

The Royal Bank of Scotland Group plc - Group Performance & Remuneration Committee (“Group RemCo”)

Terms of Reference

Chair	An independent Non-executive Director of The Royal Bank of Scotland Group plc (“RBSG”)
Members	At least three independent Non-executive Directors of RBSG (including the Group RemCo Chairman)
Attendees	Group Chairman Group Chief Executive Officer Group Chief HR Officer Group Chief Governance & Regulatory Officer and Board Counsel HR Director, Group Reward, Pension and Benefits
Additional Invitees	Senior representatives from HR, Risk & Conduct, Finance and Strategy as required Independent advisers – as required Additional invitees or subject matter experts may be invited to attend or to present to Group RemCo at the request of the Chair.
Quorum	Two members
Meeting Frequency	At least six five meetings per annum and ad hoc as required
Secretary	Corporate Governance and Regulatory Affairs
This Committee receives its authority from	Group RemCo operates under delegated authority from the RBSG Board.
Purpose of this Committee	To oversee the establishment and implementation of a remuneration policy for employees and directors, which is designed to support long term business strategy and values of RBSG and its subsidiaries (the “Group”), as well as promote effective risk management and comply with applicable legal and regulatory requirements. To review performance and approve remuneration arrangements as set out within its Terms of Reference.
Scope of this Committee’s oversight and responsibility	<ol style="list-style-type: none"><u>Directors</u><ol style="list-style-type: none">To review and make recommendations to the RBSG Board on the Directors’ Remuneration Policy, taking into account business strategy, values and the long-term interests of the Group, as well as the need to promote effective risk management, and comply with applicable regulation. The Directors’ Remuneration Policy is subject to RBSG Board and shareholder approval.To review and make recommendations to the RBSG Board in respect of service contracts, performance measures, performance assessment and remuneration arrangementsⁱ for RBSG Executive Directors. As part of its review of performance measures and assessment, Group RemCo will determine whether an appropriate level of risk management and performance adjustment has been applied through consultation and receipt of advice from the Group Board Risk Committee, the Group Sustainable Banking Committee, the Group Audit Committee and the Group’s Control Functions, as it considers

necessary or appropriate.

- 1.3 To make recommendations to the RBSG Board on any termination payments for RBSG Executive Directors, having regard to the terms of the service contract and reasons for termination. Group RemCo will ensure that any proposals relating to such payments made are fair and reasonable and recognise that failure is not rewarded and the duty to mitigate loss.

2. Group Executive Committee (Group ExCo) and key legal entity Executive Committee Members and Formal Attendees

To review and approve performance measures, performance assessment and remuneration arrangements for Group ExCo and key legal entity ExCo members and formal attendees other than the RBSG Executive Directors. As part of its review of performance measures and assessment, Group RemCo will determine whether an appropriate level of risk management and performance adjustment has been applied through consultation and receipt of advice from the Group Board Risk Committee, the Group Sustainable Banking Committee, the Group Audit Committee and the Group's Control Functions, as it considers necessary or appropriate.

3. High Earners

To review and approve remuneration arrangements for individuals who earn total annual compensation of \geq £1 million ("High Earners") and any individual remuneration decision with total or aggregate value of \geq £1 million arrangements (e.g. severance arrangements).

4. Material Risk Takers

- 4.1 To approve the framework and principles that govern remuneration arrangements for MRTs who fall outside of the ExCo/High Earner population.
- 4.2 To review and approve remuneration arrangements for any MRT individual who falls outside of the ExCo/High Earner populations or otherwise delegate such authority to any of its members, attendees or management, as appropriate.

5. Group-wide Population

- 5.1 To review annually and approve the Group Remuneration Policy (including the design principles for short term incentives) taking into account any applicable regulatory requirements and other relevant guidance.
- 5.2 To review and approve annual bonus pool proposals for the Group's franchises and functions, ensuring they are appropriately performance and risk adjusted. As part of the review, Group RemCo will consult and receive advice from the Group Board Risk Committee, the Group Sustainable Banking Committee, the Group Audit Committee and the Group's Control Functions, as it considers necessary or appropriate.

6. Employee Share Plans

- 6.1 To assess and approve vesting levels for employee share plan awards granted to any individual.
- 6.2 To consider and make recommendations to the RBSG Board in relation to any employee share plan proposals which require shareholder approval.
- 6.3 To consider and approve any employee share plan proposals which relate to RBSG level corporate events.
- 6.4 To monitor levels of shareholder dilution arising from the grant of employee share plan awards.

7. Remuneration Policy Implementation

To review annually a report from management on the operation and effectiveness of the Group Remuneration Policy including the determination of whether an appropriate level of risk management and performance adjustment has been applied in connection with variable remuneration arrangements.

8. Reporting and Disclosure

- 8.1 To report to the RBSG Board after each meeting on all material issues discussed.
- 8.2 To approve the Remuneration Report to Group shareholders which forms part of the Annual Report and Accounts and includes the Directors' Remuneration Policy.
- 8.3 To consider and make recommendations to the RBSG Board on remuneration related shareholder resolutions.
- 8.4 To be prepared, through the Group RemCo Chairman, to answer questions at the Annual General Meeting which relate to any matter within the remit of Group RemCo.
- 8.5 To engage, as appropriate through the Group RemCo Chairman, with key stakeholders on remuneration issues.

9. Regulatory

- 9.1 To approve the annual Remuneration Policy Statement ("RPS") to be submitted to the Prudential Regulation Authority ("PRA"). The Group RemCo Chairman will be available to meet with the PRA and the Financial Conduct Authority to discuss the RPS and other remuneration related matters.
- 9.2 To review any other significant remuneration disclosures or notifications as required by regulation from time to time.

10. Performance Review

- 10.1 To arrange periodic assessments of its own performance.
 - 10.2 To review periodically these Terms of Reference and recommend any changes to the Board for approval.
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11. External Advice

To engage, at the expense of RBSG, any external advisers, as it determines necessary, to carry out its duties.

Escalation

Group RemCo will report and make recommendations to the RBSG Board, identifying any matters within its remit in respect of which it considers that further action / approval is required.

The remuneration arrangements of the RBSG Executive Directors will be referred to the RBSG Board for approval.

The minutes of the Group RemCo will be made available to the RBSG Board.

Authority Delegated by this Committee

Group RemCo has delegated authority as follows:

- to management, to approve remuneration proposals for MRTs falling outside of the ExCo/High Earner populations. Group RemCo will oversee the delegation of this authority through an annual reportⁱⁱ;
- to management, to approve share-based award proposals for any individuals falling outside of the ExCo/High Earners. Group RemCo will oversee the delegation of this authority via the annual report on remuneration arrangements approved by management in respect of MRTsⁱⁱⁱ; and
- to the Group Chief Human Resources Officer, in respect of employee share plan matters not expressly reserved under these Terms of Reference, including for the avoidance of doubt, the approval of proposals relating to corporate events.

Group RemCo may delegate authority to management, as considered necessary or appropriate, for any other matter from time to time.

Where authority has been delegated, management will ensure no employee will be involved in the determination of his/her own pay.

ToR last approved on

29 May 2018 – Group RemCo

30 May 2018 – RBSG Board

ⁱ For the purpose of these ToR, 'remuneration arrangements' include variable remuneration, fixed pay adjustments, malus and clawback, in-year reductions and placing or lifting vesting suspensions, severance and new hire arrangements.

ⁱⁱ Responsibility for approving or overseeing non-share based remuneration arrangement for individuals falling outside the RBSG and Key Legal Entity Executive Director/ExCo/High Earner/MRT populations falls outside the scope of these ToR and will remain the responsibility of management.

ⁱⁱⁱ See footnote 2 above