

Summary remuneration report

Remuneration policy

The Remuneration Committee conducted a comprehensive review of all aspects of the remuneration package in 2005, and the executive remuneration policy outcome was approved by shareholders at the company's Annual General Meeting in 2006. During the year, the Remuneration Committee continued to review policy in light of market changes and shareholder comments. As a result, a new executive share option plan is being submitted to shareholders for approval at the company's 2007 Annual General Meeting.

The objective of the executive remuneration policy is to provide, in the context of the company's business strategy, remuneration in form and amount which will attract, motivate and retain high-calibre executives. In order to achieve this objective, the policy is framed around the following core principles:

- Total rewards will be set at levels that are competitive within the relevant market, taking each executive director's remuneration package as a whole. The relevant market is FTSE top 20 companies and major UK banks for the UK-based executives and US retail banks for US-based executives.
- Total potential rewards will be earned through achievement of demanding performance targets based on measures consistent with shareholder interests over the short, medium and longer term.
- Remuneration arrangements will strike an appropriate balance between fixed and performance-related rewards. Performance-related elements will comprise the major part of executive remuneration packages.
- Incentive plans and performance metrics will be structured to be robust through the business cycle.
- Remuneration arrangements will be designed to support the company's business strategy, to promote appropriate teamwork and to conform to best practice standards.

Components of executive remuneration

UK-based directors

Salary

Salaries are reviewed annually as part of total remuneration, having regard to remuneration packages received by executives of comparable companies. The Remuneration Committee uses a range of survey data from remuneration consultants and reaches individual salary decisions taking account of the remuneration environment and the performance and responsibilities of the individual director.

Benefits

UK-based executive directors, with the exception of Guy Whittaker, are members of The Royal Bank of Scotland Group Pension Fund ("the RBS Fund"). Any new executive directors will not be eligible to participate in the RBS Fund unless they were already a member prior to 1 October 2006.

The RBS Fund is a non-contributory defined benefit fund.

From April 2006, new tax legislation applies to UK pensions. The Remuneration Committee reviewed pension provision for all executives and determined that the cost of any additional tax that individuals may incur as a result of their benefits exceeding the new lifetime allowances and annual allowances would not be met by the Group. The Committee believes that pension is an effective element in the retention of directors and decided that no changes should be made to existing arrangements other than to allow directors to opt out of future tax-registered pension provision.

Executive directors are eligible to receive a choice of various employee benefits or a cash equivalent, on a similar basis to other employees. In addition, as employees, executive directors are eligible also to participate in Sharesave, Buy As You Earn and the Profit Sharing scheme, which currently pays up to 10% of salaries, depending on the Group's performance. These schemes are not subject to performance conditions since they are operated on an all-employee basis. Executive directors also receive death-in-service benefits.

Short-term annual incentives

UK-based executive directors normally have a maximum annual incentive potential of between 160% and 200% of salary. For exceptional performance, as measured by the achievement of significant objectives, executive directors may be awarded incentive payments of up to 200% of salary, or 250% of salary, in the case of the Group Chief Executive and the Chief Executive, Corporate Markets. Awards will normally be based on the delivery of a combination of appropriate Group and individual financial and operational targets approved each year by the Remuneration Committee.

For the Group Chief Executive, the annual incentive is primarily based on specific Group financial performance measures such as operating profit, earnings per share growth and return on equity. The remainder of the Group Chief Executive's annual incentive is based on a range of non-financial measures which may include measures relating to shareholders, customers and staff.