

MRM/fcn

2 March 2009

Rt Hon John McFall
Treasury Committee
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Dear Mr McFall

I am responding to your letter to Stephen Hester of 27 February 2009 and have set out below the answers to your various questions.

The matters on which you seek information fall, primarily, under the authority of the Chairman of the Board, not the Group Chief Executive. In any event, both have requested that I respond to you on behalf of the Company.

This response has been compiled on the basis of discussions held over the weekend of 28 February/1 March 2009 with the principal individuals involved at RBS at the time and after a review of notes and minutes. It has not been possible in the time available, however, to speak to all former and current members of the Board nor to take those we have spoken to through the supporting material. It should be reviewed in that context.

1 The date on which the terms of Sir Fred's pension were agreed

The terms of Sir Fred Goodwin's contractual pension entitlements are recorded in letters to Sir Fred dated 24 March 2003, 26 April 2004, 21 December 2007 and 13 October 2008. The terms, as they would apply on Sir Fred's departure from the Company, were subsequently recorded in a Compromise Agreement which was signed between midnight and 3.00am on 13 October 2009.

2 Which individuals were party to these discussions both from RBS and HM Treasury

Negotiations regarding the terms of the Compromise Agreement took place over the weekend of the 10 – 12 October 2008. From RBS, the following were most directly involved in these discussions:

- Sir Fred Goodwin
- Sir Tom McKillop (Chairman)
- Robert (Bob) Scott (Chairman of the Remuneration Committee and Senior Independent Director)
- Neil Roden (HR Director)
- Anne Sloan (Executive HR Advisor)

Their recommendations were approved at a meeting of the Remuneration Committee on 12 October 2008 and by the Non Executive Directors of the Board at the Chairman's Committee on 13 October 2008 (Stephen Hester not in attendance).

3 At what stage in negotiations did Lord Myners and/or Treasury officials become involved

By way of background, it was agreed on Friday 10 October by the Non Executive Directors of RBS, and subsequently by the Nominations Committee later that day, that Sir Fred Goodwin should leave the Company and that it was in the Company's interests for there to be an orderly handover to his successor (whose identity and availability had not been finally confirmed). Sir Fred Goodwin agreed to stay in post until his successor was appointed and available. Sir Tom McKillop and Bob Scott were delegated to negotiate the specific terms to implement this decision. During the course of 10 October 2008 they decided that this would best be accomplished through treating Sir Fred Goodwin as leaving at the request of the Company in accordance with the principles applied to other Directors leaving the Group and not being dismissed. No Treasury officials or other Board members were involved at this stage.

Lord Myners had discussions with Sir Tom McKillop, Bob Scott and Sir Fred Goodwin, during Saturday 11 and Sunday 12 October 2009 with respect to Sir Fred Goodwin's departure and his compromise package.

4 Who agreed the pension settlement with Sir Fred

Sir Fred Goodwin's pension arrangements (and other payments and benefits) followed as an automatic consequence of him being asked to leave at the request of the Company. The pension terms for executives leaving the Group

are set out in the Company's Annual Report and Accounts. We are not aware of any specific negotiation in respect of these pension terms.

During the negotiation of the Compromise Agreement, Sir Tom McKillop, Bob Scott and Neil Roden were the only individuals from RBS engaged in direct discussion with Sir Fred Goodwin. Lord Myners also spoke directly with Sir Fred on the evening of 12 October 2008. RBS were legally represented by Linklaters and Sir Fred by Maclay Murray & Spens.

The proposed terms of Sir Fred's Compromise Agreement were approved at a meeting of the Company's Remuneration Committee on 12 October 2008. The Non Executive Directors at the Chairman's Committee on 12 October (Stephen Hester not in attendance) accepted the Remuneration Committee's recommendation; however there was no discussion of any alternative basis of departure to that set out in paragraph 3 above.

5 What information was given to HM Treasury, and on what dates, about the terms of the pension and whether or not there was contractual entitlement

In a telephone conversation with Lord Myners on 12 October 2008, Bob Scott recalls he summarised Sir Fred Goodwin's pension terms for Lord Myners and, in relation to Sir Fred's pension arrangements, that he emphasised that the value of Sir Fred's pension fund would be a substantial figure (he then estimated to be in the range of £15m to £20m), and that the figure would need to be disclosed in the Company's Report and Accounts. These pension terms were a consequence of the basis upon which it had been agreed that Sir Fred would be leaving the Company, although we believe that no alternative basis for departure was discussed with Lord Myners.

Further discussions took place concerning aspects of Sir Fred Goodwin's compromise package on Sunday 12 October 2008 but we do not believe that there was any further specific discussion of Sir Fred's pension terms. Following signature of Sir Fred's Compromise Agreement subsequent discussions also took place on 2 November 2008 between Lord Myners and Bob Scott in respect of certain share option entitlements which resulted in Sir Fred waiving his entitlement to these options under the terms of the Compromise Agreement.

6 What questions HM Treasury asked about the terms of the pension

Details were provided about Sir Fred Goodwin's pension terms by Bob Scott to Lord Myners (see paragraph 5, above). The Company has no record of whether any specific questions were raised about the pension terms by Lord Myners.

7 **How Sir Fred's pension entitlement differs from:**

- **what would be the case if he had been dismissed by the Board**

If Sir Fred had been dismissed in circumstances which were not characterised as retirement at the request of the employer, he would have received a deferred pension payable at age 60, or, with consent, payable at an earlier date but subject to an actuarial reduction. The value of Sir Fred's pension is £703,000 per annum as at 31 January 2009. The approximate value of a deferred pension payable now would be £416,000 per annum.

- **what would be the case if RBS had gone into administration.**

Assuming the administration did not lead to the survival of all or part of the Company but to insolvent liquidation, one possible scenario (of several) is that the Company's pension scheme would have been underfunded and so would have transferred into the statutory Pension Protection Fund. This would entitle Sir Fred Goodwin to receive 90% of his entitlement that would otherwise have been paid from the Company's registered fund but capped at a current statutory maximum of £27,770.72. In addition, Sir Fred would be entitled to receive the remainder of his pension entitlement (or a pro-rata share thereof) from the Company's unregistered (FURBS) scheme to the extent that there were funds available to do so. Sir Fred would then be an unsecured creditor for the balance of his contractual entitlement which was not otherwise paid to him.

Yours sincerely



Miller McLean
Group General Counsel and Group Secretary