for performing the role. The intention is to have less reliance on variable pay and thus discourage excessive risk-taking.

Element of pay	Purpose and link to strategy	Operation	Maximum potential value
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.	Paid monthly and reviewed annually. The rates for 2017 are unchanged: • Chief Executive - £1,000,000 • Chief Financial Officer - £800,000 Further details on remuneration arrangements for the year ahead are set out in the annual report on remuneration.	Determined annually. Any future salary increases will be considered against peer companies and will not normally be greater than the average salary increase for RBS employees over the period of the policy. Other than in exceptional circumstances, the salary will not increase by more than 15% over the course of this policy.
Fixed share allowance	To provide fixed pay that reflects the skills and experience required and responsibilities for the role. This will be delivered in shares subject to a retention period.	A fixed allowance paid entirely in shares. Individuals receive shares that vest immediately subject to any deductions required for tax purposes and a retention period will apply. Shares will be released from the retention period in equal tranches over a three year period. The fixed share allowance will broadly be paid in arrears, currently in two instalments per year.[1] The fixed share allowance is not pensionable.	An award of shares with an annual value of up to 100% of salary at the time of award, or such higher amount which represents such value rounded up to the nearest whole share.
Benefits	To provide a range of flexible and market competitive benefits that are valued and assist key individuals in carrying out their duties effectively.	A set level of funding is provided and executive directors can select from a range of standard benefits including, but not limited to: • company car • private medical cover • life assurance • critical illness insurance In addition, executive directors are entitled to travel assistance in connection with company business including the use of a car and driver. RBS will meet the cost of any tax due on the benefit. On rare occasions where they are accompanied by their spouse / partner to business events, RBS may also meet the costs and any associated tax liability. Executive directors are also entitled to holiday and sick pay. Further benefits including, but not limited to, relocation costs (e.g. tax advice, shipment and storage facilities, housing and flight allowances and payment of legal fees) may be offered in line with market practice. RBS may also put in place certain security arrangements for executive directors where that is deemed appropriate.	Set level of funding for standard benefits (currently £26,250) which is subject to review. The total value of benefits provided is disclosed each year in the annual report on remuneration. The maximum potential value of benefits will depend on the type of benefit and cost of its provision, which will vary according to market rates.
Pension	To encourage planning for retirement and long-term savings.	Provision of a monthly cash pension allowance based on a percentage of salary. Opportunity to use the cash to participate in a defined contribution pension scheme.	Pension allowance for current executive directors of 35% of salary.

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 regulatory requirements. If regulatory requirements emerge that prohibit allowances being delivered in shares, or deem that such allowances will not qualify as fixed remuneration, then RBS reserves the right to provide the value of the allowance in cash instead in order to comply with the requirements.

Variable pay

Variable pay is intended to incentivise the delivery of sustainable long-term performance, with rewards aligned to shareholders' interests and adjusted for risk. The first awards under the new policy will be made in early 2018.

Element of pay	Purpose and link to strategy	Operation	Maximum potential value	Performance assessment
Variable pay award (long-term incentive)	To support a culture where individuals are rewarded for the delivery of sustained, target performance, taking into account RBS's strategic objectives. Performance will include a range of financial and non-financial factors to encourage long-term value creation for shareholders. Delivery in shares with the ability to apply malus adjustments and clawback further supports longer-term alignment with shareholders' interests.	Any variable pay awarded will be delivered as a long-term incentive, paid in shares and subject to performance assessment and employment conditions. Awards will be subject to deferral, malus, clawback, post-vesting retention periods and any other terms as required by regulators. A one year pre-grant performance period will apply and awards will also be subject to a pre-vest performance assessment at the end of a three year period, with vesting taking place from years three to seven after grant. Awards are subject to malus prior to vesting and clawback post vesting. Clawback applies for seven years from the date of award, extended to ten years if events are under investigation at the end of the normal seven-year clawback period. The post-vesting retention period will be 12 months. The award will be delivered under the RBS 2014 Employee Share Plan, as approved by shareholders at the 2014 AGM.	The maximum award for current directors is 175% of salary for the Chief Executive and 200% of salary for the Chief Financial Officer, or such higher amount which represents such value rounded up to the nearest whole share. Awards are also subject to the regulatory requirement that limits variable pay to the level of fixed pay and can be valued in line with EBA rules, including any available discount for long-term deferral. The regulatory limit is currently higher than the level under the proposed new policy. Prior performance will be taken into account when determining the value of the award at the time of grant. The vesting level of the award can vary between 0% and 100% dependent on the assessment of performance.	Performance will be assessed in the areas of Finance, Risk & Operations, Customers and our People to determine whether the executive has achieved what would reasonably have been expected in the circumstances. The Committee will consider relevant factors (e.g. CET1 ratio under the Finance heading and others relating to progress in the areas of Risk & Operations, Customers and People objectives) that are relevant to RBS's strategic aims but will apply its judgement for the most part without reference to formulaic targets. Risk & Control and Stakeholder Perception underpins will apply which may lead to downwards adjustment. Performance will be assessed in the round. The majority of the performance variation is expected to take place under the pre-grant test, with the pre-vest assessment representing a final check that, taking all circumstances into account, overall performance has been satisfactory. The Committee has discretion to vary the performance factors in appropriate circumstances. Further details on the performance factors and assessment will be set out in the annual remuneration report for the relevant year.

Notes to policy table

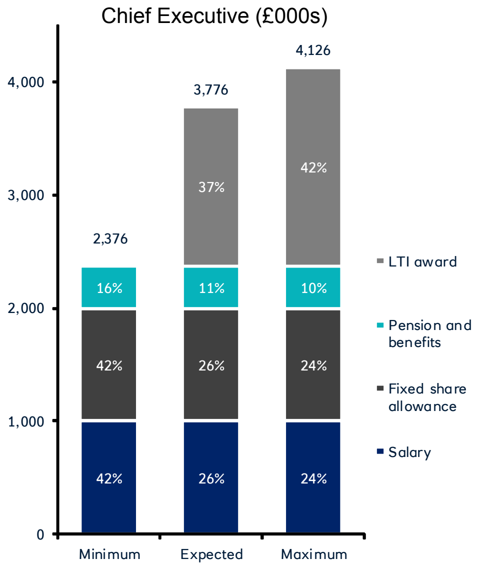
- The performance factors for variable pay awards have been chosen to reward sustained performance and are complemented by increased long-term shareholding requirements. Any targets will be set in line with RBS's strategic priorities.
- The fixed share allowance is part of fixed remuneration and is therefore not subject to any performance adjustment.
- Changes have been made under the proposed policy to lower the maximum quantum of LTI awards combined with performance factors considered to be more within the control of management and increased shareholding requirements. Further details on the changes can be found on page 89 to 92.
- Remuneration for executive directors broadly follows the policy for all employees but generally with a higher element of variable pay and greater delivery in shares, held for the long term to ensure appropriate alignment with the interests of shareholders.
- Further details on the remuneration policy for all employees, including details on how malus and clawback can be applied, can be found on pages 109 to 110 of the 2016 Report and Accounts, available on rbs.com.

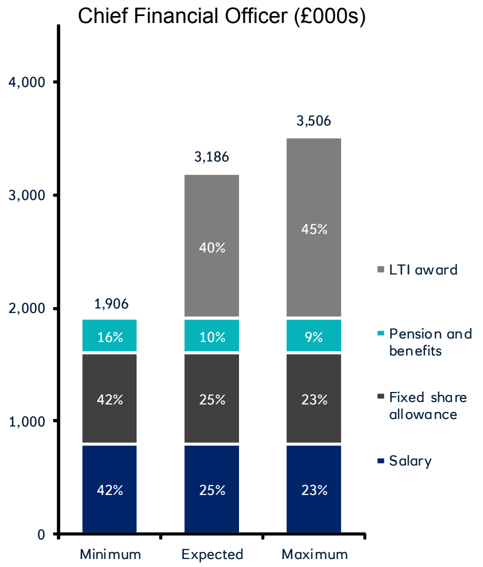
Directors' Remuneration Policy

Other pay elements

Element of pay	Purpose and link to strategy	Operation	Maximum potential value
Shareholding requirements	To ensure executive directors build and continue to hold a significant shareholding to align with the interests of shareholders.	Executive directors are required to build up a shareholding equivalent to a percentage of salary. Unvested shares from LTI awards will count on a net of tax basis towards meeting the shareholding requirement once the pre-vest performance assessment has taken place, at the end of the three year period. Once the respective retention periods have passed, directors are permitted to dispose of up to 25% of the net of tax shares received until the shareholding requirement is met. Any shares purchased voluntarily will be excluded from this sale restriction.	Chief Executive 400% of salary Chief Financial Officer 250% of salary Requirements may be reviewed in future but are not expected to be reduced.
All-employee share plans	An opportunity to acquire RBS shares.	Opportunity to elect to contribute from salary and acquire shares under any of the company's all-employee share plans in operation from time to time, such as the RBS Sharesave and Buy As You Earn Plan. These plans are not subject to performance conditions.	Statutory limits imposed by HMRC or the applicable limits under the relevant plans.
Legacy arrangements	To ensure RBS can continue to honour payments due to executive directors.	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 2014 Employee Share Plan. LTI awards under the existing policy will normally vest over a three to seven year period subject to the achievement of relevant performance conditions, based on Economic Profit, Relative Total Shareholder Return, Safe & Secure Bank and Customers & People measures. Six month post-vesting retention periods and service requirements also apply. Further details of the value and terms of the awards can be found in the annual remuneration reports for the relevant years. Authority is also given to honour arrangements agreed for an employee prior to appointment as an executive director that may have different terms or performance conditions.	In line with existing commitments and arrangements.

Remuneration scenarios for current executive directors under the new remuneration policy





Notes:
(1) The charts above are for illustration only and do not take into account any share price movement over the period.
(2) The benefits figure includes standard benefit funding as outlined in the policy but excludes exceptional or business related items such as relocation allowances and travel assistance in connection with company business, the value of which will be disclosed in the total remuneration table each year.
(3) Subject to the performance assessment, LTI awards will vest between years three to seven from award and be subject to a 12 month retention period post vesting.
(4) The total maximum opportunity represents a 20% reduction for the Chief Executive and a 17% reduction for the Chief Financial Officer from that available under the current policy. The variable pay element is approximately 40% lower for the Chief Executive and 30% lower for the Chief Financial Officer than the current policy.
(5) The relatively minor difference between expected and maximum shown above is the consequence of a deliberate move to a less leveraged remuneration construct. The expected value has been calculated at 80% of maximum. The policy has a strong focus on long-term shareholding to create alignment with shareholders along with LTI awards assessed on factors that executive directors would reasonably be expected to achieve, encouraging performance within risk appetite.

Remuneration for the Chairman and non-executive directors

Element of pay	Purpose and link to strategy	Operation	Maximum potential value
Fees	To provide a competitive level of fixed remuneration that reflects the skills, experience and time commitment required for the role.	Fees are paid monthly in cash. The Board retains discretion to pay fees in shares as well as cash. The level of remuneration reflects the responsibility and time commitment required and the level of fees paid to directors of comparable major UK companies. Fees are reviewed regularly. 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. No variable pay is provided so that the Chairman and non-executive directors can maintain appropriate independence, focus on long-term decision making and constructively challenge performance of the executive directors.	Following a review of the size of the Board against comparable companies and the relative time commitment for individual non-executive directors at RBS, it is proposed to increase the basic Board fee for non-executive directors in 2017 from the date of the AGM. This would be the first change in the basic Board fee since the policy was last approved in 2014. There is no change at this time to the Chairman's composite fee. The rates for the year ahead are set out in the annual report on remuneration. Any future increases to fees will be considered against fees paid to directors of 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. Other than in exceptional circumstances, fees will not increase by more than 15% over the course of this policy.
Benefits	To provide a level of benefits in line with market practice.	Reimbursement of reasonable out-of-pocket expenses incurred in connection with the performance of duties. The Chairman and non-executive directors are entitled to travel assistance in connection with company business including the use of a car and driver. RBS will meet the cost of any tax due on the benefit. On rare occasions where they are accompanied by their spouse / partner to business events, RBS may also meet the costs and any associated tax liability. Other benefits may be offered in line with market practice. The Chairman also receives private medical cover.	The value of the private medical cover provided to the Chairman and any other benefits will be in line with market rates and disclosed in the annual report on remuneration.

Discretion

The Committee has certain discretionary powers under the company's employee share plan rules. For example, the Committee has discretion to determine whether an individual would qualify as a good leaver on departure and also to decide that awards held by good leavers should vest earlier than the normal vesting date. Such discretions would only be used 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 for an orderly transition. If discretion is applied in these circumstances then it will be disclosed.

Further discretions include the ability to: treat LTI awards in a range of ways in the event of a change of control, including the ability for LTI awards to be exchanged for new awards; change any performance measures, targets, and to adjust such awards if major events occur (for example transaction and capital raisings); and make administrative changes to the plan rules. In addition, the Committee retains discretion to apply malus and clawback to LTI awards. When assessing performance, the Committee can also adjust the number of shares that are received under LTI awards through the application of underpins in appropriate circumstances.

The Committee also retains the discretion to make reasonable and proportionate changes to the Directors' Remuneration Policy in order to respond to changing legal or regulatory requirements or guidelines (including but not limited to any PRA or FCA revisions to their remuneration rules and the EBA remuneration guidelines). Where proposed changes are considered to be material, the Committee will consult with RBS's major shareholders.

Directors’ Remuneration Policy

Recruitment remuneration policy

- RBS considers both internal and external candidates and assesses the skills and experience required for each role. Pay is generally set at no more than is required to attract the most suitable candidate for the role;
- The policy on the recruitment of new directors aims to be competitive and to structure pay in line with the framework applicable to current directors, based on the elements of pay detailed in the policy table, recognising that some adjustment to quantum within that framework may be necessary to secure the preferred candidate;
- The pension allowance for new executive directors will be reduced from 35% to 25% of salary, to bring the rate more in line with that of other employees, with a corresponding increase to other elements of fixed pay;
- Consideration will be given to the skills and experience held by the individual being recruited, as well as the incumbent’s position;
- In the event of an internal promotion, existing contractual commitments can continue to be honoured;
- A buy-out policy exists to replace awards forfeited or payments foregone. The buy-out policy is in line with regulatory requirements, including the PRA rules that apply to buy-outs concluded on or after 1 January 2017;
- The Committee will minimise buy-outs wherever possible and ensure they are no more generous than, and on substantially similar terms to, the original awards or payments they are replacing. No sign-on awards or other payments will be offered on joining;
- Any awards granted following the recruitment of a candidate may be made under the company’s employee share plans from time to time or under the relevant provisions in the Listing Rules and will need to comply with regulatory requirements. Full details will be disclosed in the next remuneration report following recruitment; and
- The maximum level of variable pay which may be granted to new executive directors will be guided by, but not limited to, arrangements for existing executive directors and in any event will not be more than one times the level of fixed pay, valued according to EBA rules. The maximum level excludes any buy-out arrangements.

Other directorships

Agreement from the Board must be sought before directors accept any additional roles outside of RBS. Procedures are in place to make sure that regulatory limits on the number of directorships held are complied with. The Board would also consider whether it was appropriate for executive directors to retain any remuneration receivable in respect of any external directorships, taking into account the nature of the appointment. Neither of the current executive directors holds a non-executive director role at any other company at this time. Details of the directorships held by other directors can be found in the biographies section of the corporate governance report.

Consideration of employment conditions elsewhere in the company

The Committee retains oversight of the remuneration policy for all employees to ensure there is a fair and consistent approach throughout the organisation. The policy uses deferral, malus and clawback to promote effective risk management and alignment with shareholders’ interests.

Consultation on remuneration generally takes place with our social partners, including representatives from UNITE. RBS is a fully accredited Living Wage employer and we set our minimum pay (including benefit funding) above the level that is required to meet this.

An annual employee opinion survey takes place which includes a number of questions on pay and culture. This includes questions on employees’ understanding of how pay is determined and whether employees believe they are paid fairly for the work they do.

While employees are not directly consulted on the directors’ remuneration policy, around 24,000 of our employees are shareholders through the company’s employee share plans and have the ability to express their views through voting on the Directors’ Remuneration Report.

Consideration of shareholders’ views

An extensive consultation is undertaken every year with major shareholders, including UKFI and other stakeholders, on our proposed remuneration approach. The consultation process typically involves inviting our largest shareholders to attend either one-to-one meetings or roundtable discussions.

A range of topics are discussed including the remuneration policy for the year ahead and any significant changes. The process takes place in sufficient time for shareholders’ views to be considered prior to the Committee making any final decisions on remuneration and variable pay awards.

In late 2016, meetings took place involving a number of institutional shareholders and shareholder bodies representing a substantial portion of the non-UKFI shareholding. The reaction to the consultation process was positive and allowed the Committee to gain valuable insight into any areas of concern. Shareholders and other stakeholders indicated they were supportive of the new remuneration construct, highlighting the reduction in maximum potential variable pay and increased shareholding requirements as favourable features.

Shareholders asked wide-ranging questions including how the performance tests would work and the rationale for removing pro rating for good leavers. The Committee Chairman explained how the expected value of pay would be broadly maintained over time under the new policy, provided that pro rating for good leavers did not apply, and that there were merits in assessing executive directors against factors considered to be more within their control and which they could reasonably be expected to achieve.

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.

Service contracts and policy on payments for loss of office – directors

Provision	Policy details for executive directors
Notice period	RBS or the executive director is required to give 12 months' notice to the other party to terminate the executive director's employment.
Payments for loss of office	There are no pre-determined provisions for compensation on termination. There is discretion for RBS to make a payment in lieu of notice (based on salary only) which is released in monthly instalments. 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 outstanding employee share plan awards on termination	Any shares awarded under the fixed share allowance and LTI awards will be treated in accordance with the relevant plan rules as approved by shareholders. Fixed share allowances Shares will continue to be released over the applicable retention period helping to ensure that former executive directors maintain an appropriate interest in RBS shares. In all leaver circumstances, executive directors will continue to be eligible to receive a pro-rated fixed share allowance to reflect the period up to the termination date. LTI awards made under the remuneration policy approved at the 2014 AGM LTI 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. LTI awards held by good leavers will continue to be subject to pro rating, to reflect the proportion of the performance period that has elapsed at the date of termination, unless the Committee exercises its discretion to determine otherwise. LTI awards held by good leavers will normally vest on the original vesting dates, subject to the performance conditions being met. Changes for LTI awards made under the new 2017 remuneration policy LTI awards made in future will not be subject to pro rating for time in good leaver circumstances, for the reasons outlined earlier in this report. Awards will also generally be made to good leavers in respect of the final year of employment. Good leaver definition for LTI awards This definition applies to all LTI awards that the executive director holds. Individuals will qualify for good leaver treatment if they leave due to ill-health, injury, disability, death, retirement, redundancy, the employing company ceasing to be a member of the Group, transfer of the employing business, or any other reason if and to the extent the Committee decides in any particular case. With respect to the 'retirement' category above, and recognising the typical length of tenure for executive director roles, retirement good leaver treatment for executive directors will typically be considered taking all circumstances into account. Factors the Committee would expect to be present before agreeing to good leaver treatment under retirement include: whether the individual has been in role for at least five years, or otherwise qualifies for retirement criteria under RBS's policy, has demonstrated satisfactory performance, is not leaving to work in a capacity considered to be competing directly and materially with RBS, and is leaving at a time and in a manner that is agreed with the Board.
Other provisions	Contracts include standard clauses covering remuneration arrangements and discretionary incentive plans (as set out in this report), 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. The Committee retains the discretion to make payments (including but not limited to professional and outplacement fees) to facilitate smooth handovers, mitigate against legal claims and/or procure reasonable assistance with investigations or claims, subject to any payments being made pursuant to a settlement or release agreement.

Provision	Policy details for the Chairman and non-executive directors
Notice and termination provisions	The Chairman and the non-executive directors have letters of appointment reflecting their responsibilities and time commitments. They do not have notice periods and no compensation would be paid to the Chairman or non-executive directors in the event of termination of appointment, other than standard payments payable for the period served up to the termination date.

Election or re-election of directors

In accordance with the provisions of the UK Corporate Governance Code, all directors of the company stand for election or re-election annually by shareholders at the company's AGM.