

Pillar 3 Report 2014

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Forward-looking statements

This document contains certain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 with respect to the financial condition, results of operations and business of The Royal Bank of Scotland Group plc ('RBS'). Generally, words such as 'may', 'could', 'will', 'expect', 'intend', 'estimate', 'anticipate', 'believe', 'plan', 'seek', 'continue', 'project', 'should', 'probability', 'risk', 'value-at-risk', 'target', 'goal', 'objective', 'endeavour', 'outlook', 'optimistic' and 'prospects' or similar expressions or variations on such expressions identify forward-looking statements.

Any forward-looking statements set out herein represent RBS's expectations or beliefs concerning future events and involve known and unknown risks and uncertainty that could cause actual results, performance or events to differ materially from those expressed or implied in such statements. For further

risks and uncertainties faced by RBS that may impact the statements set out in this document, refer to the 2014 Annual Report and Accounts (ARA) and any other interim or updated information published by RBS.

Any forward-looking statements set out herein speak only as at the date of this document. Except as required by the Prudential Regulation Authority (PRA), the London Stock Exchange or other applicable law or regulation, RBS does not have any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, further events or circumstances or otherwise, and expressly disclaims any obligation to do so.

Basis of disclosure

The Pillar 3 disclosures made by The Royal Bank of Scotland Group plc and its consolidated subsidiaries (together RBS) are designed to comply with Capital Requirements Regulation (CRR). They should be read in conjunction with the 2014 ARA, approved by the Board on 25 February 2015.

There are important differences between RBS's accounting disclosures and the disclosures required by the Capital Requirements Directive (CRD) presented in this report, summarised as follows:

- The disclosures in this report are presented on a regulatory, rather than an accounting basis of consolidation. Therefore, these disclosures may not be directly comparable to other external disclosures made by RBS.
- The definition of exposure differs between CRR and International Financial Reporting Standards (IFRS). The CRR definition used in the Pillar 3 disclosures is exposure at default rather than carrying value at the balance sheet date, as used in RBS's financial reporting which is prepared in accordance with IFRS.

It is not always possible to aggregate the disclosures across the different CRR approaches to obtain a meaningful RBS view. This is particularly relevant for credit risk disclosures.

Key metrics

Key metrics for RBS are set out as follows:

- Strategic report section of the 2014 ARA on page 2 and 3, page 111 and page 11 for target measures.
- Capital and leverage ratios for RBS and capital ratios for significant subsidiaries on pages 7 and 8.

The information presented in this Pillar 3 Report is not required to be, and has not been, subject to external audit.

Whilst RBS has participated in discussions at the British Bankers' Association and other trade bodies, it is possible that disclosures made by other banks, especially outside the UK, are not directly comparable with those in this report.

RBS has not omitted any disclosures on the grounds that the information may be proprietary or confidential.

Disclosures in relation to remuneration are included on pages 73 to 93 of the 2014 ARA.

The disclosures in this report are based on the CRD extant at the reporting periods presented. Therefore disclosures relating to 2014 are based on CRR as promulgated by the PRA with effect from 1 January 2014; disclosures for 2013 are based on CRD III or Basel 2.5.

Appendix 4 CRR roadmap provides references to disclosures in this report as well as to disclosures elsewhere, predominantly the 2014 ARA.

Regulatory framework

Components

The Basel III framework was implemented in the European Union (EU) through the CRD.

The framework is based on three Pillars:

- **Pillar 1 - Minimum capital requirement:** defines rules for the calculation of credit, market and operational risk;
- **Pillar 2 - Supervisory review process:** requires banks to undertake an internal capital adequacy assessment process for risks not included in Pillar 1; and
- **Pillar 3 - Market discipline:** requires disclosures to allow investors and other market participants to understand the risk profiles of individual banks.

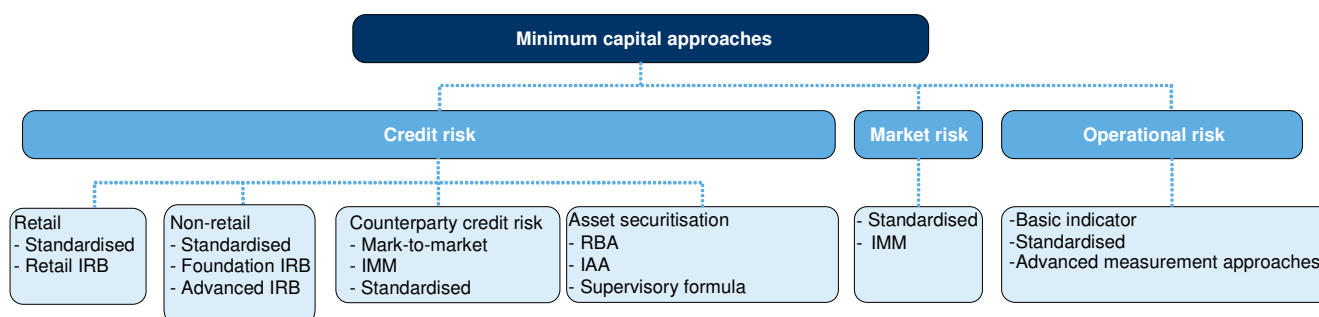
Banks are required to disclose their material risks as part of the Pillar 3 framework. Most of these requirements have already been satisfied within the 2014 ARA, available on RBS's website (rbs.com). The 2014 ARA includes a range of risk factors and provides in-depth analysis on the specific risks to which RBS is exposed.

These Pillar 3 disclosures provide additional information over and above that contained in the 2014 ARA.

Pillar 1 - Minimum capital approaches

CRR requires risk-weighted assets (RWAs) to be calculated for credit, market and operational risks with various approaches available to banks, with differing levels of sophistication. The minimum capital requirement is calculated as 8% of RWAs.

Chart 1: Minimum capital requirement approaches



For credit risk, the majority of RBS uses the internal ratings based (IRB) approach for calculating credit risk RWAs. The standardised approach is used for exposures in certain portfolios.

For counterparty credit risk RBS use both mark-to-market method and internal models method (IMM).

Securitisation RWAs are calculated based on the ratings based approach (RBA) generally and internal assessment approach (IAA) for asset-backed commercial paper conduit programmes.

RBS uses both standardised approach and IMM for calculating market risk RWAs. Refer to pages 298 to 322 of the 2014 ARA for market risk disclosures, including minimum capital requirements and non-traded interest rate, currency and equity risks.

For operational risk, RBS uses the standardised approach to calculate RWAs based on gross income. Refer to pages 187 to 190 of the 2014 ARA for operational risk disclosures.

Regulatory framework

Pillar 2 - Supervisory review process

Pillar 2 comprises RBS's internal capital adequacy assessment process (ICAAP) and a supervisory review and evaluation process undertaken on an annual basis and focusing on the amounts, types and distribution of capital which RBS considers adequate to cover the risks it is or may be exposed to.

The ICAAP evaluates capital requirements for major sources of risk over the short and long term:

- Pillar 2A comprises risks which are not captured in Pillar 1 (such as non-traded interest rate risk and structural foreign exchange risk) or not adequately captured in Pillar 1 (such as credit concentration risk); and
- Pillar 2B incorporates stress testing and scenario analysis, which serve as a basis for a forward-looking assessment of RBS's capital requirements in stress and any resultant stress capital buffers.

RBS undertakes a risk assessment to ensure all material risks are identified, adequately managed and capitalised where appropriate.

Within Pillar 2A, RBS assesses credit concentration risk, certain aspects of traded market risk that are not fully captured in Pillar 1, non-traded interest rate risk (NTIRR), pension risk and operational risk to compensate for shortcomings of the Pillar 1 standardised approach. RBS uses economic capital models to estimate Pillar 2A capital charges for credit concentration and operational risk. A description of economic capital is provided on page 204 of the 2014 ARA. Information regarding specific credit risk concentrations, such as sector or geography, is included within Pillar 3. Refer to pages 316 to 319 of the 2014 ARA for more information on NTIRR and pages 331 and 332 for pension risk.

Pillar 2B is based on stress testing and scenario analysis. It is used to assess the quantum and quality of capital required to be set aside to counteract the adverse impact of a severe but plausible stress on RBS's capital, and to ensure capital levels in stress remain above minimum requirements.

The ICAAP is approved by the Board before it is submitted to the regulator and forms the basis of the supervisory review and the setting of the Individual Capital Guidance by the PRA. Refer to page 202 of the 2014 ARA for details.

Pillar 3 - Market discipline

RBS is committed to delivering best practice risk and capital disclosures, to ensure that stakeholders understand the risks within RBS. The Pillar 3 disclosures are designed to encourage and promote market transparency and stability. It represents a component of RBS's broader disclosures framework.

Internal Audit undertook an annual review to provide management and the Board with assurance relating to the adequacy and effectiveness of the controls over the production of the Pillar 3 disclosures.

RBS publishes its Pillar 3 disclosures on an annual basis as required by the CRD.

Certain of RBS's subsidiaries in Europe publish capital and RWA data externally through an appropriate mechanism (such as websites and annual reporting statements), thereby satisfying the European Banking Authority requirements for disclosures in the member states. Outside the EU, local subsidiaries may make additional disclosures under Pillar 3, as required by their local regulators.

RBS continues to participate in the British Bankers' Association's drive towards consistent Pillar 3 disclosures for UK banks wherever possible. Footnotes are included with the data tables to ensure transparency regarding the approaches used for the disclosures. At EU and global levels, different definitions and assumptions adopted by other banks can make direct comparison difficult.

Regulatory and statutory consolidation

Scope of application

The Royal Bank of Scotland Group plc is the parent undertaking for all authorised firms in the Group and is subject to consolidated supervision by the PRA. The Pillar 3 disclosures have been prepared for RBS in accordance with CRR of the PRA Handbook.

Control

Inclusion of an entity in the statutory consolidation is driven by RBS's ability to exercise control over that entity. The regulatory consolidation applies a comparable test but consolidation is restricted to certain categories of entities. In accordance with PRA rules, non-financial and certain structured entities are excluded from the regulatory consolidation.

Significant influence or joint control

Where RBS does not have control of an entity but has more than 20% of the voting rights or capital of that entity, then it must be included in the regulatory consolidation on a pro-rata basis, unless it falls into one of the excluded categories or RBS has agreed a different treatment with the PRA (by obtaining permission). Such entities will only be included in the statutory consolidation on a pro-rata basis where RBS has joint control. Entities where RBS has significant influence will be equity accounted in the statutory consolidation.

Regulatory framework

Solo-consolidation, impediments to the transfer of capital resources and aggregate capital deficiency

Individual firms within RBS apply the provisions in CRR (solo-consolidation permission) in a limited number of cases only. In 2014, The Royal Bank of Scotland plc (RBS plc) had no solo-consolidated subsidiaries whilst National Westminster Bank Plc had two solo-consolidated subsidiaries, together NWB Plc in this report. Permission is only used where the business of the entity is an extension of the parent bank's activities undertaken for commercial reasons and solo-consolidation is required to ensure that there are no adverse consequences to the capital ratios.

RBS operates on an integrated basis with all RBS companies being subject to policies, governance and controls that are set centrally. Aside from regulatory requirements, there are no current or foreseen material, practical or legal impediments to the transfer of capital or prompt repayments of liabilities when due.

There were no capital deficiencies (defined as the amount where the actual capital resources are less than the required minimum) in respect of subsidiaries not included in RBS consolidation.

Risk governance and appetite

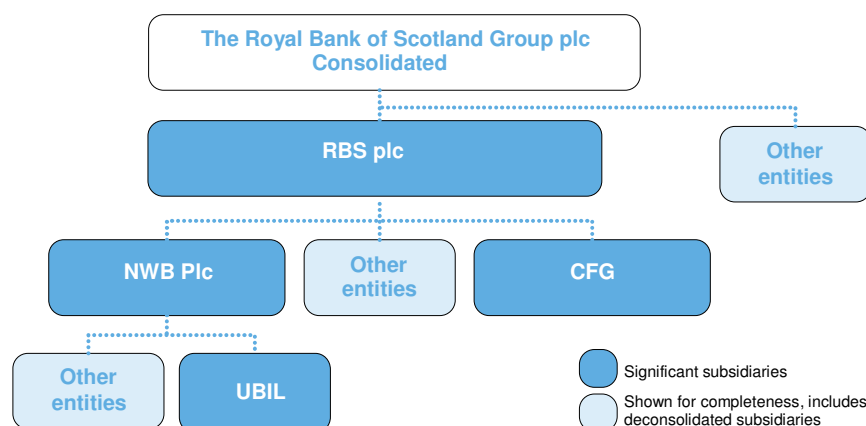
RBS is committed to the highest standards of corporate governance in every aspect of the business, including risk management. For further information refer to pages 176 to 179 of the 2014 ARA.

Risk appetite is an expression of the level of risk that RBS is prepared to accept in order to deliver its business objectives. For further information refer to pages 180 to 183 of the 2014 ARA.

Regulatory hierarchy

Chart 2 represents a simplified regulatory hierarchy of RBS, specifically highlighting those subsidiaries and regions which are of significance. RBS has considered the CRR requirements for significant subsidiaries: entities whose total RWAs are 5% or more of RBS RWAs are deemed significant subsidiaries for Pillar 3 disclosure purpose. These entities at 31 December 2014 are: RBS plc, NWB Plc, Ulster Bank Ireland Limited (UBIL), and Citizens Financial Group, Inc (CFG).

Chart 2: Regulatory hierarchy



Capital

RBS and significant subsidiaries

It is RBS's policy to maintain a strong capital base and to utilise it efficiently throughout its activities to support strategic objectives and ultimately optimise to shareholders returns, while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, RBS follows the regulatory requirements of the "twin peaks" regulatory structure in the UK under the supervision of the FCA and the PRA, also having regard to other regulators, rating agencies, its peer group and market expectations.

The PRA uses the risk asset ratio (RAR) as one of the measures of capital adequacy in the UK banking sector, comparing a bank's capital resources with its RWAs (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks). By international agreement, the RAR should be not less than 8% with a Tier 1 component of not less than 4%.

Capital allocation

Capital resources are allocated to RBS's businesses based on key performance parameters agreed by the Board in the annual strategic planning process. Principal among these is a profitability metric, which assesses the effective use of the capital allocated to the business. Projected and actual return on equity is assessed against strategic objectives. The allocations also reflect strategic priorities, the intensity of regulatory capital use and the usage of other key resources such as balance sheet liquidity and funding.

Table 1: RBS capital and leverage ratios

Capital, RWAs and risk asset ratios, on the basis of transitional rules and end-point CRR, calculated in accordance with PRA definitions, are set out below.

	2014		2013		
	End-point CRR basis (1) £bn	PRA transitional basis £bn	Estimated end-point CRR basis (1) £bn	PRA transitional basis (2) £bn	Basel 2.5 basis £bn
Capital					
CET1 (3)	39.9	39.6	36.8	36.8	42.2
Tier 1	39.9	47.1	36.8	44.3	50.6
Total	48.6	60.7	45.5	58.2	63.7
RWAs					
Credit risk					
- non-counterparty	264.7	264.7	317.9	317.9	291.1
- counterparty	30.4	30.4	39.1	39.1	22.3
Market risk	24.0	24.0	30.3	30.3	30.3
Operational risk	36.8	36.8	41.8	41.8	41.8
	355.9	355.9	429.1	429.1	385.5
Risk asset ratios	%	%	%	%	%
CET1 (3)	11.2	11.1	8.6	8.6	10.9
Tier 1	11.2	13.2	8.6	10.3	13.1
Total	13.7	17.1	10.6	13.6	16.5
Leverage ratio					
	2014		2013 (2)		
Tier 1 capital	£39.9bn		£36.8bn		
Exposure	£939.5bn		£1,082.0bn		
Leverage ratio (4)	4.2%		3.4%		

Notes:

(1) CRR as implemented by the PRA in the UK, with effect from 1 January 2014.

(2) Estimated.

(3) Common Equity Tier 1 (CET1) ratio with effect from 1 January 2014.

(4) Based on end-point CRR Tier 1 capital and revised 2014 Basel III leverage ratio framework.

Key points

- RBS RWAs increased from £385 billion on a Basel 2.5 basis to £429 billion on the CRR basis principally reflecting:
 - 1,250% risk weighting of securitisation positions, previously capital deductions;
 - Impact of credit valuation adjustment and asset valuation correlation relating to banks and central counterparty;
 - Implementation of CRR model suite; and
 - Reduction in risk-weighting for small and medium sized enterprises (SME).
- Refer to pages 195 to 215 of the 2014 ARA for more information on capital management in RBS and specifically:
 - Overview and key developments;
 - RWA analysis, movement tables, segmental analysis and capital resources under current rules (both PRA transitional basis and end-point CRR);
 - Leverage exposures based on 2014 Basel III framework; and
 - Regulatory developments.

Capital

Table 2: Capital ratios

As set out in the Basis of disclosures on page 3, capital and RWA analyses for 2014 are based on CRR applicable in the UK as promulgated by the PRA (PRA transitional basis) and analyses for 2013 are based on CRD III or Basel 2.5 basis. For CFG, capital resources are based on Basel I, as applied by CFG for regulatory reporting in the US and risk-weighted assets on the bases used by RBS; therefore it is not appropriate or meaningful to calculate capital ratios and hence denoted as not meaningful (n/m) below.

	RBS %	RBS plc %	NWB Plc %	UBIL %	CFG %
2014					
CET1 (1)	11.1	13.1	13.9	17.3	n/m
Tier 1	13.2	13.9	14.0	17.3	n/m
Total	17.1	20.9	21.7	19.5	n/m
2013					
CT1 (1,2,3,4)	8.6	15.8	10.5	11.6	n/m
Tier 1	10.3	17.6	11.1	11.5	n/m
Total	13.6	17.4	15.4	13.6	n/m

Notes:

(1) RBS CRR as implemented by the PRA in the UK, with effect from January 2014.

(2) RBS plc, NWB Plc and UBIL on Basel 2.5 basis.

(3) CFG: based on FED Band 1 which does not incorporate a Core Tier 1 (CT1) definition. The above shows value for CT1.

(4) UBIL: CET1 ratio at 31 December 2014 includes verified profits to 30 September 2014 in line with COREP submission for 31 December 2014.

Table 3: RWAs by risk type

	RBS £m	RBS plc £m	NWB Plc £m	UBIL £m	CFG £m
Credit risk					
- non-counterparty	264,791	200,132	61,668	22,374	62,414
- counterparty	30,379	27,682	633	426	880
Market risk	23,960	18,975	455	32	1
Operational risk	36,784	17,134	5,546	1,348	5,094
	355,914	263,923	68,302	24,180	68,389
2013					
Credit risk					
- non-counterparty	291,063	118,856	52,313	29,766	52,349
- counterparty	22,341	20,374	923	604	494
Market risk	30,242	21,475	284	481	—
Operational risk	41,809	17,473	5,642	1,450	5,266
	385,455	178,178	59,162	32,301	58,109

Capital

Key points

- Refer to pages 171 and 210 to 211 of 2014 ARA for commentary.
- The RBS plc CET1 ratio at 31 December 2014 reflected capital of £34 billion and RWAs of £264 billion. CET1 capital increased by £6.3 billion partly due to transition to CRR and the treatment of significant investments. RWAs increased by £86 billion. The increase in RBS plc RWAs reflected:
 - Non-counterparty credit risk increase of £81 billion predominantly due to CRR change in 2014 to significant investments and deferred tax which resulted in a threshold being applied and a proportion of significant investment and deferred tax assets now being risk weighted (£102 billion). This was partly offset by reduction of £21 billion driven by Corporate & Institutional (CIB) and RBS Capital Resolution (RCR) risk reduction strategy.
 - Counterparty credit risk RWA increase of £7.3 billion reflecting CRR related impact partly offset by business movements.
 - Market risk: a net reduction of £2.5 billion reflecting increase due to CRR securitisation impact of £2 billion more than offset by bond disposals and modelled market risk movements.
- CET1 ratio on a PRA transitional basis for NWB Plc was strong at 13.9% and primarily reflects the impact of £1.5 billion of attributable profit as well as a RWA increase of £9.1 billion:
 - Non-counterparty credit risk increase of £18 billion predominantly due to CRR change in 2014 to significant investments and deferred tax which resulted in a threshold being applied and a proportion of significant investment and deferred tax assets now being risk-weighted.
 - This was partly offset by reduction of £9 billion related to portfolio reduction, SME discount, improvements in risk parameters and model changes.
- UBIL CET1 ratio as reported above of 17.3% shows profit generation reflecting impairment releases as well as lower RWAs due to RCR disposal strategy, an improved economic outlook and foreign currency movements in the second half of 2014.
- CFG RWAs increased by £10 billion due to both growth in lending and the impact of foreign currency movements.

Capital

The following tables show the RWAs and minimum capital requirements of RBS and its significant subsidiaries.

Table 4: Minimum capital requirements

Risk type	RBS £m	RBS plc £m	NWB Plc £m	UBIL £m	CFG £m
2014					
Credit risk					
- non-counterparty					
- advanced IRB	13,065	6,538	3,257	1,596	—
- standardised	8,119	9,473	1,676	195	4,993
- counterparty	2,430	2,215	51	34	70
Market risk	1,917	1,518	36	2	—
Operational risk	2,943	1,371	444	108	408
	28,474	21,115	5,464	1,935	5,471
2013					
Credit risk					
- non-counterparty					
- advanced IRB	16,205	8,254	3,855	2,055	—
- standardised	7,080	1,255	330	325	4,188
- counterparty	1,787	1,630	74	48	40
Market risk	2,419	1,718	23	38	—
Operational risk	3,345	1,398	451	116	421
	30,836	14,255	4,733	2,582	4,649

Key point

- As highlighted by Chart 2 (Regulatory hierarchy), data for these significant subsidiaries above do not aggregate to the overall RBS position. Trends in minimum capital requirements in Tables 5 to 8 reflect those seen in RWAs discussed on page 9.

Capital

Table 5: Non-counterparty credit risk IRB minimum capital requirements

Advanced IRB exposure class and sub-class	RBS £m	RBS plc £m	NWB Plc £m	UBIL £m
2014				
Central governments and banks	273	167	1	23
Institutions	386	211	40	20
Corporates	8,180	5,039	1,849	356
Retail				
SMEs	419	99	198	56
secured by real estate collateral	1,908	343	449	1,052
qualifying revolving retail	616	163	400	40
other retail	411	109	276	11
	3,354	714	1,323	1,159
Equities				
exchange-traded	45	8	—	—
private equity	108	12	—	8
other	69	16	1	2
	222	36	1	10
Securitisation positions	385	329	22	—
Non-credit obligation assets	265	42	21	28
	13,065	6,538	3,257	1,596
2013				
Central governments and banks	323	157	2	4
Institutions	499	303	56	6
Corporates	10,391	6,339	2,156	621
Retail				
SMEs	540	145	282	77
secured by real estate collateral	2,447	511	565	1,287
qualifying revolving retail	721	208	467	28
other retail	454	122	296	15
	4,162	986	1,610	1,407
Equities				
exchange-traded	143	—	2	—
private equity	22	5	—	—
other	84	24	4	2
	249	29	6	2
Securitisation positions	269	243	—	—
Non-credit obligation assets	312	197	25	15
	16,205	8,254	3,855	2,055

Note:

(1) CFG is not included as it is wholly on the Basel III standardised approach.

Key point

- The reduction in advanced IRB related minimum capital requirements principally reflects strategic balance sheet and risk reduction in CIB and RCR (refer to Table 14 for segmental analysis).

Capital

Table 6: Non-counterparty credit risk standardised (STD) minimum capital requirements

Standardised exposure class	RBS £m	RBS plc (1) £m	NWB Plc £m	UBIL £m	CFG £m
2014					
Regional governments or local authorities	6	2	—	—	2
Administrative bodies and non-commercial undertakings	1	—	—	—	1
Institutions	41	284	15	19	11
Corporates	4,000	678	74	163	2,320
Retail	1,337	11	33	1	1,119
Secured by mortgages on					
- commercial real estate	715	19	9	1	508
- residential property	830	46	—	—	494
Past due items	168	13	2	2	91
Securitisation positions	256	—	—	—	256
Other items	765	8,420	1,543	9	191
	8,119	9,473	1,676	195	4,993
2013					
Regional governments or local authorities	5	2	—	—	1
Administrative bodies and non-commercial undertakings	1	—	—	—	1
Institutions	50	326	14	68	5
Covered bonds	1	—	—	—	—
Collective investment undertakings	2	—	—	—	—
Corporates	3,826	568	86	248	2,394
Retail	1,313	22	43	1	995
Secured by mortgages on					
- commercial real estate	340	—	—	—	163
- residential property	613	50	1	—	317
Past due items	120	12	—	8	68
Securitisation positions	32	—	—	—	32
Other items	777	275	186	—	212
	7,080	1,255	330	325	4,188

Note:

(1) The increase in other items exposure class reflects the impact of the CRR change to significant investments as noted in the key points on page 9.

Key point

- The increase in standardised commercial real estate requirements reflects increased lending and the impact of foreign exchange movements in CFG. Standardised exposures for institutions within RBS plc were higher than RBS as it included RWAs relating to intra-Group balances.

Table 7: Counterparty credit risk requirements

	RBS £m	RBS plc £m	NWB Plc £m	UBIL £m	CFG £m
2014					
Counterparty credit risk	2,430	2,215	51	34	70
2013					
Counterparty credit risk	1,787	1,630	74	48	40

Capital

Table 8: Market risk trading book and other business minimum capital requirements

2014	RBS £m	RBS plc £m	NWB Plc £m	UBIL £m
Interest rate position risk requirement	116	74	10	—
Equity position risk requirement	1	—	—	—
Option position risk requirement	7	1	—	—
Specific interest rate risk of securitisation positions	270	243	—	—
Commodity position risk requirement	2	—	—	—
Foreign exchange position risk requirement	63	52	2	2
Total (standard method)	459	370	12	2
Pillar 1 model based position risk requirement	1,458	1,148	24	—
Total position risk requirement	1,917	1,518	36	2

The contributors to the Pillar 1 model based position risk requirement are:

Value-at-risk (VaR)	329	267	9	—
Stressed VaR	511	338	15	—
Incremental risk charge (IRC)	299	240	—	—
Risks not in VaR	319	303	—	—

2013

Interest rate position risk requirement	147	75	9	10
Equity position risk requirement	1	1	—	—
Option position risk requirement	10	—	—	—
Specific interest rate risk of securitisation positions	123	88	—	—
Commodity position risk requirement	13	11	—	—
Foreign exchange position risk requirement	39	5	—	28
Total (standard method)	333	180	9	38
Pillar 1 model based position risk requirement	2,086	1,538	14	—
Total position risk requirement	2,419	1,718	23	38

The contributors to the Pillar 1 model based position risk requirement are:

VaR	576	493	5	—
Stressed VaR	841	560	9	—
Incremental risk charge	443	323	—	—
All price risk	8	7	—	—
Risks not in VaR	218	155	—	—

Key points

- For commentary on market risk movements in RBS, refer to pages 298 to 322 in 2014 ARA.
- Apart from RBS plc, RBS Securities Inc (RBSSI) is the major contributor to market risk capital requirements in RBS. RBSSI market risk RWAs were £3.0 billion predominantly stressed VaR and IRC.

Capital

Table 9: Capital resources

	2014 (PRA transitional basis)				
	RBS £m	RBS plc £m	NWB Plc £m	UBIL £m	CFG (1) £m
Shareholders' equity (excluding non-controlling interests)					
Shareholders' equity	57,246	52,553	13,312	5,081	12,339
Preference shares - equity	(4,313)	(1,421)	—	—	—
Other equity instruments	(784)	—	—	—	—
	52,149	51,132	13,312	5,081	12,339
Regulatory adjustments and deductions					
Own credit	500	1,300	—	—	—
Defined benefit pension fund adjustment	(238)	(127)	—	320	—
Net unrealised available-for-sale (AFS) gains	—	—	—	—	(47)
Cash flow hedging reserve	(1,029)	(755)	3	—	285
Deferred tax assets	(1,222)	(258)	(742)	—	—
Prudential valuation adjustments	(384)	(324)	(1)	—	—
Goodwill and other intangible assets	(7,781)	(917)	(530)	—	(4,513)
Expected losses less impairments	(1,491)	(805)	(785)	(3)	—
Instruments of financial sector entities where the institution has a significant investment	—	(14,809)	(2,318)	—	—
Other regulatory adjustments	(855)	62	529	(1,217)	372
	(12,500)	(16,633)	(3,844)	(900)	(3,903)
CET1 capital	39,649	34,499	9,468	4,181	8,436
Additional Tier 1 (AT1) capital					
Qualifying instruments and related share premium subject to phase out	5,820	3,503	234	—	—
Qualifying instruments issued by subsidiaries and held by third parties	1,648	—	—	—	—
	7,468	3,503	234	—	—
Tier 1 deductions					
Instruments of financial sector entities where the institution has a significant investment	—	(1,291)	(140)	—	—
	—	(1,291)	(140)	—	—
Tier 1 capital	47,117	36,711	9,562	4,181	8,436
Qualifying Tier 2 capital					
Dated subordinated debt - net of amortisation	—	—	—	—	1,505
Qualifying instruments and related share premium	6,136	20,427	5,380	528	—
Qualifying instruments issued by subsidiaries and held by third parties	7,490	—	—	—	—
Unrealised gains on AFS equity shares	—	—	—	—	1
Collectively assessed impairment provisions	—	—	—	—	804
	13,626	20,427	5,380	528	2,310
Tier 2 deductions					
Instruments of financial sector entities where the institution has a significant investment	—	(1,836)	(102)	—	—
Other regulatory adjustments	—	(41)	(8)	(5)	—
	—	(1,877)	(110)	(5)	—
Tier 2 capital	13,626	18,550	5,270	523	2,310
Total regulatory capital	60,743	55,261	14,832	4,704	10,746

For the note to this table refer to the following page.

The treatment of significant investments in financial institutions in CRR differs from the Basel 2.5 basis for material holdings. This impacted RBS plc and NWB Plc. In Ulster Bank Group, surplus provision is allowable within Tier 2 capital as advanced IRB provisions exceeded expected loss at 31 December 2014. The regulatory capital deduction for goodwill and intangible assets in CFG relates to acquisitions made by CFG.

Capital

Table 9: Capital resources *continued*

	2013 (Basel 2.5 basis)				
	RBS £m	RBS plc £m	NWB Plc £m	UBIL £m	CFG (1) £m
Shareholders' equity (excluding non-controlling interests)					
Shareholders' equity	58,742	54,322	8,531	3,840	11,604
Preference shares - equity	(4,313)	(1,421)	—	—	—
Other equity instruments	(979)	—	—	—	—
	53,450	52,901	8,531	3,840	11,604
Non-controlling interests					
	473	—	—	—	—
Regulatory adjustments and deductions					
Own credit	726	1,519	—	—	—
Defined benefit pension fund adjustment	362	(119)	482	182	—
Net unrealised AFS losses/(gains)	308	(302)	(6)	—	55
Cash flow hedging reserve	84	(350)	6	—	337
Goodwill and other intangible assets	(12,368)	(1,127)	(489)	—	(4,273)
Expected losses less impairments	(19)	—	(341)	(2)	—
50% of securitisation positions	(748)	(384)	(11)	—	—
50% of material holdings	—	(24,277)	(2,503)	—	—
Other regulatory adjustments	(103)	294	512	(278)	318
	(11,758)	(24,746)	(2,350)	(98)	(3,563)
CET1 capital	42,165	28,155	6,181	3,742	8,041
AT1 capital					
Preference shares - equity	4,313	1,421	—	—	—
Preference shares - debt	911	2,462	283	—	—
Innovative/hybrid Tier 1 securities	4,207	2,081	—	—	—
	9,431	5,964	283	—	—
Tier 1 deductions					
50% of material holdings	(976)	—	—	(15)	—
Tax on expected losses less impairments	6	—	103	—	—
Other regulatory adjustments	—	(2,781)	—	—	—
	(970)	(2,781)	103	(15)	—
Tier 1 capital	50,626	31,338	6,567	3,727	8,041
Qualifying Tier 2 capital					
Undated subordinated debt	2,109	3,990	2,160	95	—
Dated subordinated debt - net of amortisation	12,436	17,820	3,398	580	816
Unrealised gains on AFS equity shares	114	35	6	—	1
Collectively assessed impairment provisions	395	2	1	—	745
Surplus provisions	—	33	—	—	—
	15,054	21,880	5,565	675	1,562
Tier 2 deductions					
50% of securitisation positions	(748)	(384)	(11)	—	—
Expected losses less impairments	(25)	—	(444)	(2)	—
50% of material holdings	(976)	(24,277)	(2,503)	(15)	—
Other regulatory adjustments	—	2,781	—	—	—
	(1,749)	(21,880)	(2,958)	(17)	—
Tier 2 capital	13,305	—	2,607	658	1,562
Supervisory deductions					
Unconsolidated investments	(36)	(29)	(80)	—	—
Other deductions	(236)	(268)	(9)	—	—
	(272)	(297)	(89)	—	—
Total regulatory capital	63,659	31,041	9,085	4,385	9,603

Note:

(1) Based on FED Band 1 which does not incorporate a CT1 definition. The above amount shows value for CT1.

Capital

Capital instruments

Table 10: Capital instruments

The following table details the main terms and conditions of RBS's capital instruments issued to third parties treated as Tier 1 capital under Pillar 1, or Tier 2 capital which includes an incentive for the issuer to redeem. The balances are the IFRS balance sheet carrying amounts, which may differ from the amount which the instrument contributes to regulatory capital. Regulatory balances exclude, for example, issuance costs and fair value movements, while dated capital is required to be amortised on a straight-line basis over the final five years of maturity. For accounting purposes the capital instruments in the following table are included within equity or subordinated liabilities, details of which are included on pages 414 to 420 of the 2014 ARA. Refer to Appendix 2 for more details on these instruments.

		2014	2013
	Step-up coupon	£m	£m
Pillar 1 treatment - Additional Tier 1			
RBS - undated loan capital			
US\$762 million 7.648% perpetual regulatory (callable quarterly from September 2031)	3 month US\$ LIBOR plus 2.5%	493	465
RBS - debt preference shares			
Series F US\$156 million 7.65% (callable any time from March 2007)		100	95
Series H US\$242 million 7.25% (callable any time from March 2004)		155	146
Series L US\$751 million 5.75% (callable any time from October 2009)		481	454
Series 1 US\$65 million 9.118% (callable any time from March 2010)		42	40
Series 1 £15 million 7.387% (callable any time from December 2010)		15	15
NWB Plc - debt preference shares			
Series A £140 million 9% (not callable)		143	143
Series C US\$246 million 7.7628% (callable quarterly from April 2002)		169	145
RBS US Capital Trusts - debt trust preferred securities			
€391 million floating rate 2042 (callable quarterly from June 2012)	3 month EURIBOR plus 2.1%	—	326
US\$486 million 6.8% 2042 (callable quarterly from March 2008)		311	294
US\$318 million floating rate 2043 (callable quarterly from July 2013)	3 month US\$ LIBOR plus 1.865%	—	192
US\$394 million 6.425% 2043 (callable quarterly from January 2034)	3 month US\$ LIBOR plus 1.9425%	364	301
RBS N.V. US Capital Trusts - debt trust preferred securities			
US\$1,285 million 5.90% Trust Preferred V (callable any time from July 2008)		802	730
US\$200 million 6.25% Trust Preferred VI (callable any time from September 2008)		123	114
US\$1,800 million 6.08% Trust Preferred VII (callable any time from February 2009)		1,100	1,020
RBS US Capital Trusts - equity trust preferred securities			
US\$357 million 5.512% (redeemable September 2014)	3 month US\$ LIBOR plus 1.84%	195	195
US\$276 million 3 month US\$ LIBOR plus 0.80% (redeemable September 2014)	3 month US\$ LIBOR plus 1.8%	150	150
€166 million 4.243% (redeemable January 2016)	3 month EURIBOR plus 1.69%	110	110
£93 million 5.6457% (redeemable June 2017)	3 month LIBOR plus 1.69%	93	93
RBS - paid in equity trades			
CAD321 million 6.666% (callable quarterly from October 2017)	3 month CDOR plus 2.76%	156	156
US\$564 million 6.99% (callable quarterly from October 2017)	3 month US\$ LIBOR plus 2.67%	275	275

Capital

Table 10: Capital instruments *continued*

Pillar 1 treatment - Additional Tier 1 <i>continued</i>		2014	2013
	Step-up coupon	£m	£m
RBS - equity preference shares			
Series M US\$578 million 6.4% (callable any time from September 2009)		313	313
Series N US\$553 million 6.35% (callable any time from June 2010)		292	292
Series P US\$247 million 6.25% (callable any time from December 2010)		138	138
Series Q US\$516 million 6.75% (callable any time from June 2011)		268	268
Series R US\$254 million 6.125% (callable any time from December 2011)		126	126
Series S US\$661 million 6.6% (callable any time from June 2012)		321	321
Series T US\$1,281 million 7.25% (callable any time from December 2012)		615	615
Series U US\$1,013 million 7.64% (callable every ten years from September 2017)	3 month US\$ LIBOR plus 2.32%	494	494
Series 1 €1,250 million 5.5% (callable quarterly from December 2009)		859	859
Series 2 €785 million 5.25% (callable quarterly from June 2010)		512	512
Series 3 €471 million 7.0916% (callable quarterly from September 2017)	3 month EURIBOR plus 2.33%	325	325
Series 1 £54 million floating rate notes (callable quarterly from October 2012)	3 month LIBOR plus 2.33%	54	54

Tier 2 capital securities which contain an incentive for the issuer to redeem

Pillar 1 treatment - Tier 2

RBS plc - undated loan capital

£1 million floating rate undated subordinated notes (callable semi-annually from March 2011)	6 month LIBOR plus 0.75%	—	1
£176 million 5.125% undated subordinated notes (callable quarterly from July 2014)	3 month EURIBOR plus 1.65%	—	153
£170 million floating rate undated subordinated notes (callable quarterly from July 2014)	3 month EURIBOR plus 1.60%	—	141
£56 million 6% undated subordinated notes (callable every five years from September 2014)	Aggregate of 1.85% and the 5 year UK Gilts yield	—	59
£54 million 5.125% undated subordinated notes (callable every five years from March 2016)	Aggregate of 1.95% and the 5 year UK Gilts yield	59	60
CAD474 million 5.37% undated subordinated notes (callable quarterly from May 2016)	3 month CDOR plus 1.48%	275	291
£51 million floating rate undated subordinated notes (callable every five years from December 2012)	Aggregate of 2.35% and the 5 year UK Gilts yield	51	50
£103 million 9.5% undated subordinated bonds (callable every five years from August 2018)	9.5% or the 5 year UK Gilts yield plus 2.375%	126	127
£35 million 5.5% undated subordinated notes (callable every five years from December 2019)	Aggregate of 1.84% and the 5 year UK Gilts yield	39	39
£21 million 6.2% undated subordinated notes (callable every five years from March 2022)	Aggregate of 2.05% and the 5 year UK Gilts yield	27	26
£16 million 5.625% undated subordinated notes (callable every five years from September 2026)	Aggregate of 2.10% and the 5 year UK Gilts yield	25	24
£19 million 5.625% undated subordinated notes (callable every five years from June 2032)	Aggregate of 2.41% and the 5 year UK Gilts yield	21	21

NatWest Plc - undated loan capital

£10 million floating rate undated step-up notes (callable quarterly from October 2009)	3 month EURIBOR plus 2.15%	8	9
£178 million floating rate undated subordinated notes (callable quarterly from October 2009)	3 month EURIBOR plus 2.15%	139	149
£87 million floating undated subordinated step-up notes (callable every five years from January 2010)	5 year UK Gilts yield plus 2.98%	92	92
£53 million 7.125% undated subordinated step-up notes (callable every five years from October 2022)	5 year UK Gilts yield plus 3.08%	54	54

Capital

Table 10: Capital instruments *continued*

Tier 2 capital securities which contain an incentive for the issuer to redeem <i>continued</i>		2014	2013
	Step-up coupon	£m	£m
RBS plc - dated loan capital			
AUD36 million floating rate subordinated notes 2017 (callable quarterly from February 2012)	3 month BBSW plus 0.78%	19	49
CAD217 million floating rate subordinated notes 2015 (callable quarterly from March 2010)	3 month CDOR plus 0.72%	—	123
US\$686 million floating rate subordinated notes 2016 (callable quarterly from April 2011)	3 month US\$ LIBOR plus 0.7%	—	415
US\$229 million floating rate subordinated notes 2016 (callable quarterly from October 2011)	3 month US\$ LIBOR plus 0.78%	—	139
€227 million floating rate subordinated notes 2016 (callable quarterly from January 2011)	3 month EURIBOR plus 0.85%	—	189
€23 million floating rate subordinated notes 2017 (callable quarterly from January 2012)	3 month EURIBOR plus 0.75%	18	85
AUD265 million floating rate subordinated notes 2014 (callable quarterly from October 2009)	3 month BBSW plus 0.87%	—	144
AUD397 million floating rate subordinated notes 2014 (callable quarterly from October 2009)	3 month BBSW plus 0.87%	—	216
AUD18 million floating rate subordinated notes 2017 (callable quarterly from February 2012)	3 month BBSW plus 0.78%	9	27
US\$238 million floating rate subordinated step-up notes 2017 (callable quarterly from August 2012)	3 month US\$ LIBOR plus 0.7%	153	272
CHF34 million floating rate subordinated notes 2017 (callable quarterly from December 2012)	3 month CHF LIBOR plus 0.62%	—	23
€1,000 million 4.625% subordinated notes 2021 (callable quarterly from September 2016)	3 month EURIBOR plus 1.3%	844	925
US\$322 million floating rate Bermudan callable subordinated notes 2015 (callable quarterly from September 2010)	3 month US\$ LIBOR plus 0.74%	—	195
First Active plc - dated loan capital			
£60 million floating rate subordinated bonds 2018 (callable quarterly from April 2013)	3 month LIBOR plus 2.54%	—	60
RBS N.V. - dated loan capital			
€5 million floating rate Bermudan callable subordinated notes 2015 (callable quarterly from October 2010)	3 month EURIBOR plus 1.5%	4	4
AUD26 million floating rate Bermudan callable subordinated notes 2018 (callable quarterly from May 2013)	3 month BBSW plus 0.79%	13	93
AUD123 million floating rate Bermudan callable subordinated notes 2018 (callable quarterly from May 2013)	3 month BBSW plus 0.79%	64	305
\$564 million (2012 - US\$1,500 million) floating rate Bermudan subordinated notes 2015 (callable quarterly from March 2010, partial redemption 2013)	3 month US\$ LIBOR plus 0.7%	361	340
€415 million (2012 - €1,500 million) floating rate Bermudan subordinated notes 2015 (callable quarterly from June 2010, partial redemption 2013)	3 month EURIBOR plus 0.75%	323	344

Credit risk

Credit risk is the risk of financial loss owing to the failure of a customer or counterparty to meet its obligation to settle outstanding amounts.

RBS is exposed to credit risk as a result of a wide range of business activities. The most significant source of credit risk is lending. The second most significant source is counterparty credit risk, which results from activities in the derivatives and security financing transaction markets. The credit risk management framework addresses not only credit risk but also concentration risk, settlement risk, issuer risk, wrong-way risk and credit mitigation risk.

Credit risk management

Information on how RBS manages credit risk and additional credit risk disclosures are set out on pages 232 to 273 and 274 to 297 of the 2014 ARA.

Measurement of credit RWAs under Basel III

RBS has been granted permission by the PRA to use the IRB approach to calculate RWAs for the majority of its credit risk exposures. This approach allows RBS to use its own models to estimate PD, LGD and exposure at default (EAD) as inputs to the regulatory formula that determines RWAs.

In the case of project finance and income-producing real estate, the supervisory slotting approach rather than internally modelled estimates is used to determine RWAs.

For some portfolios, primarily in Private Banking and CFG, RBS applies the STD approach. Exposures are allocated to exposure classes in accordance with the regulatory requirements. Under this approach, RBS uses credit ratings from external rating agencies (Standard & Poor's (S&P), Moody's and Fitch) to assign exposures to corporates, sovereigns and financial institutions to credit quality steps, as defined by the regulation.

Refer to Table 14 for an analysis of approach by segment.

Credit risk models

RBS uses credit risk models to support risk assessments in the credit approval process, ongoing credit risk management, monitoring and reporting, as well as the calculation of RWAs.

Probability of default/customer credit grade models

PD models assess the probability of a customer failing to honour its credit obligations over a one year period.

Wholesale models

- As part of the credit assessment process, RBS assigns each customer a credit grade reflecting its PD. RBS maintains and uses a number of credit grading models which consider risk characteristics relevant to the customer, incorporating both quantitative and qualitative inputs. RBS uses these credit grades in many of its risk management and measurement frameworks, including credit sanctioning and managing single name concentration risk.

- Different models are developed for different customer types. The most material models (those used for the largest aggregate amounts of exposure) are those applied to large and mid-corporate customers and bank and sovereign counterparties. In addition, a number of less material models are used, including those for non-bank financial institutions, public sector entities and specialist corporate sectors such as shipping.
- Regulation defines the minimum time series and other attributes of the data used for developing and calibrating models. For the most material models, external data are referenced for calibration purposes (historical default data from rating agencies and insolvency rates) so that models are calibrated to in excess of 20 years of default experience. Most of the less material models relate to portfolios for which default frequency is low because customer loan volumes are lower and borrowers are of higher credit quality. In these cases, as required by regulation, a specific approach is applied to produce an appropriately prudent calibration to reflect the potential that future outcomes differ from the very low risk outcomes historically observed.

Retail models

- RBS assigns each customer account a score, which is a typical input into the model used to assign a PD. Account scoring is used extensively across the businesses to support decision making and portfolio management. Models are developed using a range of data across portfolios, including customer and account data as well as data from credit bureaux.
- Bespoke models are developed for different product types, with further distinctions based on other criteria, such as whether or not a customer also has a current account with RBS. All retail PD models produce both a best estimate measure, which is used for portfolio reporting and forecasting, and a conservative measure, which is required as input to the RWA and provision calculations. The conservative measure is designed to be a PD that takes account of the normal volatility observed in actual default rates. PDs are calibrated quarterly to ensure that they continue to reflect the actual underlying portfolio performance.

Exposure at default models

EAD models provide estimates of utilisation of a credit facility at the time of a customer's default, recognising that customers may make further drawings on unused credit facilities prior to default. Regulation requires that EAD is always equal to or higher than current utilisation. Exposure can be reduced by a netting agreement, subject to meeting standards of legal enforceability.

Different wholesale and retail models are developed for different product types. Models are developed using internal data as stipulated by regulatory requirements. The models with greatest impact on EAD are those applying to revolving products (such as revolving credit facilities granted to wholesale customers, credit cards provided to retail customers or overdraft facilities provided to all customer types). For these products, historical data on limit utilisation in the period prior to customer default are used to estimate and calibrate the models. In line with regulatory requirements, the model estimates reflect downturn conditions.

Credit risk

Loss given default models

LGD models estimate the amount that cannot be recovered by RBS in the event of customer default. When estimating LGD, the models assess both borrower and facility characteristics, as well as various credit risk mitigants (refer to Table 19 for more information). The cost of collections and the timing of recoveries are also incorporated.

Wholesale models

- Different models are developed for different customer segments and reflect the recoveries approach applied to each segment.
- The models for large corporates, sovereigns and banks reflect both internal and external loss experience, while the model for mid-corporates reflects internal loss experience only. The risk drivers in these models include: seniority of claim; the existence and nature of collateral held; industry segment; and customer size.
- The most material models incorporate the impact of the most recent economic downturn and updated regulatory requirements, including floors on estimates where historical data is scarce.
- Updates to the model for mid-corporates, and to other less material models, are in progress, with rollout planned across 2015 and 2016.

Retail models

- Different models are developed for different product types. They are based on internal loss data reflecting RBS's collections and recoveries processes.

In line with regulatory requirements, the model estimates reflect downturn conditions.

Modelling framework (including back-testing)

Credit risk models are developed and maintained within a framework that includes the following key components:

- A high level policy framework that establishes responsibilities and minimum requirements applying to each stage of the modelling lifecycle:
 - Data sourcing and preparation;
 - Model specification;
 - Model review;
 - Model approval;
 - Model implementation; and
 - Model maintenance - monitoring and annual review.
- Detailed standards that define the approaches and activities undertaken at each of these stages.
- Defined structure and authorities that approve or oversee each stage.
- Model development teams that are part of the independent risk management function.
- An independent model validation function - Credit Model Risk - that is organisationally separate from the model development teams.

The framework aims to ensure that RBS is not exposed to excessive model risk and that the approaches deployed continue to meet both internal and regulatory standards.

The performance of models is tested by quarterly monitoring and annual reviews.

Each quarter, every model is tested by comparing estimates to outcomes to assess the accuracy of model parameters. Other statistical tests assess the ability of the models to discriminate risk (i.e. their ability to determine the relative risk level of a particular customer or exposure), the extent to which portfolio composition remains stable and, where relevant, the frequency and severity of overrides applied by model users to modelled estimates.

The annual reviews comprise further analyses that considers:

- ongoing user acceptance and confidence in the model and its performance;
- developments in the portfolio (both observed and anticipated); and
- other relevant data that might be used to explain or assess model performance.

Where model performance or another aspect of model risk is determined to be outside tolerance as part of the quarterly monitoring or annual review, appropriate action is taken. This may entail recalibrating the model, enhancing it (such as by re-weighting existing model factors) or redeveloping it.

Changes to wholesale credit risk models

Extensive changes to the wholesale models suite commenced in 2012. This process is now largely complete, with modest further changes, notably relating to models used for the bank and mid-sized corporate customer segments, planned for 2015. For a quantitative analysis of the key drivers of the movement in credit risk RWAs during 2014, refer to page 210 and 211 of the 2014 ARA.

As in 2013, the impact of the model changes implemented in 2014 largely affected the lower risk segments of RBS's portfolios, relating to customers bearing the equivalent of investment-grade ratings.

Model changes affect year-on-year comparisons of risk measures in certain disclosures. Where meaningful, commentary has been differentiated between instances where movements in risk measures reflect the impact of model changes and those that reflect movements in the size of underlying credit portfolios or their credit quality.

Credit risk

Overview of credit risk tables

Distinction between counterparty and non-counterparty risk

Credit risk exposures are split between counterparty and non-counterparty risk. Counterparty credit risk principally comprises exposures arising from derivatives and securities financing transactions. Non-counterparty credit risk excludes such exposures but includes loans and advances to customers, banks and central banks, as well as holdings of debt and equity securities.

Distinction between sector clusters and regulatory exposure classes

Two principal classifications are used to analyse credit risk exposures in this section:

- **Sector cluster** - Consists of exposures classified by industry using standard industrial classification codes. RBS uses this type of classification for internal risk management purposes.
- **Exposure class** - Consists of exposures classified in accordance with the CRR, namely Article 147 for the IRB approach and Article 112 for the STD approach. RBS uses this type of classification when calculating its regulatory capital requirements.

The following summarises the organisational structure of the credit risk tables:

	Total credit risk	Non-counterparty credit risk only	Counterparty credit risk only
Sector cluster view	Tables 11 to 13		
Exposure class view vs. segmental view	Table 14		
Exposure class view vs. sector cluster view		Table 16	
Exposure class view	Table 15	Tables 17 to 35	Tables 36 to 38

Tables 11 to 18 include the following categories of exposure:

- **non-credit assets** - assets owned by RBS without associated credit risk or uncertainty related to obligor performance affecting their future value. These comprise tangible assets (such as property, plant and equipment), prepayments, accrued income, items in transit and deferred tax assets;
- **consortium investment exposures** - exposures arising as a result of equity investments made by RBS in its capacity as a member of a consortium; and
- **intra-Group exposures** - exposures to RBS entities excluded from the regulatory consolidation.

These items are allocated across exposure classes in Tables 14 and 15. However, they are captured in the 'Other items' line in Table 11, the 'Not allocated to sector cluster' line in Tables 12, 13 and 16, the 'Not allocated to region' line in Table 17 and the 'Not allocated to maturity' line in Table 18. Other tables exclude these items.

IRB and STD approaches

Where applicable, credit risk exposures under the IRB and STD approaches are shown in the same table. However, in the analysis of asset quality (Tables 23 to 32), the two approaches are covered separately. Exposures subject to the supervisory slotting approach are included in IRB amounts.

Definitions used in tables

The following terms appear in column, row or table headings in the tables and are defined in the glossary: IRB approach, asset quality (AQ) bands, counterparty credit risk, credit conversion factor (CCF), credit quality steps (CQS), EAD, exposure class, minimum capital requirements, LGD, PD, RWAs, STD approach, trading book, non-trading book and undrawn commitments.

Other terms specific to the disclosures and tables in this section are defined below:

EAD pre CRM/EAD post CRM - Credit risk mitigation (CRM) is defined as the use of collateral or guarantees to reduce potential loss if a customer fails to settle all or part of its obligations to RBS. The application of CRM depends on the approach (STD or IRB) governing capital calculation related to a credit exposure. (Refer to Table 19 for details of how different risk mitigants are incorporated into IRB risk parameters).

EAD figures may be either pre or post CRM, and are labelled accordingly.

Non-counterparty credit risk EAD pre CRM:

- STD approach - EAD before legally enforceable netting, collateral and guarantees.
- IRB approach - EAD before legally enforceable netting only.

Non-counterparty credit risk EAD post CRM:

- STD approach - EAD after legally enforceable netting, collateral and guarantees.
- IRB approach - EAD after legally enforceable netting only.

Credit risk

Counterparty credit risk EAD post CRM for derivatives and securities financing transactions, under both the STD and IRB approaches, is EAD after legally enforceable netting and collateral.

Defaulted assets (AQ10) - Assets with a PD of 100%.

Exposure-weighted average LGD (for each AQ band) - Calculated by multiplying EAD of each position by associated LGD, giving an LGD-weighted EAD value for each position. LGD-weighted EADs for each position are added together for the whole AQ band, and the final sum is divided by the total EAD for the AQ band to arrive at an exposure-weighted average LGD for each AQ band.

Exposure-weighted average PD (for each AQ band) - Calculated by multiplying EAD of each position by associated PD, giving a PD-weighted EAD for each position. PD-weighted EADs for each position are added together for the whole AQ band, and the final sum is divided by the total PD for the AQ band to arrive at an exposure-weighted average PD for each AQ band.

Geographical region - The numbers are reported by country of operation of the obligor, except exposures to governments and individuals which are shown by country of residence.

The country of operation is the country where the main operating assets of a legal entity are held, or where its main cash flows are generated, taking account of the entity's dependency on subsidiaries' activities. Rest of the World (RoW) includes exposures to supranationals and ocean-going vessels.

Not allocated to sector cluster/region/maturity - Comprises non-credit assets, consortium investment exposures and intra-Group exposures.

Residual maturity - the remaining time in years that a borrower is permitted to take to fully discharge their contractual obligation (principal, interest and fees) under the terms of a loan agreement. Exposures are classified using maturity bands in line with contractual maturity.

RWA density - RWAs as a percentage of EAD post CRM.

Undrawn weighted average credit conversion factor (for each AQ band) - Calculated by multiplying the undrawn commitment of each position by the associated CCF, giving a CCF-weighted undrawn for each position. CCF-weighted undrawns for each position are added together for the whole AQ band and the final sum is divided by the total CCFs for the AQ band to arrive at an exposure weighted average CCF for each AQ band.

Western Europe excluding the UK - Andorra, Austria, Belgium, Cyprus, Denmark, Finland, France, Germany, Greece, Iceland, Ireland, Italy, Liechtenstein, Luxembourg, Malta, Monaco, the Netherlands, Norway, Portugal, San Marino, Spain, Sweden, Switzerland and the Vatican City State (Holy See).

Credit risk

Total credit risk

Table 11: RWA density by sector cluster and regulatory approach

	EAD post CRM			RWAs			RWA density		
	IRB	STD	Total	IRB	STD	Total	IRB	STD	Total
2014	£m	£m	£m	£m	£m	£m	%	%	%
Sector cluster									
Sovereign									
Central banks	44,007	50,539	94,546	1,632	78	1,710	4	—	2
Central government	16,373	9,944	26,317	1,775	61	1,836	11	1	7
Other sovereign	4,936	6,548	11,484	1,250	386	1,636	25	6	14
Total sovereign	65,316	67,031	132,347	4,657	525	5,182	7	1	4
Financial institutions (FI)									
Banks	32,777	2,081	34,858	15,089	488	15,577	46	23	45
Non-bank FI ⁽¹⁾	41,420	22,535	63,955	15,585	9,960	25,545	38	44	40
SSPEs ⁽²⁾	17,504	2,634	20,138	6,216	4,410	10,626	36	167	53
Total FI	91,701	27,250	118,951	36,890	14,858	51,748	40	55	44
Corporates									
Property									
- Western Europe									
- UK	48,081	3,463	51,544	23,736	3,390	27,126	49	98	53
- Ireland	7,541	31	7,572	1,283	33	1,316	17	106	17
- Other	4,625	431	5,056	2,321	445	2,766	50	103	55
- US	1,334	7,481	8,815	722	7,551	8,273	54	101	94
- RoW	2,048	284	2,332	1,296	249	1,545	63	88	66
Total property	63,629	11,690	75,319	29,358	11,668	41,026	46	100	54
Natural resources									
- Oil and gas	15,704	1,876	17,580	6,864	1,665	8,529	44	89	49
- Mining and metals	3,744	635	4,379	2,602	660	3,262	69	104	74
- Other	16,173	1,070	17,243	6,367	861	7,228	39	80	42
Total natural resources	35,621	3,581	39,202	15,833	3,186	19,019	44	89	49
Transport									
- Shipping	8,332	2,571	10,903	5,790	2,575	8,365	69	100	77
- Other	21,268	3,297	24,565	9,176	2,865	12,041	43	87	49
Total transport	29,600	5,868	35,468	14,966	5,440	20,406	51	93	58
Manufacturing	29,450	8,430	37,880	12,673	8,257	20,930	43	98	55
Retail and leisure	24,564	8,262	32,826	14,940	8,027	22,967	61	97	70
Services	23,489	8,426	31,915	13,327	8,350	21,677	57	99	68
TMT ⁽³⁾	13,555	2,790	16,345	7,079	2,806	9,885	52	101	60
Total corporates	219,908	49,047	268,955	108,176	47,734	155,910	49	97	58
Personal									
Mortgages									
- Western Europe									
- UK	113,884	7,794	121,678	10,651	3,121	13,772	9	40	11
- Ireland	15,544	37	15,581	13,137	18	13,155	85	49	84
- Other	193	311	504	16	124	140	8	40	28
- US	131	21,088	21,219	10	10,352	10,362	8	49	49
- RoW	407	589	996	39	232	271	10	39	27
Total mortgages	130,159	29,819	159,978	23,853	13,847	37,700	18	46	24
Other personal	31,628	15,971	47,599	13,233	11,805	25,038	42	74	53
Total personal	161,787	45,790	207,577	37,086	25,652	62,738	23	56	30
Other items	4,465	18,363	22,828	3,012	16,580	19,592	67	90	86
Total	543,177	207,481	750,658	189,821	105,349	295,170	35	51	39

Credit risk

Table 11: RWA density by sector cluster and regulatory approach *continued*

	EAD post CRM			RWAs			RWA density		
	IRB	STD	Total	IRB	STD	Total	IRB	STD	Total
2013	£m	£m	£m	£m	£m	£m	%	%	%
Sector cluster									
Sovereign									
Central banks	34,809	59,351	94,160	1,289	180	1,469	4	—	2
Central government	17,940	8,401	26,341	2,418	30	2,448	13	—	9
Other sovereign	5,323	5,525	10,848	1,451	149	1,600	27	3	15
Total sovereign	58,072	73,277	131,349	5,158	359	5,517	9	—	4
Financial institutions (FI)									
Banks	37,718	2,769	40,487	11,922	689	12,611	32	25	31
Non-bank FI ⁽¹⁾	43,460	14,033	57,493	16,391	7,940	24,331	38	57	42
SSPEs ⁽²⁾	21,564	2,523	24,087	5,827	2,189	8,016	27	87	33
Total FI	102,742	19,325	122,067	34,140	10,818	44,958	33	56	37
Corporates									
Property									
- Western Europe									
- UK	50,250	2,771	53,021	27,904	2,461	30,365	56	89	57
- Ireland	10,338	107	10,445	3,087	136	3,223	30	127	31
- Other	8,764	143	8,907	4,937	130	5,067	56	91	57
- US	1,126	6,527	7,653	600	6,272	6,872	53	96	90
- RoW	3,579	317	3,896	2,817	253	3,070	79	80	79
Total property	74,057	9,865	83,922	39,345	9,252	48,597	53	94	58
Natural resources	29,403	2,826	32,229	15,586	2,435	18,021	53	86	56
Transport	31,677	3,024	34,701	21,678	2,709	24,387	68	90	70
Manufacturing	24,649	7,775	32,424	13,607	7,599	21,206	55	98	65
Retail and leisure	23,974	7,744	31,718	18,302	7,591	25,893	76	98	82
Services	22,716	8,757	31,473	15,972	8,382	24,354	70	96	77
TMT ⁽³⁾	13,550	2,222	15,772	8,470	2,198	10,668	63	99	68
Total corporates	220,026	42,213	262,239	132,960	40,166	173,126	60	95	66
Personal									
Mortgages									
- Western Europe									
- UK	110,470	7,841	118,311	14,412	3,267	17,679	13	42	15
- Ireland	17,148	33	17,181	16,108	12	16,120	94	36	94
- Other	202	507	709	25	202	227	12	40	32
- US	121	19,717	19,838	15	9,756	9,771	12	49	49
- RoW	396	242	638	50	107	157	13	44	25
Total mortgages	128,337	28,340	156,677	30,610	13,344	43,954	24	47	28
Other personal	33,358	14,521	47,879	15,286	10,703	25,989	46	74	54
Total personal	161,695	42,861	204,556	45,896	24,047	69,943	28	56	34
Other items	4,756	19,189	23,945	4,061	15,798	19,859	85	82	83
Total	547,291	196,865	744,156	222,215	91,188	313,403	41	46	42

Notes:

(1) Non-bank financial institutions, such as US agencies, insurance companies, pension funds, hedge and leverage funds, broker-dealers and non-bank subsidiaries of banks.

(2) Securitisation structured purpose entities (SSPEs) primarily relate to securitisation related vehicles.

(3) Telecommunications, media and technology.

For more information on SSPEs, refer to the Securitisation section on page 67.

Credit risk

Table 12: Total credit risk EAD, RWAs and minimum capital requirements by sector cluster

Sector cluster		Non-counterparty credit risk				Counterparty credit risk			Total credit risk		
		EAD pre CRM £m	EAD post CRM £m	RWAs £m	Minimum capital requirement £m	EAD post CRM £m	RWAs £m	Minimum capital requirement £m	EAD post CRM £m	RWAs £m	Minimum capital requirement £m
2014											
Sovereigns and quasi-sovereigns	Central banks	83,868	83,834	1,607	129	10,712	103	8	94,546	1,710	137
	Central governments	25,575	25,575	1,697	136	742	139	11	26,317	1,836	147
	Other sovereign	11,775	9,943	1,192	95	1,541	444	35	11,484	1,636	130
Financial institutions and securitisation vehicles	Banks	20,331	19,026	5,321	426	15,832	10,256	820	34,858	15,577	1,246
	Non-bank financial institutions	38,283	34,942	16,598	1,328	29,013	8,947	716	63,955	25,545	2,044
	SSPEs	17,265	17,244	9,147	732	2,894	1,479	118	20,138	10,626	850
Corporates	Property	75,215	71,817	38,334	3,067	3,502	2,692	215	75,319	41,026	3,282
	Natural resources	34,890	32,893	16,903	1,353	6,309	2,116	169	39,202	19,019	1,522
	Transport	33,908	32,111	18,940	1,516	3,357	1,466	117	35,468	20,406	1,633
	Manufacturing	40,369	36,631	20,439	1,636	1,249	491	39	37,880	20,930	1,675
	Retail and leisure	35,023	32,121	22,474	1,798	705	493	39	32,826	22,967	1,837
	Services	32,964	30,490	20,568	1,645	1,425	1,109	89	31,915	21,677	1,734
	Telecoms, media and technology	18,235	15,516	9,374	750	829	511	41	16,345	9,885	791
Personal	Mortgages	159,978	159,978	37,700	3,016	—	—	—	159,978	37,700	3,016
	Other personal	48,543	47,545	24,992	1,999	54	46	4	47,599	25,038	2,003
Not allocated to sector cluster		22,775	22,775	19,505	1,558	53	87	9	22,828	19,592	1,567
Total		698,997	672,441	264,791	21,184	78,217	30,379	2,430	750,658	295,170	23,614

Credit risk

Table 12: Total credit risk EAD, RWAs and minimum capital requirements by sector cluster *continued*

Sector cluster		Non-counterparty credit risk				Counterparty credit risk			Total credit risk		
		EAD pre CRM £m	EAD post CRM £m	RWAs £m	Minimum capital requirement £m	EAD post CRM £m	RWAs £m	Minimum capital requirement £m	EAD post CRM £m	RWAs £m	Minimum capital requirement £m
2013											
Sovereigns and quasi-sovereigns	Central banks	82,015	82,015	1,161	93	12,145	308	25	94,160	1,469	118
	Central governments	25,396	25,394	2,259	181	947	189	15	26,341	2,448	196
	Other sovereign	11,221	9,560	1,242	99	1,288	358	29	10,848	1,600	128
Financial institutions and securitisation vehicles	Banks	25,055	23,744	7,223	578	16,743	5,388	431	40,487	12,611	1,009
	Non-bank financial institutions	39,219	37,679	18,396	1,472	19,814	5,935	475	57,493	24,331	1,947
	SSPEs	20,415	20,416	6,204	496	3,671	1,812	145	24,087	8,016	641
Corporates	Property	83,447	79,643	45,724	3,658	4,279	2,873	230	83,922	48,597	3,888
	Natural resources	30,553	28,242	16,565	1,325	3,987	1,456	116	32,229	18,021	1,441
	Transport	33,585	32,017	22,997	1,840	2,684	1,390	111	34,701	24,387	1,951
	Manufacturing	34,410	31,426	20,798	1,664	998	408	33	32,424	21,206	1,697
	Retail and leisure	32,938	30,473	25,100	2,008	1,245	793	63	31,718	25,893	2,071
	Services	32,770	30,168	23,500	1,880	1,305	854	68	31,473	24,354	1,948
	Telecoms, media and technology	16,771	14,911	10,191	815	861	477	38	15,772	10,668	853
Personal	Mortgages	156,677	156,677	43,954	3,516	—	—	—	156,677	43,954	3,516
	Other personal	48,782	47,826	25,946	2,076	53	43	3	47,879	25,989	2,079
Not allocated to sector cluster		23,872	23,872	19,803	1,584	73	57	5	23,945	19,860	1,589
Total		697,126	674,063	291,063	23,285	70,093	22,341	1,787	744,156	313,404	25,072

Credit risk

Table 13: Total credit risk EAD by sector cluster, geographical region and residual maturity

Sector cluster		EAD post CRM							
		By geographical region				Total £m	By residual maturity		
		UK £m	US £m	Western Europe (excl. UK) £m	RoW £m		Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m
2014									
Sovereigns and quasi-sovereigns	Central banks	48,137	27,499	14,121	4,789	94,546	85,372	8,869	305
	Central governments	10,065	5,267	8,889	2,096	26,317	6,752	10,421	9,144
	Other sovereign	2,268	6,001	2,117	1,098	11,484	910	2,348	8,226
Financial institutions and securitisation vehicles	Banks	3,969	3,853	16,728	10,308	34,858	16,746	14,089	4,023
	Non-bank financial institutions	25,060	23,357	10,060	5,478	63,955	24,400	28,222	11,333
	SSPEs	8,520	6,311	3,450	1,857	20,138	4,901	5,110	10,127
Corporates	Property	51,248	8,866	12,787	2,418	75,319	21,858	35,143	18,318
	Natural resources	10,738	13,192	6,792	8,480	39,202	10,959	24,495	3,748
	Transport	13,727	5,045	5,673	11,023	35,468	12,361	17,804	5,303
	Manufacturing	13,251	12,384	7,798	4,447	37,880	14,888	19,267	3,725
	Retail and leisure	19,293	7,755	4,215	1,563	32,826	10,886	15,904	6,036
	Services	20,034	7,796	2,688	1,397	31,915	8,473	13,733	9,709
	Telecoms, media and technology	4,189	6,751	3,407	1,998	16,345	5,430	9,891	1,024
Personal	Mortgages	121,588	21,219	16,084	1,087	159,978	4,989	13,659	141,330
	Other personal	33,924	11,464	1,271	940	47,599	29,539	10,977	7,083
Not allocated to sector cluster						22,828			
		386,011	166,760	116,080	58,979	750,658	258,464	229,932	239,434
2013									
Sovereigns and quasi-sovereigns	Central banks	57,395	18,190	14,501	4,074	94,160	87,247	6,634	279
	Central governments	8,197	7,920	8,223	2,001	26,341	3,063	12,272	11,006
	Other sovereign	2,020	4,905	2,525	1,398	10,848	1,037	2,369	7,442
Financial institutions and securitisation vehicles	Banks	3,804	3,297	17,492	15,894	40,487	21,187	18,043	1,257
	Non-bank financial institutions	20,370	19,644	11,597	5,882	57,493	21,156	25,882	10,455
	SSPEs	10,941	4,818	6,502	1,826	24,087	5,382	7,671	11,034
Corporates	Property	55,134	7,718	18,876	2,194	83,922	30,284	34,546	19,092
	Natural resources	7,832	10,337	6,185	7,875	32,229	9,405	18,788	4,036
	Transport	13,010	4,823	4,776	12,092	34,701	10,979	17,141	6,581
	Manufacturing	10,812	10,090	6,756	4,766	32,424	12,561	16,218	3,645
	Retail and leisure	19,001	6,605	4,539	1,573	31,718	9,633	15,899	6,186
	Services	19,197	7,435	3,163	1,678	31,473	7,983	13,829	9,661
	Telecoms, media and technology	3,983	5,747	3,808	2,234	15,772	4,780	9,498	1,494
Personal	Mortgages	118,204	19,838	17,887	748	156,677	4,526	14,127	138,024
	Other personal	36,460	8,893	1,451	1,075	47,879	30,885	11,351	5,643
Not allocated to sector cluster						23,945			
		386,360	140,260	128,281	65,310	744,156	260,108	224,268	235,835

Credit risk

Table 14: Credit risk EAD and RWAs by segment, regulatory approach and exposure class

The following table shows EAD post CRM and RWAs for the segments analysed by regulatory approach and exposure class.

	UK PBB		Ulster Bank		Commercial Banking		Private Banking		CIB		Central items		CFG		RCR		Total	
	EAD		EAD		EAD		EAD		EAD		EAD		EAD		EAD		EAD	
	post		post		post		post		post		post		post		post		post	
	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-counterparty credit risk																		
2014																		
IRB approach																		
Central governments and banks	—	—	3,581	326	22	9	—	—	14,106	1,408	37,007	1,595	—	—	182	71	54,898	3,409
Institutions	215	8	723	252	1,541	71	—	—	10,451	3,532	4,450	765	—	—	573	191	17,953	4,819
Corporates																		
- property	3,350	2,651	1,706	1,019	33,154	16,302	—	—	5,332	2,886	—	—	—	—	13,767	2,654	57,309	25,512
- other	4,320	2,986	4,601	3,336	52,078	28,169	—	—	84,036	35,378	—	1,351	—	—	8,895	5,508	153,930	76,728
Retail																		
- mortgages	112,354	9,903	17,797	13,946	—	—	—	—	—	—	—	—	—	—	—	—	130,151	23,849
- other	38,815	15,459	2,252	1,896	1,393	712	—	—	—	—	—	—	—	—	53	3	42,513	18,070
Equities (1)	—	—	7	26	349	755	—	—	91	290	142	411	—	—	410	1,297	999	2,779
Securitisation positions	6	—	—	—	1,432	1,645	—	—	12,406	1,991	136	15	—	—	1,196	1,166	15,176	4,817
Non-credit obligation assets	1,200	269	685	380	747	403	—	—	1,753	997	35	36	—	—	1,223	1,227	5,643	3,312
Total IRB	160,260	31,276	31,352	21,181	90,716	48,066	—	—	128,175	46,482	41,770	4,173	—	—	26,299	12,117	478,572	163,295
STD approach																		
Government and multilateral																		
institutions (2)	1	1	3	3	84	8	944	8	9,277	23	45,141	10	8,146	31	—	—	63,596	84
Institutions	—	—	—	—	1	—	1,051	228	5	4	328	134	604	141	43	9	2,032	516
Corporates	128	152	605	577	7,740	7,634	1,762	1,696	3,787	3,215	7,400	6,511	35,037	28,999	369	1,215	56,828	49,999
Covered bonds	—	—	—	—	—	—	132	13	—	—	—	—	—	—	—	—	132	13
Retail	134	101	39	22	1,790	1,062	1,580	1,163	—	—	473	371	19,026	13,994	6	4	23,048	16,717
Secured by mortgages on																		
- commercial real estate	113	121	10	10	314	318	1,911	2,055	70	60	—	—	6,466	6,350	27	27	8,911	8,941
- residential property	117	26	50	41	119	45	9,621	3,452	436	184	437	437	15,102	6,178	4	4	25,886	10,367
Past due items	11	12	35	52	69	80	490	541	193	196	1	2	899	1,143	53	72	1,751	2,098
Securitisation positions	—	—	—	—	—	—	—	—	—	—	—	—	1,358	3,204	—	—	1,358	3,204
Other items	2,306	1,689	263	318	607	401	498	342	1,484	1,087	1,639	2,973	2,936	2,083	81	115	9,814	9,008
Collective investment undertakings	—	—	—	—	—	—	—	—	29	29	—	—	—	—	—	—	29	29
Exposures with particularly high risk	—	—	—	—	—	—	—	—	—	—	—	—	1	1	—	—	1	1
Exposures to international organisations	—	—	—	—	—	—	7	—	—	—	—	—	—	—	—	—	7	—
Equity claims	—	—	—	—	12	12	21	21	63	63	65	108	294	294	21	21	476	519
Total STD	2,810	2,102	1,005	1,023	10,736	9,560	18,017	9,519	15,344	4,861	55,484	10,546	89,869	62,418	604	1,467	193,869	101,496
Total IRB and STD	163,070	33,378	32,357	22,204	101,452	57,626	18,017	9,519	143,519	51,343	97,254	14,719	89,869	62,418	26,903	13,584	672,441	264,791

For the notes to this table refer to page 31.

Credit risk

Table 14: Credit risk EAD and RWAs by segment, regulatory approach and exposure class *continued*

	UK PBB		Ulster Bank		Commercial Banking		Private Banking		CIB		Central items		CFG		RCR		Total	
	EAD		EAD		EAD		EAD		EAD		EAD		EAD		EAD		EAD	
	post		post		post		post		post		post		post		post		post	
	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Counterparty credit risk																		
2014																		
IRB approach																		
Central governments and banks	—	—	2	—	—	—	—	—	8,022	345	—	—	—	—	111	28	8,135	373
Institutions	—	—	30	19	—	—	—	—	13,920	9,581	841	90	—	—	653	596	15,444	10,286
Corporates																		
- property	—	—	—	—	—	—	—	—	1,850	1,310	—	—	—	—	1,459	1,107	3,309	2,417
- other	—	—	124	85	10	10	—	—	31,548	11,183	176	6	—	—	3,615	1,350	35,473	12,634
Equities (1)	—	—	—	—	1	3	—	—	—	—	—	—	—	—	3	6	4	9
Securitisation positions	—	—	—	—	—	—	—	—	2,143	786	—	—	—	—	97	21	2,240	807
Total IRB	—	—	156	104	11	13	—	—	57,483	23,205	1,017	96	—	—	5,938	3,108	64,605	26,526
STD approach																		
Governments and multilateral institutions (2)	—	—	—	—	—	—	—	—	4,827	48	5	—	—	—	—	—	4,832	48
Institutions	—	—	—	—	—	—	6	2	223	112	51	21	12	3	—	—	292	138
Corporates	—	—	1	1	—	—	4	4	6,901	1,693	156	188	551	876	820	859	8,433	3,621
Retail	—	—	—	—	—	—	49	41	—	—	—	—	—	—	—	—	49	41
Past due items	—	—	—	—	—	—	—	—	—	—	—	—	2	2	—	—	2	2
Other items	—	—	—	—	—	—	3	3	—	—	—	—	—	—	—	—	3	3
International organisations	—	—	—	—	—	—	—	—	—	—	1	—	—	—	—	—	1	—
Total STD	—	—	1	1	—	—	62	50	11,951	1,853	213	209	565	881	820	859	13,612	3,853
Total IRB and STD	—	—	157	105	11	13	62	50	69,434	25,058	1,230	305	565	881	6,758	3,967	78,217	30,379

For the notes to this table refer to page 31.

Credit risk

Table 14: Credit risk EAD and RWAs by segment, regulatory approach and exposure class *continued*

	UK PBB		Ulster Bank		Commercial Banking		Private Banking		CIB		Central items		CFG		Non-Core		Total	
	EAD		EAD		EAD		EAD		EAD		EAD		EAD		EAD		EAD	
	post		post		post		post		post		post		post		post		post	
	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs	CRM	RWAs
2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Non-counterparty credit risk																		
<i>IRB approach</i>																		
Central governments and banks	28	11	953	96	33	24	—	—	14,702	1,403	29,937	1,964	—	—	826	539	46,479	4,037
Institutions	215	8	89	80	1,495	79	—	—	13,727	4,777	6,446	1,083	—	—	758	212	22,730	6,239
Corporates																		
- property	449	2,081	4,851	3,012	34,347	20,496	—	—	5,110	4,119	2	1	—	—	21,911	4,809	66,670	34,518
- other	2,308	2,918	6,841	5,261	47,019	29,596	—	—	77,892	45,530	3,609	3,580	—	—	13,554	8,482	151,223	95,367
Retail																		
- mortgages	108,904	13,454	19,411	17,136	—	—	—	—	—	—	—	—	—	—	—	—	128,315	30,590
- other	41,038	18,986	2,525	2,289	223	155	—	—	—	—	—	—	—	—	26	9	43,812	21,439
Equities (1)	—	—	7	26	27	66	—	—	278	879	396	1,204	—	—	285	935	993	3,110
Securitisation positions	—	—	9	1	1,997	1,450	—	—	13,208	1,493	1,717	191	—	—	1,567	222	18,498	3,357
Non-credit obligation assets	1,276	165	95	90	217	126	—	—	1,155	493	2,440	2,221	—	—	839	810	6,022	3,905
Total IRB	154,218	37,623	34,781	27,991	85,358	51,992	—	—	126,072	58,694	44,547	10,244	—	—	39,766	16,018	484,742	202,562
<i>STD approach</i>																		
Government and multilateral institutions (2)	—	—	—	—	43	7	956	2	6,789	2	55,350	11	6,283	24	88	23	69,509	69
Institutions	—	—	—	—	1	1	1,484	315	24	10	431	207	281	64	114	23	2,335	620
Corporates	112	1,522	40	40	6,441	4,623	2,777	2,765	304	678	6,503	6,439	34,372	29,721	2,083	2,041	52,632	47,829
Covered bonds	—	—	—	—	—	—	107	11	—	—	—	—	—	—	—	—	107	11
Collective investment undertakings	—	—	—	—	—	—	—	—	19	19	—	—	—	—	5	5	24	24
Retail	146	109	96	85	2,927	2,196	1,500	1,122	66	49	367	285	16,051	11,144	2,047	1,413	23,200	16,403
Secured by mortgages on																		
- commercial real estate	21	21	—	—	42	42	2,498	2,048	1	—	251	251	1,976	1,967	237	174	5,026	4,503
- residential property	186	65	—	—	153	54	9,161	3,206	367	129	—	—	11,259	3,906	163	58	21,289	7,418
Past due items	5	2	18	26	41	61	217	227	49	56	1	2	615	766	253	363	1,199	1,503
Securitisation positions	—	—	—	—	—	—	—	—	—	—	—	—	1,173	401	—	—	1,173	401
Other items	3,592	1,966	375	50	1,391	757	215	305	1,764	2,163	1,400	1,430	3,876	2,662	214	387	12,827	9,720
Total STD	4,062	3,685	529	201	11,039	7,741	18,915	10,001	9,383	3,106	64,303	8,625	75,886	50,655	5,204	4,487	189,321	88,501
Total IRB and STD	158,280	41,308	35,310	28,192	96,397	59,733	18,915	10,001	135,455	61,800	108,850	18,869	75,886	50,655	44,970	20,505	674,063	291,063

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

Credit risk

Table 14: Credit risk EAD and RWAs by segment, regulatory approach and exposure class *continued*

	UK PBB		Ulster Bank		Commercial Banking		Private Banking		CIB		Central Items		CFG		Non-Core		Total	
	EAD		EAD		EAD		EAD		EAD		EAD		EAD		EAD		EAD	
	post	RWAs	post	RWAs	post	RWAs	post	RWAs	post	RWAs	post	RWAs	post	RWAs	post	RWAs	post	RWAs
Counterparty credit risk	CRM	£m	CRM	£m	CRM	£m	CRM	£m	CRM	£m	CRM	£m	CRM	£m	CRM	£m	CRM	£m
2013	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
<i>IRB approach</i>																		
Central governments and banks	—	—	345	112	—	—	—	—	10,049	428	—	—	—	—	—	—	10,394	540
Institutions	—	—	30	9	—	—	—	—	14,792	5,133	557	88	—	—	40	16	15,419	5,246
Corporates																		
- property	—	—	129	11	—	—	—	—	1,971	1,302	—	—	—	—	2,043	1,422	4,143	2,735
- others	—	—	240	139	8	8	—	—	27,196	7,849	316	53	—	—	2,708	2,254	30,468	10,303
Equities (1)	—	—	—	—	2	5	—	—	—	1	—	—	—	—	1	1	3	7
Securitisation positions	—	—	—	—	—	—	—	—	2,110	793	—	—	—	—	12	31	2,122	824
Total IRB	—	—	744	271	10	13	—	—	56,118	15,506	873	141	—	—	4,804	3,724	62,549	19,655
<i>STD approach</i>																		
Governments and multilateral																		
institutions (2)	—	—	—	—	—	—	—	—	4,658	23	7	—	—	—	—	—	4,665	23
Institutions	—	—	—	—	—	—	31	6	444	355	81	61	5	1	—	—	561	423
Corporates	—	—	—	—	—	—	8	8	1,644	1,578	116	116	493	489	3	3	2,264	2,194
Retail	—	—	—	—	—	—	42	31	—	—	—	—	—	—	—	—	42	31
Past due items	—	—	3	5	—	—	—	—	—	—	—	—	4	4	2	3	9	12
Other items	—	—	—	—	3	3	—	—	—	—	—	—	—	—	—	—	3	3
Total STD	—	—	3	5	3	3	81	45	6,746	1,956	204	177	502	494	5	6	7,544	2,686
Total IRB and STD	—	—	747	276	13	16	81	45	62,864	17,462	1,077	318	502	494	4,809	3,730	70,093	22,341

- Notes:
- (1) The equities exposures represent equity warrants held by RBS, granting it the option to purchase shares in corporate entities. For accounting purposes, the warrants are treated as OTC derivatives and thus reported under counterparty credit risk in regulatory disclosures.
- (2) Governments and multilateral institutions comprises: central governments or central banks, regional governments or local authorities, administrative bodies and non-commercial undertakings, and multilateral development banks.

Credit risk

Table 15: Credit risk EAD, RWAs and minimum capital requirements by regulatory approach and exposure class

Exposure class	Non-counterparty credit risk					Counterparty credit risk		
	EAD pre CRM £m	Average EAD pre CRM (1) £m	EAD post CRM £m	RWAs £m	Minimum capital requirement £m	EAD post CRM £m	RWAs £m	Minimum capital requirement £m
2014								
<i>IRB approach</i>								
Central governments and banks	54,932	54,461	54,898	3,409	273	8,135	373	30
Institutions	21,085	27,828	17,953	4,819	386	15,444	10,286	823
Corporates	232,519	255,007	211,239	102,240	8,179	38,782	15,051	1,204
Retail								
SMEs	11,651	11,935	11,651	5,233	419	—	—	—
secured by real estate collateral	130,152	130,013	130,152	23,849	1,908	—	—	—
qualifying revolving retail	24,885	25,372	24,885	7,699	616	—	—	—
other retail	5,976	6,171	5,976	5,138	411	—	—	—
	172,664	173,491	172,664	41,919	3,354	—	—	—
Equities								
exchange-traded	198	293	198	567	45	—	—	—
private equity	561	354	561	1,347	108	4	9	1
other	240	409	240	865	69	—	—	—
	999	1,056	999	2,779	222	4	9	1
Securitisation positions	15,197	17,404	15,176	4,817	385	2,240	807	65
Non-credit obligation assets	5,644	5,822	5,643	3,313	266	—	—	—
	503,040	535,069	478,572	163,296	13,065	64,605	26,526	2,123
<i>STD approach</i>								
Central governments and banks	63,107	56,222	63,107	3	—	4,724	11	1
Regional governments or local authorities	318	461	316	70	6	108	37	3
Administrative bodies and non-commercial undertakings	55	56	55	11	1	—	—	—
Multilateral development banks	118	93	118	—	—	—	—	—
Institutions	2,032	2,671	2,032	516	40	292	138	11
Covered bonds	132	140	132	13	1	—	—	—
Collective investment undertakings	29	30	29	29	2	—	—	—
Corporates	58,566	60,809	56,828	49,999	4,001	8,433	3,621	289
Retail	23,330	18,139	23,048	16,717	1,338	49	41	3
Secured by mortgages on								
- commercial real estate	8,912	11,166	8,910	8,941	716	—	—	—
- residential property	25,887	29,299	25,887	10,367	829	—	—	—
Past due items	1,815	1,643	1,751	2,098	168	2	2	—
Securitisation positions	1,358	1,362	1,358	3,204	256	—	—	—
Other items	9,814	9,089	9,814	9,007	719	3	3	—
Exposures to international organisations	7	6	7	—	—	1	—	—
Exposures with particularly high risk	1	1	1	1	—	—	—	—
Equity claims	476	641	476	519	42	—	—	—
	195,957	191,828	193,869	101,495	8,119	13,612	3,853	307
Total	698,997	726,897	672,441	264,791	21,184	78,217	30,379	2,430

For the note to this table refer to the following page.

Credit risk

Table 15: Credit risk EAD, RWAs and minimum capital requirements by regulatory approach and exposure class *continued*

Exposure class	Non-counterparty credit risk					Counterparty credit risk		
	EAD pre CRM £m	Average EAD pre CRM (1) £m	EAD post CRM £m	RWAs £m	Minimum capital requirement £m	EAD post CRM £m	RWAs £m	Minimum capital requirement £m
2013								
<i>IRB approach</i>								
Central governments and banks	46,480	66,777	46,479	4,037	323	10,394	540	43
Institutions	25,665	26,059	22,730	6,239	499	15,419	5,246	420
Corporates	236,229	252,251	217,893	129,885	10,391	34,611	13,038	1,043
Retail								
SMEs	11,356	12,082	11,357	6,750	540	—	—	—
secured by real estate collateral	128,318	128,201	128,315	30,590	2,447	—	—	—
qualifying revolving retail	26,224	26,203	26,226	9,015	721	—	—	—
other retail	6,229	6,650	6,229	5,674	454	—	—	—
	172,127	173,136	172,127	52,029	4,162	—	—	—
Equities								
exchange-traded	582	587	582	1,795	143	—	—	—
private equity	102	196	102	269	22	3	6	—
other	309	276	309	1,046	84	—	1	—
	993	1,059	993	3,110	249	3	7	—
Securitisation positions	18,498	23,454	18,498	3,357	269	2,122	824	66
Non-credit obligation assets	6,022	8,824	6,022	3,905	312	—	—	—
	506,014	551,560	484,742	202,562	16,205	62,549	19,655	1,572
<i>STD approach</i>								
Central governments and banks	68,896	59,341	68,896	1	—	4,531	—	—
Regional governments or local authorities	577	972	542	58	5	134	23	2
Administrative bodies and non-commercial undertakings	50	61	50	10	1	—	—	—
Multilateral development banks	21	16	21	—	—	—	—	—
Institutions	2,335	3,630	2,335	620	50	493	369	29
Covered bonds	107	43	107	11	1	—	—	—
Collective investment undertakings	24	19	24	24	2	—	—	—
Corporates	54,116	60,767	52,632	47,829	3,826	2,332	2,248	181
Retail	23,469	31,164	23,200	16,403	1,313	42	31	2
Secured by mortgages on								
- commercial real estate	4,776	6,518	4,774	4,252	340	—	—	—
- residential property	21,541	21,144	21,541	7,669	613	—	—	—
Past due items	1,200	1,436	1,199	1,503	120	9	12	1
Securitisation positions	1,173	725	1,173	401	32	—	—	—
Other items	12,827	12,852	12,827	9,720	777	3	3	—
	191,112	198,688	189,321	88,501	7,080	7,544	2,686	215
Total	697,126	750,248	674,063	291,063	23,285	70,093	22,341	1,787

Note:

(1) Average EAD pre CRM for the year is calculated as a simple average of the month-end EAD pre CRM balances.

Credit risk

Non-counterparty credit risk

Table 16: Non-counterparty credit risk EAD pre CRM by exposure class and sector cluster

This table maps exposures by sector cluster (in line with RBS's internal risk management) to exposures by exposure class (as defined by CRR rules for calculating regulatory capital).

	EAD pre CRM																
	Sovereign			Financial institutions (FI)			Corporates							Personal			
	Central banks	Central governments	Other sovereign	Banks	Non-bank FI	SSPEs	Property	Natural resources	Transport	Manufacturing	Retail and leisure	Services	TMT	Mortgages	Other personal	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
2014 (CRR basis)																	
IRB approach																	
Central governments and banks	38,109	15,618	182	968	1	—	—	31	—	—	—	23	—	—	—	54,932	
Institutions	—	—	4,294	16,742	3	2	—	—	41	—	—	3	—	—	—	21,085	
Corporates	—	—	776	660	21,241	689	60,652	31,233	26,947	30,005	24,154	20,496	14,978	1	687	232,519	
Retail	—	—	16	2	127	—	2,782	69	668	1,906	2,448	3,146	270	130,157	31,073	172,664	
Equities	—	—	2	—	613	—	85	1	10	53	50	147	38	—	—	999	
Securitisation positions	—	—	—	—	784	14,362	—	—	51	—	—	—	—	—	—	15,197	
Non-credit obligation assets	—	18	70	89	65	—	141	49	478	38	156	24	51	—	—	1,179	
Total IRB	38,109	15,636	5,340	18,461	22,834	15,053	63,660	31,383	28,195	32,002	26,808	23,839	15,337	130,158	31,760	498,575	
STD approach																	
Central governments and banks	45,758	9,863	5,778	—	—	—	—	—	—	—	—	55	—	—	—	61,454	
Regional governments or local authorities	—	—	275	—	16	—	—	—	—	—	13	—	—	—	—	304	
Administrative bodies and non-commercial undertakings	—	—	—	—	55	—	—	—	—	—	—	—	—	—	—	55	
Multilateral development banks	—	—	—	118	—	—	—	—	—	—	—	—	—	—	—	118	
Institutions	—	—	20	1,578	84	—	3	—	—	32	4	—	—	—	—	1,721	
Corporates	—	57	286	6	13,586	863	5,337	2,858	4,886	6,993	5,991	6,511	2,611	59	1,558	51,602	
Covered bonds	—	—	—	43	89	—	—	—	—	—	—	—	—	—	—	132	
Collective investment undertakings	—	—	—	—	13	—	—	15	1	—	—	—	—	—	—	29	
Retail	—	—	12	3	128	—	446	76	139	241	687	379	60	7,276	13,410	22,857	
Secured by mortgages on																	
- commercial real estate	—	—	3	3	308	65	3,533	156	240	688	1,390	1,666	121	264	479	8,916	
- residential property	—	—	7	—	490	—	1,670	3	23	25	29	414	8	21,633	1,144	25,446	
Past due items	—	—	—	22	169	167	299	18	77	120	65	55	44	588	191	1,815	
Securitisation positions	—	—	—	91	150	1,117	—	—	—	—	—	—	—	—	—	1,358	
Other items	—	13	54	—	121	—	79	377	345	264	35	30	38	—	—	1,356	
Exposures with particularly high risk	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1	1	
Exposures to international organisations	1	6	—	—	—	—	—	—	—	—	—	—	—	—	—	7	
Equity claims	—	—	—	6	240	—	188	4	2	4	1	15	16	—	—	476	
Total STD	45,759	9,939	6,435	1,870	15,449	2,212	11,555	3,507	5,713	8,367	8,215	9,125	2,898	29,820	16,783	177,647	
Total	83,868	25,575	11,775	20,331	38,283	17,265	75,215	34,890	33,908	40,369	35,023	32,964	18,235	159,978	48,543	676,222	
Not allocated to sector cluster																22,775	
																698,997	

Credit risk

Table 16: Non-counterparty credit risk EAD pre CRM by exposure class and sector cluster *continued*

	EAD pre CRM																Total £m
	Sovereign			Financial institutions			Corporates							Personal			
	Central banks £m	Central governments £m	Other sovereign £m	Banks £m	Non-bank FI £m	SSPEs £m	Property £m	Natural resources £m	Transport £m	Manufacturing £m	Retail and leisure £m	Services £m	TMT £m	Mortgages £m	Other personal £m		
2013 (Basel 2.5 basis)																	
IRB approach																	
Central governments and banks	27,223	16,983	1,174	1,003	—	—	—	—	—	—	—	97	—	—	—	46,480	
Institutions	—	—	4,346	21,185	3	3	—	—	50	—	75	3	—	—	—	25,665	
Corporates	—	—	178	446	24,454	1,417	70,468	27,627	29,195	24,849	22,446	20,223	14,020	11	895	236,229	
Retail	—	—	18	—	123	—	2,927	48	609	1,792	2,499	2,881	280	128,327	32,623	172,127	
Equities	—	—	—	—	412	—	145	—	10	13	8	129	78	—	—	795	
Securitisation positions	—	—	—	—	1,496	16,759	—	—	92	—	—	151	—	—	—	18,498	
Non-credit obligation assets	—	19	78	101	71	—	173	53	639	34	200	39	58	—	—	1,465	
Total IRB	27,223	17,002	5,794	22,735	26,559	18,179	73,713	27,728	30,595	26,688	25,228	23,523	14,436	128,338	33,518	501,259	
STD approach																	
Central governments and banks	54,513	8,354	4,768	—	—	—	—	—	—	—	—	21	—	—	—	67,656	
Regional governments or local authorities	—	—	514	—	11	—	—	—	—	—	11	—	—	—	—	536	
Administrative bodies and non- commercial undertakings	—	—	—	—	50	—	—	—	—	—	—	—	—	—	—	50	
Multilateral development banks	—	—	—	19	—	—	—	—	—	—	—	—	—	—	—	19	
Institutions	—	—	—	1,828	76	—	—	—	—	—	—	—	—	—	—	1,904	
Corporates	—	27	65	6	10,486	1,635	5,965	2,346	2,303	6,965	6,329	7,228	2,167	402	2,213	48,137	
Covered bonds	—	—	—	27	80	—	—	—	—	—	—	—	—	—	—	107	
Collective investment undertakings	—	—	—	—	8	—	—	16	—	—	—	—	—	—	—	24	
Retail	—	—	17	3	162	169	487	100	231	364	865	942	76	8,597	11,089	23,102	
Secured by mortgages on																	
- commercial real estate	—	—	8	—	388	18	2,192	6	61	124	379	655	33	341	571	4,776	
- residential property	—	—	1	—	451	—	648	—	1	9	22	314	8	18,551	1,285	21,290	
Past due items	—	—	—	—	113	—	261	11	93	35	70	40	23	448	106	1,200	
Securitisation positions	—	—	—	146	613	414	—	—	—	—	—	—	—	—	—	1,173	
Other items	279	13	54	291	222	—	181	346	301	225	34	47	28	—	—	2,021	
Total STD	54,792	8,394	5,427	2,320	12,660	2,236	9,734	2,825	2,990	7,722	7,710	9,247	2,335	28,339	15,264	171,995	
Total	82,015	25,396	11,221	25,055	39,219	20,415	83,447	30,553	33,585	34,410	32,938	32,770	16,771	156,677	48,782	673,254	
Not allocated to sector cluster																23,872	
																697,126	

Credit risk

Non-counterparty credit risk RWAs and minimum capital requirements relating to equities are comprised as follows:

	RWAs	RWAs	Minimum capital requirements	
	2014 £m	2013 £m	2014 £m	2013 £m
IRB (PD/LGD) approach	1,060	853	85	68
Simple risk-weight approach	1,719	1,633	137	131
Consortium investments	—	624	—	50
	2,779	3,110	222	249

For analysis of the inputs to these capital calculations, refer to Table 29 (PD/LGD approach) and Table 30 (simple risk-weight approach).

Table 17: Non-counterparty credit risk by exposure class and geographical region

Exposure class	EAD pre CRM				
	UK £m	US £m	Western Europe (excl. UK) £m	RoW £m	Total £m
2014					
<i>IRB approach</i>					
Central governments and banks	1,650	30,201	15,684	7,397	54,932
Institutions	5,623	1,704	8,362	5,396	21,085
Corporates	124,488	28,706	48,795	30,530	232,519
Retail	154,668	187	17,211	598	172,664
Equities	813	34	99	53	999
Securitisation positions	5,762	5,308	2,470	1,657	15,197
Non-credit obligation assets	533	—	646	—	1,179
	293,537	66,140	93,267	45,631	498,575
Exposure-weighted average LGD	26%	42%	42%	47%	33%
Exposure-weighted average PD	6%	1%	17%	4%	7%
<i>STD approach</i>					
Central governments and banks	52,155	8,312	943	44	61,454
Regional governments or local authorities	39	40	171	54	304
Administrative bodies and non-commercial undertakings	—	55	—	—	55
Multilateral development banks	—	—	—	118	118
Institutions	65	557	865	234	1,721
Corporates	9,124	35,337	2,262	4,879	51,602
Covered bonds	—	—	128	4	132
Collective investment undertakings	1	28	—	—	29
Retail	3,340	19,034	103	380	22,857
Secured by mortgages on					
- commercial real estate	1,940	6,515	152	309	8,916
- residential property	8,550	15,193	400	1,303	25,446
Past due items	580	945	222	68	1,815
Securitisation positions	—	1,358	—	—	1,358
Exposures to international organisations	—	—	—	7	7
Exposures with particularly high risk	—	1	—	—	1
Equity claims	55	334	70	17	476
Other items	191	1,120	45	—	1,356
	76,040	88,829	5,361	7,417	177,647
	369,577	154,969	98,628	53,048	676,222
Not allocated to region					22,775
					698,997

Credit risk

Table 17: Non-counterparty credit risk by exposure class and geographical region *continued*

	EAD pre CRM				
	UK	US	Western Europe (excl. UK)	RoW	Total
Exposure class	£m	£m	£m	£m	£m
2013					
IRB approach					
Central governments and banks	885	24,323	13,701	7,571	46,480
Institutions	4,151	1,521	10,157	9,836	25,665
Corporates	121,231	24,068	57,513	33,417	236,229
Retail	152,342	176	19,009	600	172,127
Equities	350	52	263	130	795
Securitisation positions	7,010	4,693	4,942	1,853	18,498
Non-credit obligation assets	630	—	835	—	1,465
	286,599	54,833	106,420	53,407	501,259
Exposure-weighted average LGD	27%	41%	40%	49%	34%
Exposure-weighted average PD	8%	1%	20%	4%	9%
STD approach					
Central governments and banks	60,571	6,168	891	26	67,656
Regional governments or local authorities	34	69	377	56	536
Administrative bodies and non-commercial undertakings	—	50	—	—	50
Multilateral development banks	—	—	—	19	19
Institutions	131	289	1,059	425	1,904
Corporates	9,392	34,661	1,305	2,779	48,137
Covered bonds	—	—	107	—	107
Collective investment undertakings	—	24	—	—	24
Retail	4,441	17,859	429	373	23,102
Secured by mortgages on					
- commercial real estate	2,238	2,070	193	275	4,776
- residential property	8,324	11,465	513	988	21,290
Past due items	316	692	149	43	1,200
Securitisation positions	—	1,114	59	—	1,173
Other items	237	1,764	4	16	2,021
	85,684	76,225	5,086	5,000	171,995
	372,283	131,058	111,506	58,407	673,254
Not allocated to region					23,872
					697,126

Credit risk

Table 18: Non-counterparty credit risk by exposure class and residual maturity

Exposure class	EAD pre CRM			Total £m
	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	
2014				
<i>IRB approach</i>				
Central governments and banks	43,380	6,745	4,807	54,932
Institutions	12,784	2,644	5,657	21,085
Corporates	97,828	98,778	35,913	232,519
Retail	32,960	12,141	127,563	172,664
Equities	—	3	996	999
Securitisation positions	4,828	4,447	5,922	15,197
Non-credit obligation assets	97	321	761	1,179
	191,877	125,079	181,619	498,575
<i>STD approach</i>				
Central governments and banks	38,612	12,111	10,731	61,454
Regional governments or local authorities	24	164	116	304
Administrative bodies and non-commercial undertakings	27	28	—	55
Multilateral development banks	3	115	—	118
Institutions	1,092	375	254	1,721
Corporates	6,384	28,058	17,160	51,602
Covered bonds	—	132	—	132
Collective investment undertakings	—	—	29	29
Retail	3,615	12,253	6,989	22,857
Secured by mortgages on				
- commercial real estate	944	6,129	1,843	8,916
- residential property	3,731	3,435	18,280	25,446
Past due items	641	708	466	1,815
Securitisation positions	—	33	1,325	1,358
Exposures to international organisations	—	7	—	7
Exposures with particularly high risk	—	—	1	1
Equity claims	22	—	454	476
Other items	111	481	764	1,356
	55,206	64,029	58,412	177,647
	247,083	189,108	240,031	676,222
Not allocated to maturity				22,775
				698,997

Credit risk

Table 18: Non-counterparty credit risk by exposure class and residual maturity *continued*

Exposure class	EAD pre CRM			Total £m
	Within 1 year £m	After 1 year but within 5 years £m	After 5 years £m	
2013				
IRB approach				
Central governments and banks	30,420	10,751	5,309	46,480
Institutions	15,203	6,902	3,560	25,665
Corporates	98,484	93,409	44,336	236,229
Retail	34,707	11,301	126,119	172,127
Equities	—	—	795	795
Securitisation positions	5,476	3,476	9,546	18,498
Non-credit obligation assets	427	332	706	1,465
	184,717	126,171	190,371	501,259
STD approach				
Central governments and banks	48,783	8,292	10,581	67,656
Regional governments or local authorities	83	223	230	536
Administrative bodies and non-commercial undertakings	27	23	—	50
Multilateral development banks	—	19	—	19
Institutions	1,814	90	—	1,904
Corporates	5,601	31,872	10,664	48,137
Covered bonds	—	107	—	107
Collective investment undertakings	—	—	24	24
Retail	4,058	10,257	8,787	23,102
Secured by mortgages on				
- commercial real estate	852	3,149	775	4,776
- residential property	2,365	6,097	12,828	21,290
Past due items	455	380	365	1,200
Securitisation positions	—	26	1,147	1,173
Other items	80	406	1,535	2,021
	64,118	60,941	46,936	171,995
	248,835	187,112	237,307	673,254
Not allocated to maturity				23,873
				697,127

Key points for Tables 11 to 18

Overview

Total credit risk exposures were broadly flat in 2014, with EAD post CRM increasing 1% to £751 billion. Although the implementation of a new EAD model for the wholesale banking book (refer to Non-counterparty credit risk) had an upward impact on EAD, this was offset by the continued downward trend in underlying business volumes.

Total RWAs fell by 6% to £295 billion, driven by the decline in non-counterparty credit risk RWAs explained below.

Non-counterparty credit risk

Non-counterparty credit risk EAD post CRM remained materially static at £672 billion at 31 December 2014. The underlying reduction was primarily due to the disposal of assets in CIB and run-off in RCR (£30 billion) in line with strategy.

This downward trend was offset by the impact of the implementation of a new EAD model for the wholesale banking book, which was approved by the PRA and went live in January 2014. The estimated impact was an EAD increase of around £30 billion, primarily affecting undrawn exposures relating to money market lines, revolving credit facilities, overdrafts, purchase receivables and nostro accounts under the IRB approach. This factor affected most sector clusters, notably natural resources and manufacturing.

Credit risk

Non-counterparty credit risk RWAs declined 9% to £265 billion, largely driven by the underlying business and risk reduction. The new EAD model did not affect RWAs as a PRA-approved adjustment was already applied during 2013. The overall decline in RWAs was partially offset by a 113% increase related to securitisation positions. This primarily reflects the change in treatment under CRR for securitisations with a risk-weight of 1,250% (for more information, refer to page 70), which mainly affected CIB and CFG. This change in treatment for securitisations had no impact on EAD, which fell by 16% due to RCR and CIB disposals.

Counterparty credit risk

Counterparty credit risk EAD post CRM rose 12% to £78 billion, driven by the implementation of CRR rules, under which new charges for exposures to central counterparties apply. This notably affected the non-bank financial institutions. The increase was partly offset by mitigation and de-risking actions in CIB and RCR.

Counterparty credit risk RWAs rose by 36% to £30 billion, reflecting new credit valuation adjustment (CVA) charges under the CRR regime and the new asset value correlation (AVC) multiplier for financial institution exposures. (For more information on CVAs, refer to page 63.) On a like-for-like Basel 2.5 basis, RWAs fell significantly due to the mitigation and de-risking actions.

Sector cluster movements

Banks

EAD post CRM fell by 14%, driven by CIB disposals in line with strategy and Treasury taking advantage of improved market conditions to reduce legacy exposures. RWAs rose by 24%, driven by changes under the CRR regime, notably the new CVA charges and AVC multiplier. As a result, RWA density rose from 31% to 45%.

Property

EAD post CRM fell by 10%. An overall upturn in property prices during 2014 facilitated disposals in Ireland and other Western European countries by RCR and Ulster Bank at more beneficial prices than previously expected. These disposals resulted in an improvement in the quality of the remaining portfolio, reflected in a reduction in RWA density in the UK (from 57% at 31 December 2013 to 53% at 31 December 2014), Ireland (from 31% to 17%) and Rest of the World (from 79% to 66%).

Mortgages

EAD post CRM rose moderately, by 2%, notably relating to UK PBB, driven by continuing house price growth and an increase in new mortgage lending in 2014. RWA density declined from 28% at 31 December 2013 to 24%, largely driven by UK PBB and Ulster Bank, reflecting improved credit quality on the back of the economic recovery.

Natural resources

As noted earlier, natural resources was one of the sector clusters for which a notable EAD increase (of 22%) was observed as a result of the new EAD model introduced in early 2014. This increase was partly offset by a reduction in oil and gas, reflecting reduced risk appetite.

Credit risk mitigation

RBS employs a number of techniques to mitigate credit risk. For information on its approach to CRM, including collateral and other credit enhancements, refer to page 236 of the 2014 ARA. For specific information on the mitigation of counterparty credit risk, refer to page 60 of this report.

Under the STD approach, CRM is incorporated in EAD or risk-weight as per CRR rules.

The following table details how different risk mitigants are incorporated into IRB risk parameters (LGD, PD and EAD).

Credit risk

Table 19: Incorporation of credit risk mitigants within IRB risk parameters

	LGD	PD	EAD
Real estate (commercial and residential)	✓		
Other physical collateral	✓		
Third party guarantees	✓		
Credit derivatives	✓		
Parental guarantees (connected parties)		✓	
Financial collateral			
- trading book			✓
- non-trading book	✓		
Netting (on and off-balance sheet)			✓
Receivables	✓		
Life policies	✓		
Credit insurance	✓		

Table 20: Non-counterparty credit risk exposures covered by guarantees and credit derivatives

The following table details total exposures covered by guarantees and credit derivatives. For further detail on collateral, refer to pages 236, 251 to 254, 260 to 261, 271, and 275 to 276 of the 2014 ARA.

Exposure class	2014	2013
	Exposures covered by guarantees or credit derivatives (1,2) £m	Exposures covered by guarantees or credit derivatives (1,2) £m
<i>IRB approach</i>		
Central governments and banks	77	77
Institutions	86	168
Corporates	9,202	7,815
Securitisation positions	5	—
	9,370	8,060
<i>STD approach</i>		
Central governments and banks	5,774	4,757
Corporates	31	18
Retail	181	413
Secured by mortgages on residential property	391	434
Past due items	29	24
	6,406	5,646
	15,776	13,706

Notes:

- (1) Exposures covered by guarantees or credit derivatives are shown as the lower of the value of the guarantee or credit derivative or the value of the associated EAD post CRM of the facility. Guarantees disclosed do not include parental guarantees where the PD substitution approach is applied.
- (2) Excludes tranching credit protection purchased in relation to synthetic securitisation activity.
- (3) Contingent liability exposures at 31 December 2014 include €4.0 billion (2013 - €4.0 billion) relating to RBS N.V.'s obligations over liabilities held within the Dutch State acquired businesses in the new ABN AMRO Bank N.V. On the division of an entity by demerger, Dutch law establishes a cross liability between surviving entities in respect of the creditors at the time of the demerger. The likelihood of any cross liability crystallising is considered remote. These contingent liabilities are covered by an indemnity from the Dutch State.

Key point

- Exposures covered by guarantees or credit derivatives increased 15% at 31 December 2014, which reflects the continued focus on credit risk mitigation opportunities.

Credit risk

Table 21: Non-counterparty credit risk exposures covered by eligible financial collateral (STD approach)

STD exposure class ⁽¹⁾	2014 £m	2013 £m
Corporates	1,778	1,478
Retail	282	269
Secured by mortgages on commercial real estate	4	2
Secured by mortgages on residential property	—	1
Past due items	2	1
	2,066	1,751

Note:

(1) Exposures covered by eligible financial collateral as per CRR rules.

Key point

- Exposures covered by eligible financial collateral subject to the STD approach increased by 18%, a sharper rise than that in overall STD non-counterparty credit risk exposures (3%). This distinction reflects the continued focus on credit risk mitigation opportunities.

Asset quality analysis of non-counterparty credit risk exposures

Under the IRB approach, RBS utilises a master grading scale comprising 27 grades to express the default risk of its exposures. These grades are mapped to ten AQ bands for both internal and external reporting purposes. The relationship between the AQ bands and PDs is detailed in the following table.

Tables 23 to 29 analyse the asset quality of non-counterparty credit risk exposures using the IRB approach. For these exposures, the asset quality is disclosed according to RBS's internal AQ bands, as defined in Table 22. Table 32 shows the asset quality of non-counterparty credit risk exposures under the STD approach. For these exposures, asset quality is disclosed according to CQS, as defined in Table 31.

Table 22 additionally maps, for illustrative purposes only, the relationship between RBS's master grading scale and AQ bands, on the one hand, and external ratings published by S&P, on the other hand. This relationship is established by observing S&P's default study statistics, notably the one year default rates for each S&P rating grade. A degree of judgement is required to relate the PD ranges associated with the master grading scale to these default rates given that, for example, the S&P published default rates do not increase uniformly by grade and the historical default rate is nil for the highest rating categories.

The mapping to the S&P ratings is used by RBS as one of several benchmarks for its wholesale portfolios, depending on customer type and the purpose of the benchmark. The mapping shown below and in the following tables is based on all issuer types rated by S&P. It should therefore be considered illustrative and does not, for instance, indicate that exposures reported against S&P ratings either have been or would be assigned those ratings if assessed by S&P. In addition, the relationship is not relevant for retail portfolios, smaller corporate exposures or specialist corporate segments given that S&P does not typically assign ratings to such exposures.

Credit risk

Table 22: IRB exposures, AQ band mapping to PD range and S&P ratings

Master grading scale	AQ band	PD range		S&P ratings
		Low	High	
1	AQ1	0%	0.006%	AAA
2		0.006%	0.012%	AA+
3		0.012%	0.017%	AA+
4		0.017%	0.024%	AA
5		0.024%	0.034%	AA
6	AQ2	0.034%	0.048%	AA-
7	AQ3	0.048%	0.067%	A+
8		0.067%	0.095%	A
9	AQ4	0.095%	0.135%	A-
10		0.135%	0.190%	BBB+
11		0.190%	0.269%	BBB
12		0.269%	0.381%	BBB-
13	AQ5	0.381%	0.538%	BB+
14		0.538%	0.761%	BB+
15		0.761%	1.076%	BB
16	AQ6	1.076%	1.522%	BB-
17		1.522%	2.153%	B+
18	AQ7	2.153%	3.044%	B+
19		3.044%	4.305%	B
20		4.305%	6.089%	B
21	AQ8	6.089%	8.611%	B-
22		8.611%	12.177%	B-
23		12.177%	17.222%	CCC+
24	AQ9	17.222%	24.355%	CCC+
25		24.355%	34.443%	CCC
26		34.443%	100%	CCC- to C
27	AQ10	100%	100%	D

Credit risk

Tables 23 to 29 analyse the asset quality of RBS's non-counterparty credit risk exposures using the IRB approach. For these exposures, the asset quality is disclosed according to RBS's internal AQ bands, as defined in Table 22. These tables exclude products where no PDs exist, such as securitisation positions and non-credit obligation assets.

Table 23: Total IRB non-counterparty credit risk exposures post CRM by AQ band

IRB exposure class	AQ1 £m	AQ2 £m	AQ3 £m	AQ4 £m	AQ5 £m	AQ6 £m	AQ7 £m	AQ8 £m	AQ9 £m	AQ10/default £m	Total £m
2014											
Central governments and banks	48,376	244	3,613	1,882	80	11	677	15	—	—	54,898
Institutions	3,029	3,057	7,332	3,957	370	35	102	29	—	42	17,953
Corporates ⁽¹⁾	30,272	13,885	21,785	38,159	28,821	19,569	12,199	2,845	897	13,805	182,237
Retail											
SMEs	—	49	109	1,369	3,995	2,636	1,232	527	159	1,575	11,651
secured by real estate collateral	—	—	2,522	80,564	27,935	6,660	1,383	2,273	3,043	5,772	130,152
qualifying revolving retail exposures	8,546	110	—	3,775	4,534	2,538	3,274	1,037	311	760	24,885
other retail exposures	—	—	—	126	1,702	1,413	1,010	364	104	1,257	5,976
	8,546	159	2,631	85,834	38,166	13,247	6,899	4,201	3,617	9,364	172,664
Equities ⁽²⁾	—	—	1	—	—	171	168	2	6	19	367
Total	90,223	17,345	35,362	129,832	67,437	33,033	20,045	7,092	4,520	23,230	428,119
2013											
Central governments and banks	41,043	371	2,967	2,023	11	15	44	4	1	—	46,479
Institutions	2,992	1,568	6,992	9,999	791	105	103	110	1	69	22,730
Corporates ⁽¹⁾	37,434	14,867	19,683	25,783	25,289	20,655	13,544	3,545	1,955	20,126	182,881
Retail											
SMEs	—	16	—	1,070	1,713	3,858	1,449	1,125	327	1,799	11,357
secured by real estate collateral	—	2,681	—	58,746	35,994	10,546	8,868	2,275	3,302	5,903	128,315
qualifying revolving retail exposures	154	7,613	—	4,302	4,569	3,319	3,252	1,779	320	918	26,226
other retail exposures	—	—	—	10	1,327	1,579	1,154	452	140	1,567	6,229
	154	10,310	—	64,128	43,603	19,302	14,723	5,631	4,089	10,187	172,127
Equities ⁽²⁾	—	—	—	—	10	120	105	1	26	22	284
Total	81,623	27,116	29,642	101,933	69,704	40,197	28,519	9,291	6,072	30,404	424,501

Notes:

(1) Excludes exposures treated under the supervisory slotting approach. For more information, refer to Table 27.

(2) Excludes exposures calculated using the simple risk-weight approach. For more information, refer to Tables 16 and 30.

Credit risk

Tables 24 to 29 analyse each of the exposure classes in turn, detailing the key parameters of the IRB RWA calculation for each of them.

Table 24: Central governments and central banks IRB non-counterparty credit risk exposures post CRM by AQ band

2014	AQ1	AQ2	AQ3	AQ4	AQ5	AQ6	AQ7	AQ8	AQ9	AQ10/default	Total
S&P ratings	AAA to AA	AA-	A+ to A	A- to BBB-	BB+ to BB	BB- to B+	B+ to B	B- to CCC+	CCC+ to C	D	
EAD post CRM (£m)	48,376	244	3,613	1,882	80	11	677	15	—	—	54,898
Exposure-weighted average LGD	45.1%	45.0%	45.0%	50.8%	47.3%	17.6%	49.4%	19.7%	—	—	45.3%
Exposure-weighted average PD	0.01%	0.04%	0.06%	0.23%	0.48%	1.34%	2.52%	9.28%	—	—	0.05%
RWAs (£m)	1,762	61	539	868	46	5	116	12	—	—	3,409
RWA density	3.6%	24.8%	14.9%	46.1%	56.9%	46.8%	17.2%	82.5%	—	—	6.2%
Undrawn commitments (£m)	17,637	—	4,281	457	1	—	—	10	—	1	22,387
Undrawn weighted average CCF	19.8%	—	20.4%	22.8%	66.0%	—	—	20.3%	—	—	19.9%

2013	AQ1	AQ2	AQ3	AQ4	AQ5	AQ6	AQ7	AQ8	AQ9	AQ10/default	Total
EAD post CRM (£m)	41,043	371	2,967	2,023	11	15	44	4	1	—	46,479
Exposure-weighted average LGD	44.9%	45.0%	45.0%	48.2%	62.8%	24.5%	36.6%	18.6%	79.2%	—	45.1%
Exposure-weighted average PD	0.01%	0.04%	0.06%	0.24%	0.54%	1.66%	3.74%	10.60%	28.96%	—	0.03%
RWAs (£m)	2,300	114	446	1,102	9	9	49	4	4	—	4,037
RWA density	5.6%	30.7%	15.0%	54.4%	89.1%	56.8%	111.9%	91.9%	439.7%	—	8.7%
Undrawn commitments (£m)	31,889	10	3,083	1,470	42	18	2	—	9	—	36,523
Undrawn weighted average CCF	0.2%	23.1%	0.2%	5.4%	23.8%	23.7%	100.0%	—	—	—	0.5%

Key points

- Overall exposure to central governments and central banks under the IRB approach rose 18% to £55 billion, 88% of which is in the AQ1 band. This reflects increased placements with central banks, notably in the US, as part of ongoing liquidity management.
- Undrawn commitments in AQ1 continued to fall sharply during the year, reflecting the strategic decision to reduce limits on certain liquidity facilities to levels based on utilisation history.

Credit risk

Table 25: Institutions IRB non-counterparty credit risk exposures post CRM by AQ band

2014	AQ1	AQ2	AQ3	AQ4	AQ5	AQ6	AQ7	AQ8	AQ9	AQ10/default	Total
S&P ratings	AAA to AA	AA-	A+ to A	A- to BBB-	BB+ to BB	BB- to B+	B+ to B	B- to CCC+	CCC+ to C	D	
EAD post CRM (£m)	3,029	3,057	7,332	3,957	370	35	102	29	—	42	17,953
Exposure-weighted average LGD	32.7%	45.5%	37.9%	67.3%	70.3%	30.0%	57.1%	9.8%	—	90.1%	45.6%
Exposure-weighted average PD	0.03%	0.04%	0.06%	0.18%	0.51%	1.49%	2.57%	10.22%	20.51%	100.00%	0.35%
RWAs (£m)	382	495	1,357	2,029	365	27	148	14	2	—	4,819
RWA density	12.6%	16.2%	18.5%	51.3%	98.7%	76.0%	144.3%	49.3%	—	—	26.8%
Undrawn commitments (£m)	1,442	2,879	4,235	2,096	119	25	7	9	—	—	10,812
Undrawn weighted average CCF	37.3%	21.9%	22.9%	30.4%	35.6%	55.6%	29.2%	21.2%	—	—	26.2%
2013											
EAD post CRM (£m)	2,992	1,568	6,992	9,999	791	105	103	110	1	69	22,730
Exposure-weighted average LGD	27.5%	44.0%	33.4%	64.4%	55.7%	19.0%	21.7%	12.1%	—	86.4%	47.7%
Exposure-weighted average PD	0.03%	0.04%	0.06%	0.18%	0.61%	1.72%	2.87%	8.19%	30.02%	100.00%	0.49%
RWAs (£m)	271	188	931	3,869	587	59	275	57	2	—	6,239
RWA density	9.1%	12.0%	13.3%	38.7%	74.2%	56.2%	267.5%	51.9%	302.6%	—	27.4%
Undrawn commitments (£m)	3,871	3,382	5,445	6,165	1,131	70	39	57	4	1	20,165
Undrawn weighted average CCF	11.2%	2.1%	3.0%	9.1%	11.5%	13.6%	25.2%	47.2%	—	—	7.0%

Key points

- Overall exposures to institutions fell by 21% to £18 billion from £23 billion at 31 December 2013, largely driven by CIB run-off and continuing disposal of legacy exposures by Treasury. The reductions mostly affected the AQ4 band.
- Undrawn commitments fell by 46%, primarily reflecting the decision to reduce limits on certain money market lines and other liquidity facilities. The largest impact of this decision can be observed in the AQ4 band, where undrawns declined by 66%.

Credit risk

Table 26: Corporates IRB non-counterparty credit risk exposures post CRM by AQ band

2014	AQ1	AQ2	AQ3	AQ4	AQ5	AQ6	AQ7	AQ8	AQ9	AQ10/default	Total
S&P ratings	AAA to AA	AA-	A+ to A	A- to BBB-	BB+ to BB	BB- to B+	B+ to B	B- to CCC+	CCC+ to C	D	
EAD post CRM (£m)	30,272	13,885	21,785	38,159	28,821	19,569	12,199	2,845	897	13,805	182,237
Exposure-weighted average LGD	33.3%	45.0%	44.8%	45.8%	37.0%	32.3%	28.1%	32.5%	32.1%	71.3%	41.1%
Exposure-weighted average PD	0.03%	0.04%	0.07%	0.20%	0.68%	1.54%	3.27%	9.53%	25.10%	100.00%	8.40%
RWAs (£m)	4,411	3,214	6,075	17,924	19,332	15,514	11,443	3,468	1,560	17	82,958
RWA density	14.6%	23.1%	27.9%	47.0%	67.1%	79.3%	93.8%	121.9%	174.0%	0.1%	45.5%
Undrawn commitments (£m)	34,953	14,047	25,145	33,325	13,815	6,069	3,647	555	306	195	132,057
Undrawn weighted average CCF	40.6%	39.6%	40.0%	40.4%	45.7%	51.4%	47.6%	49.9%	38.8%	43.9%	41.6%

2013	AQ1	AQ2	AQ3	AQ4	AQ5	AQ6	AQ7	AQ8	AQ9	AQ10/default	Total
EAD post CRM (£m)	37,434	14,867	19,683	25,783	25,289	20,655	13,544	3,545	1,955	20,126	182,881
Exposure-weighted average LGD	37.1%	45.9%	45.5%	43.9%	31.8%	31.5%	30.6%	35.8%	41.4%	64.4%	40.9%
Exposure-weighted average PD	0.03%	0.04%	0.07%	0.20%	0.70%	1.52%	3.32%	9.98%	26.31%	100.00%	12.04%
RWAs (£m)	8,175	4,741	7,490	15,298	18,086	19,034	20,705	5,799	5,030	36	104,394
RWA density	21.8%	31.9%	38.1%	59.3%	71.5%	92.1%	152.9%	163.6%	257.4%	0.2%	57.1%
Undrawn commitments (£m)	56,981	18,436	23,753	18,944	9,763	5,928	4,037	497	416	751	139,506
Undrawn weighted average CCF	24.4%	23.3%	22.1%	24.4%	29.8%	35.9%	39.4%	43.9%	35.9%	52.5%	25.4%

Key points

- Overall exposure to corporates remained flat, with a 0.4% reduction in EAD to £182 billion at 31 December 2014. Although there was an underlying reduction due to asset disposals and maturing of facilities in RCR (mostly evident in the AQ8 to AQ10 bands), this was offset by the impact of the new EAD model.
- RWAs declined year on year, largely as a result of the asset disposals. The impact of the new EAD model on RWAs had already been incorporated in 2013.
- An additional factor contributing to the movements in EAD in some asset quality bands was the roll-out of a new PD model for large corporates. This led to EAD decreases in AQ1 to AQ3 and increases in AQ4 to AQ8. This model update impacted CIB, Commercial Banking and RCR, increasing RWAs by £3.0 billion (refer to page 211 of 2014 ARA).

Credit risk

Table 27: Corporates under the supervisory slotting approach post CRM by AQ category (1)

	Category 1 (strong)	Category 2 (good)	Category 3 (satisfactory)	Category 4 (weak)	Category 5 (defaulted)	Total
2014						
EAD post CRM (£m)	10,889	8,745	2,240	1,000	6,128	29,002
RWAs (£m)	7,075	7,131	2,577	2,499	—	19,282
RWA density	65.0%	81.5%	115.0%	250.0%	—	66.0%
Undrawn commitments (£m)	1,232	699	104	32	89	2,156
Undrawn weighted average CCF	65.2%	77.6%	70.9%	96.3%	69.1%	70.1%
2013						
EAD post CRM (£m)	9,028	9,225	3,850	2,165	10,744	35,012
RWAs (£m)	5,905	7,394	4,428	5,413	—	23,140
RWA density	65.4%	80.1%	115.0%	250.0%	—	66.1%
Undrawn commitments (£m)	1,037	758	228	103	347	2,473
Undrawn weighted average CCF	57.0%	66.1%	82.8%	93.1%	79.1%	66.9%

Note:

(1) Customers are split into five supervisory slotting categories; within each category, customers are also divided into two maturity bands: below and above 2.5 years. The risk-weight applied to each exposure is based on a combination of its supervisory slotting category and maturity band. There are no RWAs associated with exposures in category 5 as these are addressed via capital deductions.

Of which: IPRE

2014						
EAD post CRM (£m)	6,425	8,479	1,849	856	5,784	23,393
RWA (£m)	4,017	6,895	2,126	2,138	—	15,176
RWA density	62.5%	81.3%	115.0%	250.0%	—	65.0%
Undrawn commitments (£m)	602	684	81	25	49	1,441
Undrawn weighted average CCF	55.6%	78.2%	77.7%	96.3%	77.2%	69.0%
2013						
EAD post CRM (£m)	4,388	8,683	3,540	1,958	10,275	28,844
RWA (£m)	2,730	6,925	4,071	4,896	—	18,622
RWA density	62.2%	79.7%	115.0%	250.0%	—	65.1%
Undrawn commitments (£m)	402	730	187	88	262	1,669
Undrawn weighted average CCF	50.8%	66.8%	95.6%	96.2%	75.9%	69.1%

Credit risk

Table 27: Corporates under the supervisory slotting approach post CRM by AQ category *continued*

Of which: Project finance

	Category 1 (strong)	Category 2 (good)	Category 3 (satisfactory)	Category 4 (weak)	Category 5 (defaulted)	Total
2014						
EAD post CRM (£m)	4,464	266	391	144	344	5,609
RWAs (£m)	3,058	236	451	361	—	4,106
RWA density	68.5%	88.7%	115.0%	250.0%	—	73.2%
Undrawn commitments (£m)	630	15	23	7	40	715
Undrawn weighted average CCF	74.3%	52.5%	47.0%	96.0%	59.1%	72.3%
2013						
EAD post CRM (£m)	4,640	542	310	207	469	6,168
RWAs (£m)	3,175	469	357	517	—	4,518
RWA density	68.4%	86.6%	115.0%	250.0%	—	108.8%
Undrawn commitments (£m)	635	28	41	15	85	804
Undrawn weighted average CCF	60.9%	49.1%	24.4%	75.2%	91.1%	62.1%

Key point

- Overall exposures calculated under the slotting approach fell by 17% to £29 billion as at 31 December 2014. This was primarily driven by the decrease in the IPRE defaulted category, which reflected run-off in RCR.

Credit risk

Table 28: Retail IRB non-counterparty credit risk exposures post CRM by AQ band

Total retail exposures

2014	AQ1	AQ2	AQ3	AQ4	AQ5	AQ6	AQ7	AQ8	AQ9	AQ10/default	Total
EAD post CRM (£m)	8,546	159	2,631	85,834	38,166	13,247	6,899	4,201	3,617	9,364	172,664
Exposure-weighted average LGD	53.6%	61.0%	10.0%	12.4%	27.9%	43.1%	58.2%	38.4%	35.9%	41.9%	24.8%
Exposure-weighted average PD	0.03%	0.05%	0.06%	0.22%	0.63%	1.52%	3.95%	11.00%	29.52%	100.00%	6.83%
RWAs (£m)	117	6	43	4,039	8,135	6,555	5,307	3,955	6,580	7,182	41,919
RWA density	1.4%	3.7%	1.6%	4.7%	21.3%	49.5%	76.9%	94.2%	181.9%	76.7%	24.3%
Undrawn commitments (£m)	9,553	76	1,682	13,929	14,262	3,918	1,103	219	57	298	45,097
Undrawn weighted average CCF	68.3%	100.0%	100.0%	67.6%	23.5%	37.0%	66.6%	90.6%	93.2%	4.0%	52.1%

2013

EAD post CRM (£m)	154	10,310	—	64,128	43,603	19,302	14,723	5,631	4,089	10,187	172,127
Exposure-weighted average LGD	10.6%	42.2%	—	13.1%	21.3%	38.1%	45.7%	44.1%	35.3%	43.8%	25.8%
Exposure-weighted average PD	0.03%	0.04%	—	0.21%	0.63%	1.51%	3.71%	10.51%	39.48%	100.00%	7.93%
RWAs (£m)	—	136	—	2,897	7,047	9,093	13,046	5,765	6,612	7,433	52,029
RWA density	0.2%	1.3%	—	4.5%	16.2%	47.1%	88.6%	102.4%	161.7%	73.0%	30.2%
Undrawn commitments (£m)	3,472	7,500	—	11,612	16,122	5,709	1,235	378	39	323	46,390
Undrawn weighted average CCF	4.4%	100.0%	—	68.3%	34.4%	36.1%	55.5%	86.6%	89.6%	3.8%	52.3%

Of which: Retail SME exposures ⁽¹⁾

2014

EAD post CRM (£m)	—	49	109	1,369	3,995	2,636	1,232	527	159	1,575	11,651
Exposure-weighted average LGD	—	59.7%	76.4%	63.6%	38.0%	48.4%	51.6%	47.9%	52.3%	55.6%	48.3%
Exposure-weighted average PD	—	0.05%	0.05%	0.18%	0.65%	1.64%	3.68%	10.49%	37.32%	100.00%	15.51%
RWAs (£m)	—	4	13	308	1,239	1,536	836	411	194	692	5,233
RWA density	—	7.5%	12.3%	22.5%	31.0%	58.3%	67.9%	78.5%	121.9%	43.8%	44.9%
Undrawn commitments (£m)	—	27	83	696	88	488	135	31	6	—	1,554
Undrawn weighted average CCF	—	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	—	100.0%

2013

EAD post CRM (£m)	—	16	—	1,070	1,713	3,858	1,449	1,125	327	1,799	11,357
Exposure-weighted average LGD	—	—	—	69.7%	37.8%	43.2%	42.3%	45.0%	47.6%	55.4%	47.0%
Exposure-weighted average PD	—	—	—	0.18%	0.84%	1.57%	3.76%	9.98%	37.99%	100.00%	19.08%
RWAs (£m)	—	1	—	318	708	2,421	1,039	1,015	480	768	6,750
RWA density	—	—	—	29.7%	41.3%	62.8%	71.7%	90.4%	147.1%	42.6%	59.4%
Undrawn commitments (£m)	—	9	—	660	172	570	76	87	10	1	1,585
Undrawn weighted average CCF	—	—	—	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

For the notes to this table refer to page 52.

Credit risk

Table 28: Retail IRB non-counterparty credit risk exposures post CRM by AQ band *continued*

Of which: Retail secured by real estate collateral (2)

2014	AQ1	AQ2	AQ3	AQ4	AQ5	AQ6	AQ7	AQ8	AQ9	AQ10/default	Total
EAD post CRM (£m)	—	—	2,522	80,564	27,935	6,660	1,383	2,273	3,043	5,772	130,152
Exposure-weighted average LGD	—	—	7.1%	9.2%	17.7%	23.9%	12.7%	13.3%	30.0%	25.7%	13.1%
Exposure-weighted average PD	—	—	0.06%	0.22%	0.63%	1.44%	3.63%	11.31%	27.94%	100.00%	5.67%
RWAs (£m)	—	—	30	3,378	4,949	2,631	511	1,460	5,443	5,447	23,849
RWA density	—	—	1.2%	4.2%	17.7%	39.5%	37.0%	64.2%	178.8%	94.4%	18.3%
Undrawn commitments (£m)	—	—	1,599	6,682	698	147	82	15	1	12	9,236
Undrawn weighted average CCF	—	—	100.0%	96.4%	97.5%	91.4%	99.9%	100.0%	100.0%	100.0%	97.1%

2013

EAD post CRM (£m)	—	2,681	—	58,746	35,994	10,546	8,868	2,275	3,302	5,903	128,315
Exposure-weighted average LGD	—	8.5%	—	8.6%	13.1%	20.3%	31.3%	13.6%	28.9%	26.3%	13.8%
Exposure-weighted average PD	—	0.04%	—	0.21%	0.62%	1.46%	3.46%	11.33%	39.64%	100.00%	6.45%
RWAs (£m)	—	26	—	2,243	4,596	3,797	7,828	1,598	5,102	5,400	30,590
RWA density	—	1.0%	—	3.8%	12.8%	36.0%	88.3%	70.2%	154.5%	91.5%	23.8%
Undrawn commitments (£m)	—	1,684	—	4,490	3,210	244	57	12	1	11	9,709
Undrawn weighted average CCF	—	100.0%	—	100.0%	89.2%	98.7%	88.5%	100.0%	100.0%	100.0%	96.3%

Of which: Qualifying revolving retail exposures (3)

2014

EAD post CRM (£m)	8,546	110	—	3,775	4,534	2,538	3,274	1,037	311	760	24,885
Exposure-weighted average LGD	53.6%	61.6%	—	59.8%	65.8%	69.2%	73.8%	74.6%	71.7%	76.4%	62.8%
Exposure-weighted average PD	0.03%	0.04%	—	0.25%	0.63%	1.59%	4.14%	10.71%	36.22%	100.00%	4.82%
RWAs (£m)	117	2	—	303	844	1,017	2,756	1,561	718	381	7,699
RWA density	1.4%	2.0%	—	8.0%	18.6%	40.1%	84.2%	150.6%	231.0%	50.3%	30.9%
Undrawn commitments (£m)	9,553	49	—	6,551	13,475	3,283	886	173	50	286	34,306
Undrawn weighted average CCF	68.3%	100.0%	—	34.9%	19.2%	25.2%	58.5%	88.1%	92.2%	—	37.9%

2013

EAD post CRM (£m)	154	7,613	—	4,302	4,569	3,319	3,252	1,779	320	918	26,226
Exposure-weighted average LGD	10.6%	54.1%	—	59.7%	64.7%	69.2%	74.3%	74.1%	70.3%	76.8%	63.4%
Exposure-weighted average PD	0.03%	0.04%	—	0.24%	0.64%	1.56%	4.13%	9.62%	37.69%	100.00%	5.48%
RWAs (£m)	—	109	—	333	839	1,297	2,766	2,499	728	444	9,015
RWA density	0.2%	1.4%	—	7.8%	18.4%	39.1%	85.0%	140.4%	227.8%	48.4%	34.4%
Undrawn commitments (£m)	3,472	5,806	—	6,462	12,739	4,895	1,102	279	28	311	35,094
Undrawn weighted average CCF	4.4%	100.0%	—	43.0%	19.7%	25.5%	50.7%	81.9%	85.4%	0.1%	37.9%

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

Credit risk

Table 28: Retail IRB non-counterparty credit risk exposures post CRM by AQ band *continued*

Of which: Other retail exposures (4)

2014	AQ4	AQ5	AQ6	AQ7	AQ8	AQ9	AQ10/default	Total
EAD post CRM (£m)	126	1,702	1,413	1,010	364	104	1,257	5,976
Exposure-weighted average LGD	67.2%	71.4%	77.2%	78.1%	78.5%	77.7%	78.2%	75.8%
Exposure-weighted average PD	0.32%	0.70%	1.54%	4.09%	10.59%	43.87%	100.00%	23.69%
RWAs (£m)	50	1,103	1,371	1,204	523	225	662	5,138
RWA density	39.5%	64.8%	97.0%	119.2%	143.5%	215.9%	52.8%	86.0%
Undrawn commitments (£m)	—	1	—	—	—	—	—	1
Undrawn weighted average CCF	—	—	—	—	—	—	—	100.0%

2013	AQ4	AQ5	AQ6	AQ7	AQ8	AQ9	AQ10/default	Total
EAD post CRM (£m)	10	1,327	1,579	1,154	452	140	1,567	6,229
Exposure-weighted average LGD	62.3%	71.7%	78.3%	79.6%	77.4%	77.2%	77.2%	76.8%
Exposure-weighted average PD	0.26%	0.77%	1.63%	4.37%	11.21%	43.30%	100.00%	28.33%
RWAs (£m)	3	904	1,578	1,413	653	302	821	5,674
RWA density	31.4%	68.1%	99.9%	122.5%	144.4%	215.8%	52.4%	91.1%
Undrawn commitments (£m)	—	2	—	—	—	—	—	2
Undrawn weighted average CCF	—	100.0%	—	—	—	—	—	100.0%

Notes:

- (1) Consist primarily of loans and overdrafts to SMEs.
- (2) Consist of mortgages.
- (3) Consist primarily of personal credit card and overdraft exposures.
- (4) Consist primarily of unsecured personal loans.

Key points

- Overall exposure in the retail exposure class remained static at £173 billion.
- PD recalibrations reflecting improved asset performance resulted in certain movements in exposure across various asset quality bands. Overall, such recalibrations had a downward impact on RWAs, which fell by 19%.

Credit risk

Table 29: Equity exposures calculated using the IRB approach post CRM by AQ band

The exposures represent direct investments or investments in shares traded on an exchange.

2014	AQ3	AQ5	AQ6	AQ7	AQ8	AQ9	AQ10/default	Total
EAD post CRM (£m)	1	—	171	168	2	6	19	367
Exposure-weighted average LGD	90.0%	—	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
RWAs (£m)	1	—	483	530	11	35	—	1,060
RWA density	190.8%	—	282.8%	315.6%	503.9%	558.0%	—	289.0%
2013								
EAD post CRM (£m)	—	10	120	105	1	26	22	284
Exposure-weighted average LGD	—	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%	90.0%
RWAs (£m)	—	19	334	347	6	147	—	853
RWA density	—	191.9%	279.4%	329.6%	523.2%	557.9%	—	299.7%

Key points

- Equity exposure subject to the IRB approach increased by 29% to £367 million as at 31 December 2014.
- The EAD and RWA increase in AQ7 was driven by new equity exposures.
- The EAD and RWA increases were primarily driven by the introduction of the CRR regime, for exposures previously treated as capital deductions. This notably affected the AQ6 band.

Credit risk

Table 30: Equity exposures post CRM calculated using the simple risk-weight approach

	Exchange traded equity exposures	Private equity exposures	Other equity exposures	Total
2014				
EAD post CRM (£m)	152	278	202	632
RWAs (£m)	443	528	748	1,719
RWA density	290.0%	190.0%	370.0%	271.7%
Undrawn commitments (£m)	—	182	24	206
Undrawn weighted average CCF	—	100.0%	100.0%	100.0%
2013				
EAD post CRM (£m)	306	4	200	510
RWAs (£m)	887	8	738	1,633
RWA density	290.0%	190.0%	370.0%	320.0%
Undrawn commitments (£m)	—	—	30	30
Undrawn weighted average CCF	—	—	100.0%	100.0%

Key points

- The increase in private equity exposures was driven by some investment funds moving from the STD approach to the simple risk-weight approach as agreed with the PRA.
- The reduction in exchange traded equity exposures was driven by RCR disposals.

Credit risk

Asset quality of non-counterparty credit risk exposures under the STD approach

Under the STD approach, RBS uses credit quality steps (CQS) to calculate the RWAs associated with non-counterparty credit risk exposures. Each rated exposure in the STD portfolio is assigned to one of six CQS. The CQS map to the rating of the three major rating agencies, as shown in the table below. Each CQS is associated with a particular risk-weighting. Each exposure is multiplied by the appropriate risk weighting to calculate the relevant RWA amount. If no external rating is available, RBS assigns the exposure a risk-weighting in line with the CRR.

Table 31: STD exposures, Credit quality steps mapping to external credit gradings

Credit quality step	Standard & Poor's	Moody's	Fitch
Step 1	AAA to AA-	Aaa to Aa3	AAA to AA-
Step 2	A+ to A-	A1 to A3	A+ to A-
Step 3	BBB+ to BBB-	Baa1 to Baa3	BBB+ to BBB-
Step 4	BB+ to BB-	Ba1 to Ba3	BB+ to BB-
Step 5	B+ to B-	B1 to B3	B+ to B-
Step 6	CCC+ and below	Caa1 and below	CCC+ and below

Table 32: Total standardised non-counterparty credit risk exposure by credit quality step

The following table analyses the asset quality of RBS's non-counterparty credit risk exposures using the STD approach. For these exposures, the asset quality is disclosed according to CQS, as defined in Table 31.

STD exposure class	Credit quality step						Unrated exposure £m	Total £m
	Step 1 £m	Step 2 £m	Step 3 £m	Step 4 £m	Step 5 £m	Step 6 £m		
2014								
Central governments and banks	61,450	—	—	—	—	—	3	61,453
Regional governments or local authorities	194	14	77	—	13	—	5	303
Administrative bodies and non-commercial undertakings	55	—	—	—	—	—	—	55
Multilateral development banks	118	—	—	—	—	—	—	118
Institutions	862	631	17	—	—	—	211	1,721
Corporates	8,440	965	2,744	2,136	1,728	175	33,677	49,865
Covered bonds	132	—	—	—	—	—	—	132
Collective investment undertakings	—	—	—	29	—	—	—	29
Retail	—	—	—	—	—	—	22,575	22,575
Secured by mortgages on								
- commercial real estate	—	16	49	39	65	18	8,725	8,912
- residential property	—	—	—	—	—	—	25,449	25,449
Past due items	—	—	60	—	—	—	1,691	1,751
Securitisation positions	949	153	6	23	225	—	—	1,356
Exposures to international organisations	7	—	—	—	—	—	—	7
Equity claims	21	11	—	116	—	—	328	476
Other items	63	204	235	7	9	7	832	1,357
Total EAD post CRM	72,291	1,994	3,188	2,350	2,040	200	93,496	175,559
Total EAD pre CRM	72,294	1,993	3,189	2,350	2,040	199	95,582	177,647

Credit risk

Table 32: Total standardised non-counterparty credit risk exposure by credit quality step *continued*

STD exposure class 2013	Credit quality step						Unrated exposure £m	Total £m
	Step 1 £m	Step 2 £m	Step 3 £m	Step 4 £m	Step 5 £m	Step 6 £m		
Central governments and banks	67,647	—	4	—	—	—	5	67,656
Regional governments or local authorities	425	—	64	—	—	—	12	501
Administrative bodies and non-commercial undertakings	50	—	—	—	—	—	—	50
Multilateral development banks	19	—	—	—	—	—	—	19
Institutions	649	1,056	4	1	—	—	194	1,904
Corporates	6,405	526	2,145	1,813	1,131	69	34,563	46,652
Covered bonds	107	—	—	—	—	—	—	107
Collective investment undertakings	—	—	—	24	—	—	—	24
Retail	—	—	—	—	—	—	22,833	22,833
Secured by mortgages on								
- commercial real estate	2	—	—	—	—	—	4,772	4,774
- residential property	—	—	—	—	—	—	21,290	21,290
Past due items	—	—	—	—	—	—	1,199	1,199
Securitisation positions	908	224	10	32	—	—	—	1,174
Other items	611	156	164	96	22	6	966	2,021
Total EAD post CRM	76,823	1,962	2,391	1,966	1,153	75	85,834	170,204
Total EAD pre CRM	76,821	1,962	2,426	1,966	1,153	76	87,591	171,995

Key points

- Overall EAD post CRM increased 3% to £176 billion at 31 December 2014 from £170 billion at 31 December 2013.
- The most significant reduction was in CQS1, driven by reduced cash placements with the Bank of England.
- The largest increase was in unrated exposure and was due to increases relating to CFG in mortgages secured on commercial real estate (£4.1 billion) and mortgages secured on residential property (£4.6 billion), largely driven by sterling depreciating 5.9% against the US dollar.

Credit risk

Expected loss and impairment

The table below shows the expected loss predicted for the following year at 31 December 2013 and 31 December 2012, and the impairment charges recorded for each of the subsequent years. It includes expected losses both for assets that have already defaulted (and for which an impairment was recognised where appropriate under IFRS) and for assets that were still performing at the year end.

Expected loss is calculated by applying RBS's PD, LGD and EAD models to its portfolios. The PD models incorporate differing degrees of through-the-cycle (TTC) and point-in-time (PIT) characteristics depending on the portfolio.

The impairment charge is the amount recorded in the income statement. RBS's accounting policy on impairments is set out on pages 353 to 354 and page 359 of the 2014 ARA.

The methodologies and underlying principles used to calculate expected loss in accordance with regulatory requirements differ significantly from those followed for the recognition of impairments under financial reporting standards.

Impairments are typically calculated where a loss has occurred (for example, under the IFRS incurred loss model). An expected loss is a forward-looking measure that is applied to all assets regardless of whether a loss has been incurred.

Key differences include the following:

- **Timing** - For the period between a default and the associated asset being written-off or recovered, an expected loss is calculated according to regulatory requirements, while some or all of the associated impairment may already be recognised in the income statement.
- **Cyclicality** - For PD models with predominantly TTC characteristics (notably wholesale models), expected loss does not, by definition, produce a result that aligns with actual loss experience in every one year period.

For regulatory capital purposes, as at 31 December 2014, the amount by which expected loss exceeds cumulative impairment provisions is deducted from capital.

Table 33: Expected loss and impairment charge

IRB exposure class	Expected loss predicted for following year at the end of								Impairment (release)/charge for the year	
	2013				2012				2014	2013
	Non-defaulted (AQ1-AQ9) £m	Defaulted (AQ10) £m	Total £m	EL/EAD %	Non-defaulted (AQ1-AQ9) £m	Defaulted (AQ10) £m	Total £m	EL/EAD %		
Central governments and banks	9	—	9	—	8	—	8	—	—	—
Institutions	30	60	90	0.2	19	102	121	0.2	—	(9)
Corporates	1,147	19,508	20,655	8.2	1,324	19,619	20,943	8.0	(1,481)	7,167
Retail										
- SMEs	178	1,003	1,181	10.4	229	1,015	1,244	10.0	40	173
- secured by real estate collateral	606	1,119	1,725	1.3	677	1,136	1,813	1.0	(198)	228
- qualifying revolving retail exposure	375	669	1,044	4.0	409	746	1,155	4.0	85	203
- other retail exposures	154	1,146	1,300	20.9	181	1,376	1,557	22.0	176	329
Equities	16	20	36	4.5	51	15	66	6.0	3	—
	2,515	23,525	26,040	4.8	2,898	24,009	26,907	4.0	(1,375)	8,091

Key points

- At 31 December 2013, expected loss was £26.0 billion, a 3% decrease from £26.9 billion one year previously. The expected loss at 31 December 2014 was £18.5 billion.
- The impairment charge fell £9.5 billion overall year on year, reflecting strategic choices, including the formation of RCR. The 2013 impairment charge had reflected the revised strategy to run down high-risk loans faster, a development that had not been anticipated in the models used to calculate expected loss. The 2014 impairment releases, mainly relating to RCR, reflected favourable market conditions and efficient deal execution that supported the disposal strategy. An upturn in house prices and improved liquidity in the commercial real estate sector, notably affecting Ulster Bank, led to assets being realised more quickly and at better prices than previously anticipated.

Credit risk

Probability of default and exposure at default

Wholesale credit grading models are hybrid models. They exhibit a degree of cyclicalities that reflects broader credit conditions, but not the full cyclicalities of a more PIT methodology.

The following table shows the estimated PD at the beginning of the past two years, compared with the actual default rate realised during the year. For wholesale exposures, the PD shown is the average counterparty PD.

For retail exposures, it is the average account level PD.

Exposures in default at the start of the year are excluded as their probability of default is 100%. The default rate is the number of defaults observed during the year, divided by the number of obligors or accounts at the start of the year.

The EAD ratio displayed represents the total predicted model EAD at the end of the previous year, against the actual exposure at the time of default for all assets that defaulted during the year.

Table 34: Estimated probability of default, actual default rates and EAD outcomes versus predictions

	PD				EAD	
	Estimate at 2013 %	Actual 2014 %	Estimate at 2012 %	Actual 2013 %	Estimate to actual ratio 2014 %	Estimate to actual ratio 2013 %
IRB exposure class						
Central governments and banks	0.83	—	0.92	—	—	—
Institutions	0.65	—	0.60	—	—	—
Corporates	2.55	1.61	2.18	2.60	116	109
Retail						
- SMEs	3.40	2.34	3.77	2.84	117	110
- secured by real estate collateral	1.80	1.17	2.11	1.28	102	102
- qualifying revolving retail exposures	1.96	1.62	1.97	1.81	111	112
- other retail exposures	4.01	3.30	4.22	3.75	109	109
Equities	2.92	2.56	2.89	1.31	—	—

Key points

- Actual default rates fell in the majority of exposure classes, reflecting a general improvement in credit quality. The exception was equities, for which the default rate fluctuates given the small sample size.
- In the corporate exposure class, the actual default rate fell below the estimated PD for 2014, as a consequence of both a significant reduction in the number of defaulting counterparties and higher PD estimates following the implementation of a recalibrated mid-corporate model for customers in the UK and the Republic of Ireland.
- In the corporate exposure class, PD estimates for 2015 are expected to rise further following implementation of new recalibrated models for large corporates, which started in mid-2014 and will be completed in mid-2015. The RWA impact of implementing these new models was largely reflected in RWAs, by means of an adjustment prior to implementation.
- Across all retail exposure classes, the year-on-year decline in the PD estimates was driven by regular model recalibrations undertaken to reflect recently improving default rates.

Credit risk

Loss given default

In the corporate exposure class, actual LGD includes all defaulted cases that closed during the year, with the estimated LGD being the related pre-default estimates for these defaults. Closure of a case comprises either the repayment or write-off of a debt, the return of a debt to the performing book, or a combination of the two, as in the case of a partial write-off. Central governments and banks, institutions and equities are not included owing to nil or very low volumes, making disclosure not meaningful.

In the retail exposure classes, estimated LGDs relate to loss estimates on defaulted exposures over defined periods ranging from 36 to 72 months, to align with the collections and recoveries process. The corresponding actual losses included in the table relate to the same exposures, with outcomes observed during the relevant reporting period. Both estimated and actual LGD are EAD-weighted.

Table 35: Loss outcomes versus predictions

IRB exposure class	2014		2013	
	LGD - estimated %	LGD - actual %	LGD - estimated %	LGD - actual %
Corporates	41.5	38.9	42.5	28.2
Retail				
- SMEs	53.0	40.2	53.9	40.4
- secured by real estate collateral	21.9	10.5	18.6	10.7
- qualifying revolving retail exposures	78.3	73.2	76.4	75.8
- other retail exposures	81.3	74.0	81.0	76.5

Key points

- Loss estimates and outcomes were generally stable year-on-year, with the exception of the corporate exposure class, where loss outcomes were higher in 2014 than in 2013. This was in part driven by high loss rates on a small number of large exposures.
- The year-on-year increase in model predictions for the retail secured class was driven by an updated calibration methodology applied in Ulster Bank.
- In all exposure classes, estimated LGDs exceeded actual values, reflecting appropriately prudent estimates.

Credit risk

Counterparty credit risk

Counterparty credit risk relates to derivative contracts, securities financing transactions (SFTs) and long settlement transactions in either the trading or the non-trading book. It is the risk of loss arising from a default of a customer before the final settlement of the transaction's cash flows, which vary in value by reference to a market factor, such as an interest rate, exchange rate or asset price.

Counterparty credit risk is covered by RBS's credit risk framework. However, a number of specific policies apply to over-the-counter (OTC) derivative and SFTs. These include policies that address documentation requirements, product-specific requirements (for example, equity, futures, credit derivatives and securities lending), counterparty specific requirements (for example, hedge funds and pension funds), margin trading, collateral and custodians.

EAD calculation methods

Internal model method (IMM)

Where granted approval by the PRA, RBS uses an IMM for calculating EAD for regulatory capital requirements relating to OTC derivatives.

The IMM for OTC derivatives calculates EAD as the product of effective expected positive exposure and an alpha factor. The alpha factor, which was 1.4 for both 2013 and 2014, quantifies the extra capital needed to reflect the institution specific characteristics of counterparty credit risk exposures.

In accordance with the CRR regime, as from 1 January 2014, the IMM for OTC derivatives additionally reflects stressed effective expected positive exposure, wrong-way risk (for more information on wrong-way risk, refer to page 63) and an increased margin period of risk.

Mark-to-market (mtm) method

Where RBS has not been granted approval by the PRA to use an IMM to calculate EAD for regulatory capital purposes, it calculates counterparty credit risk exposures using the mtm method. Exposure is calculated as the positive mtm value of outstanding contracts plus an additional potential future exposure that varies according to the transaction.

In accordance with the CRR regime, RBS also calculates its regulatory capital requirements for the counterparty credit risk arising from its exposure to exchange traded derivatives, using the mtm method.

The following table details counterparty credit risk exposures post CRM by regulatory approach, exposure calculation method and product type. For an analysis of counterparty RWAs and minimum capital requirements, refer to Tables 1, 12, 14 and 15.

Table 36: Counterparty credit risk exposures post CRM by regulatory approach, exposure calculation method and product type

Product type	2014				2013			
	Mtm £m	IMM £m	Default fund method £m	Total £m	Mtm £m	IMM £m	VaR method £m	Total £m
<i>IRB approach</i>								
OTC derivatives	13,332	29,757	—	43,089	20,450	23,263	—	43,713
Exchange-traded derivatives	2,589	—	—	2,589	—	—	—	—
SFTs	18,927	—	—	18,927	17,506	—	1,330	18,836
	34,848	29,757	—	64,605	37,956	23,263	1,330	62,549
<i>STD approach</i>								
OTC derivatives	2,331	1,268	—	3,599	896	294	—	1,190
Exchange-traded derivatives	1,692	—	—	1,692	—	—	—	—
Central counterparty default funds	—	—	336	336	—	—	—	—
SFTs	7,932	—	—	7,932	6,072	—	209	6,281
	11,955	1,268	336	13,559	6,968	294	209	7,471
	46,803	31,025	336	78,164	44,924	23,557	1,539	70,020

Key points

- As noted earlier, total counterparty credit risk EAD post CRM rose by 12% to £78 billion, primarily driven by the implementation of CRR rules, under which new charges for exposures to central counterparties apply.
- As from 1 January 2014, all securities financing transaction exposures are calculated under the mtm method, rather than the previously used VaR method.
- During 2014, an increased volume of OTC derivative exposures qualified for the IMM as a result of model enhancements and system developments, driving a shift into this method from the mtm method.

Credit risk

Table 37: Counterparty credit risk EAD by AQ band under the IRB approach

2014	AQ1	AQ2	AQ3	AQ4	AQ5	AQ6	AQ7	AQ8	AQ9	AQ10/default	Total
S&P ratings	AAA to AA	AA-	A+ to A	A- to BBB-	BB+ to BB	BB-	B+ to B	B- to CCC+	CCC to C	D	
EAD post CRM (£m)	27,128	8,078	12,222	9,625	2,375	357	625	40	25	235	60,710
Exposure-weighted average LGD	35.7%	53.3%	44.5%	43.1%	54.8%	46.3%	37.0%	43.1%	43.7%	60.8%	41.9%
Exposure-weighted average PD	0.02%	0.04%	0.07%	0.17%	0.65%	1.50%	3.09%	9.13%	21.25%	100.00%	0.52%
RWAs (£m)	4,578	3,596	4,886	6,137	2,660	466	776	85	66	99	23,349
RWA density	16.9%	44.5%	40.0%	63.8%	112.0%	130.4%	124.0%	213.3%	260.0%	42.3%	38.5%
2013											
EAD post CRM (£m)	28,448	7,609	10,073	7,376	2,262	574	934	57	199	675	58,207
Exposure-weighted average LGD	36.3%	48.9%	45.9%	57.0%	53.1%	41.0%	46.0%	35.7%	60.0%	65.7%	43.5%
Exposure-weighted average PD	0.02%	0.04%	0.07%	0.20%	0.67%	1.49%	2.88%	9.46%	21.67%	100.00%	1.38%
RWAs (£m)	2,862	1,805	2,677	4,135	2,241	628	1,114	89	737	2	16,290
RWA density	10.1%	23.7%	26.6%	56.0%	99.1%	109.4%	119.4%	155.9%	370.8%	0.2%	28.0%

Note:

(1) This table excludes exposures treated under the supervisory slotting approach.

Key points

- Around 94% of counterparty credit risk exposures is in the AQ1 to AQ4 bands.
- EAD rose overall, with the impact of the new CRR rules more than offsetting the underlying business reduction. The largest movements were in the AQ3 and AQ4 bands.
- As noted earlier, the significant increase in RWAs reflected new CVA charges under CRR and the new AVC multiplier for financial institution exposures.

Credit risk

Counterparty credit limit setting

Counterparty credit limits are established through the credit risk management framework. Limits are based on the credit quality of the counterparty and the appetite for the projected maximum potential future exposure of anticipated derivative transactions, based on 95th percentile confidence levels. They also reflect the nature of the relevant documentation.

Counterparty credit risk management

The credit policy framework governs counterparty credit risk management requirements. The legal and administrative capacity of derivative counterparties to enter into collateral agreements is assessed. The policy framework establishes minimum documentation requirements under collateral agreements including: unsecured thresholds; minimum transfer amounts; minimum haircuts; collateral eligibility criteria; and collateral call frequency. Where netting and/or collateral enforceability criteria are not fulfilled, exposure is assumed to be uncollateralised. Appropriate derivative documentation is executed for clients prior to trading. Exceptions to this require specific approval from a senior risk officer. The framework also includes a formal escalation policy for counterparty collateral disputes and unpaid collateral calls.

The risk mitigating impact of netting and collateralisation on the counterparty credit risk relating solely to derivatives under the mtm method is shown in the following table. Owing to the model structure, netting benefits cannot be provided for derivatives under the IMM approach.

Table 38: Netting and collateralisation impact on counterparty credit risk for OTC derivatives under the mtm method

Counterparty credit risk	2014 £m	2013 £m
Positive gross mtm value of contracts plus potential future credit exposure	48,559	68,306
Netting benefits	(17,240)	(35,659)
Net current credit exposure plus potential future credit exposure	31,319	32,647
Collateral held	(11,375)	(11,301)
Exposure at default post CRM	19,944	21,346

Key points

- The decrease in the positive gross mtm value of contracts plus potential future credit exposure reflects decreased trading volumes in line with strategy to reduce risk, notably by winding down the OTC clearing business.
- It also reflects the lower volume of exposures under the mtm method, as explained earlier, as well as lower mtm numbers as a result of an increase in all major swap curves.
- The significant reduction in netting benefits was driven by the continuing transition of trades from the mtm method to the IMM. During 2014, more 'out of the money' than 'in the money' trades moved to the IMM, reducing netting benefits under the mtm method.
- As a result, net exposure was broadly flat year on year. Given that collateral is called on a netting agreement basis, collateral held was broadly stable too.

Credit risk

Collateral required in the event of a credit rating downgrade

RBS calculates the additional collateral it would be required to post in the event of its credit ratings being downgraded by one or two notches. This is undertaken on a daily basis for treasury and liquidity management purposes.

Credit valuation adjustments

A credit valuation adjustment (CVA) represents an estimate of the adjustment to the fair value of a derivative contract that a market participant would make, to incorporate any credit risk inherent in counterparty derivative exposures. Refer to pages 382 and 383 of the 2014 ARA for additional disclosures.

The counterparty exposure management (CEM) team charges the relevant trading desk a credit premium at the inception of a trade, in exchange for taking on the credit risk over the life of the transaction. CEM may then hedge the credit risk and default sensitivities using interest rate swaps, foreign exchange and other credit derivatives from third party providers.

Credit derivatives

As part of its credit risk strategy to manage credit risk concentrations, RBS buys credit derivative products. The counterparties from which this protection is bought are subject to standard credit risk analysis. Eligibility criteria apply: credit protection bought from the same corporate group as the reference entity is not eligible in cases where double default under CRR article 153(3) applies. A summary of the notional principal amount of credit derivative transactions is detailed in the following table, split between protection bought for portfolio management purposes and that relating to intermediation in the credit derivative markets. Disclosures on credit derivatives are also included on page 287 of the 2014 ARA.

Table 39: Credit derivative transactions

	2014		2013	
	Credit default swaps £m	Total return swaps £m	Credit default swaps £m	Total return swaps £m
Notional principal amount of credit derivative transactions				
Used for own credit portfolio - protection bought	1,772	—	2,331	—
Used for intermediation activities - protection bought	66,903	193	132,503	310
Used for intermediation activities - protection sold	55,360	810	116,128	1,171
	124,035	1,003	250,962	1,481

Key point

- The decrease in the notional principal value of credit derivative transactions was largely driven by a strategic decision to cease being an active market maker in credit default swaps. Positions are now primarily held to hedge counterparty credit risk and continue participation in compression trades aimed at reducing the notional exposure to OTC derivatives, notably with regard to capital-intensive emerging market transactions.

Wrong-way risks

Wrong-way risk represents the risk of loss that arises when the risk factors driving the exposure to a counterparty are positively correlated with the probability of default of that counterparty, i.e. the size of the exposure increases at the same time as the risk of the counterparty being unable to meet that obligation increases.

In addition to its usual credit approval and credit authority policies, RBS also manages its exposure to wrong-way risk through a dedicated policy that establishes a framework incorporating approvals, controls, limits and regular monitoring, where appropriate.

Under the framework, enhanced transaction approval is required and limits are set to constrain wrong-way risk arising through currency exposure to countries classified as high-risk under the internal Watchlist process. The reporting process includes a monthly review of wrong-way risks arising either from such currency exposure or through reverse repos, credit derivatives and equity trades.

The framework distinguishes between specific wrong-way risk (where the risk factor driving the exposure is specific to the counterparty) and general wrong-way risk (where the risk factor driving the exposure is not specific to the counterparty but still positively correlated with its probability of default, for instance country or currency related factors).

Credit risk

Past due and impaired assets

A credit exposure is past due when its contractual repayment is overdue by 90 days or more.

A loan is impaired and an impairment loss is incurred when there is objective evidence that events since the loan was granted have adversely affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows discounted at the loan's original effective interest rate.

For more details on impairment loss provisioning refer to pages 353 to 354 and 359 of the 2014 ARA.

Disclosure basis

The following tables detailing past due and impaired assets and provisions are presented on an IFRS basis rather than on a regulatory basis.

Table 40: Past due and impaired exposures and provisions by industry sector for RBS and significant subsidiaries

Industry sector	Impaired assets (1) £m	Past due assets £m	Individually and collectively assessed provisions £m	Latent provisions £m	Total provisions £m	Charge/(release) to income statement (2) £m
2014						
Agriculture and fisheries	158	34	98		98	1
Building and construction	945	34	617		617	11
Business services	1,249	14	1,072		1,072	1
Financial services	558	4	387		387	(15)
Manufacturing	484	18	337		337	(29)
Individuals	6,822	776	3,106		3,106	437
Power and water	156	—	85		85	16
Property	12,496	517	8,913		8,913	(1,018)
Public sector and quasi-government	638	97	367		367	8
Telecoms, media and technology	23	—	23		23	(9)
Tourism and leisure	993	101	574		574	(40)
Transport and storage	1,138	8	500		500	37
Wholesale and retail trade	919	37	645		645	106
Latent				1,316	1,316	(676)
	26,579	1,640	16,724	1,316	18,040	(1,170)
2013						
Agriculture and fisheries	179	27	107		107	98
Building and construction	1,245	97	781		781	298
Business services	1,493	62	1,009		1,009	189
Financial services	807	119	545		545	5
Manufacturing	754	13	576		576	199
Individuals	7,720	722	3,708		3,708	807
Power and water	131	—	80		80	54
Property	19,442	833	13,182		13,182	5,123
Public sector and quasi-government	1,174	152	758		758	361
Telecoms, media and technology	316	1	236		236	198
Tourism and leisure	1,339	88	812		812	281
Transport and storage	1,439	52	635		635	487
Wholesale and retail trade	1,132	55	783		783	268
Latent				2,013	2,013	44
	37,171	2,221	23,212	2,013	25,225	8,412

Notes:

(1) Excludes debt securities and equity shares totalling £482 million (2013 - £537 million).

(2) Excludes impairment losses on debt securities and equity shares totalling £15 million (2013 - £20 million).

Credit risk

Table 40: Past due and impaired exposures and provisions by industry sector for RBS and significant subsidiaries *continued*

	RBS £m	RBS plc £m	NWB Plc £m	UBIL £m	CFG £m
2014					
Impaired assets (1)	26,579	6,177	3,399	12,750	1,330
Past due assets	1,640	670	811	93	—
Individually and collectively assessed provisions	16,724	3,144	2,277	8,738	240
Latent provisions	1,316	319	253	372	296
Total provisions	18,040	3,463	2,530	9,110	536
Charge to income statement (2)	(1,170)	(35)	228	(1,379)	194
2013					
Impaired assets (1)	37,171	11,378	4,439	16,020	1,324
Past due assets	2,221	937	1,029	163	—
Individually and collectively assessed provisions	23,212	5,737	2,870	11,325	245
Latent provisions	2,013	499	263	855	273
Total provisions	25,225	6,236	3,133	12,180	518
Charge to income statement (2)	8,412	2,558	584	4,036	307

Notes:

- (1) Excludes debt securities and equity shares totalling: RBS £482 million (2013 - £537 million); RBS plc £267 million (2013 - £277 million); NWB Plc £nil million (2013 - £nil million); UBIL £8 million (2013 - £11 million); and CFG £nil million (2013 - £nil million).
 (2) Excludes debt securities and equity shares totalling: RBS £15 million (2013 - £20 million); RBS plc £(10) million (2013 - £(22) million); NWB Plc £(2) million (2013 - £3 million); UBIL £nil million (2013 - £nil million); and CFG £3 million (2013 - £5 million).

For more details on past due and impaired assets also refer to Balance sheet analysis - Loans and related credit metrics in the 2014 Annual Report and Accounts of RBS, RBS plc and NWB Plc and similar disclosures in UBIL.

Table 41: Past due and impaired exposures and provisions by geographic area

Geographic area (1)	Impaired assets (2) £m	Past due assets £m	Individually and collectively assessed provisions £m	Latent provisions £m	Total provisions £m	Charge/(release) to income statement (3) £m
2014						
UK	11,562	1,535	7,551		7,551	119
Europe	13,296	105	8,668		8,668	(763)
US	1,417	—	261		261	158
RoW	304	—	244		244	(8)
Latent				1,316	1,316	(676)
	26,579	1,640	16,724	1,316	18,040	(1,170)
2013						
UK	17,481	1,962	10,390		10,390	3,656
Europe	17,817	259	12,238		12,238	4,340
US	1,475	—	324		324	330
RoW	398	—	260		260	42
Latent				2,013	2,013	44
	37,171	2,221	23,212	2,013	25,225	8,412

Notes:

- (1) The analysis by geographic area is based on the location of the lender. This analysis is used for financial reporting and differs from Tables 13 and 17 which are based on the country of operation of the counterparty.
 (2) Excludes debt securities and equity shares totalling £482 million (2013 - £537 million).
 (3) Excludes impairment losses on debt securities and equity shares totalling £15 million (2013 - £20 million).

Credit risk

Table 42: Loan impairment provisions flow statement

	Individually assessed provisions (1) £m	Collectively assessed provisions £m	Latent provisions £m	Total provisions £m
At 1 January 2013	12,758	6,542	1,962	21,262
Currency translation and other adjustments	68	34	7	109
Disposal of subsidiaries	(4)	(73)	—	(77)
Amounts written-off	(2,652)	(1,694)	—	(4,346)
Recovery of amounts previously written-off	95	161	—	256
Charge to income statement				
- continuing operations (2)	6,893	1,192	20	8,105
- discontinued operations	11	272	24	307
Unwind of discount	(260)	(131)	—	(391)
At 31 December 2013	16,909	6,303	2,013	25,225
Currency translation and other adjustments	(648)	(20)	(21)	(689)
Disposal of subsidiaries	(6)	—	—	(6)
Amounts written-off	(4,004)	(1,274)	—	(5,278)
Recovery of amounts previously written-off	72	133	—	205
(Release)/charge to income statement				
- continuing operations (2)	(844)	172	(692)	(1,364)
- discontinued operations	36	142	16	194
Unwind of discount	(138)	(109)	—	(247)
At 31 December 2014	11,377	5,347	1,316	18,040

Notes:

(1) Excludes debt securities and equity shares totalling £482 million (2013 - £537 million).

(2) Excludes impairment losses on debt securities and equity shares totalling £15 million (2013 - £20 million).

Securitisation

This section presents descriptive information on RBS's securitisation activities and related risk management processes and accounting policies, followed by quantitative disclosures on its exposures to securitisations.

Definitions

Securitisation and special purpose entities

The CRR defines a securitisation as a transaction or scheme where the credit risk of an exposure or pool of exposures is tranching, where the payments arising from the transaction or scheme are dependent upon the performance of the underlying exposure(s) and where the subordination of tranches determines the distribution of losses during the ongoing life of the transaction or scheme.

Securitisations can broadly take two forms: traditional and synthetic. In traditional securitisations, the originator transfers ownership of the underlying exposure(s) to a securitisation special purpose entity (SSPE), putting the exposure(s) beyond the reach of the originator and its creditors. The purchase by the SSPE is funded by the issuance of securities. In synthetic securitisations, the originator retains ownership of the underlying exposure(s) but transfers the associated credit risk to another entity through the use of credit derivatives.

SSPEs are set up for a specific limited purpose. They do not provide a commercial service or employ staff. They may take a variety of legal forms, such as trusts, partnerships and companies. Their activities are limited to those appropriate to carrying out a securitisation and their structure is intended to isolate the obligations of the SSPE from those of the originator institution and to ensure that the holders of the beneficial interests have the right to pledge or exchange those interests without restriction. Typically, their share capital is held ultimately by charitable trusts.

Although SSPEs are frequently used, they are not necessarily required for all securitisation structures.

The following definitions are used in these Pillar 3 disclosures:

Trading book - In this section, the trading book consists of positions in financial instruments and commodities held either with the intent to trade or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any covenants restricting their tradability or be able to be hedged.

Non-trading book - The non-trading book consists of positions, exposures, assets and liabilities that are not in the trading book. It is also referred to as the 'banking book'. In this section, the counterparty credit risk arising from derivative trades associated with SSPEs is captured in the non-trading book disclosures.

Securitisation position - Any exposure to a securitisation. This includes not only exposures arising from the purchase or retention of the securities issued by an SSPE but also loans and liquidity facilities to securitisations, and the counterparty credit risk exposure of derivative positions transacted with a securitisation.

Re-securitisation - A securitisation in which the underlying asset or pool of assets comprises at least one securitisation position.

Securitised exposure - An asset or pool of assets that is securitised by way of a traditional or synthetic securitisation.

Significant risk transfer assessment - An assessment prescribed by the CRR and designed to determine whether or not a securitisation structure effectively transfers the underlying risks of the assets to a party or parties other than the originator.

Term securitisation - A securitisation vehicle funding a pool of assets through the issuance of long-term securities. A term securitisation may hold the assets of one or more originators.

Asset-backed commercial paper (ABCP) conduit - A securitisation vehicle funding a pool of assets through the issuance of predominantly short-term securities (namely commercial paper). A conduit may hold the assets of one or more originators (referred to as a single-seller or multi-seller conduit, respectively), one of which may also be the sponsor.

Objectives and roles

By participating in securitisation activity, RBS aims to achieve one or both of the following objectives:

- To diversify its sources of funding, either for RBS or for customers; and
- To facilitate prudential balance sheet and risk management, either for RBS or for customers.

In doing so, RBS may incur a range of risks, including credit (non-counterparty and counterparty), market, liquidity and funding, legal, regulatory and reputational risks for which it must hold regulatory capital. For details of CRR rules governing the calculation of regulatory capital required in respect of securitisations, refer to page 69.

RBS may play one or more of the following roles in a securitisation transaction:

Originator - To diversify its sources of funding and manage its balance sheet, RBS securitises assets it has purchased or originated. The origination of securitisation assets may expose RBS to credit risk (non-counterparty and counterparty) and market risk, particularly if the structure of the transaction does not transfer these risks to third parties. Even if these risks have been transferred, RBS may nevertheless be exposed to credit and market risks if it retains a securitisation position by, for example, providing the SSPE with a liquidity facility or entering into derivative transactions with the SSPE.

Investor - To generate financial returns, RBS may:

- purchase securities issued by an SSPE;
- enter into derivative transactions with an SSPE; or
- lend to an SSPE, often by providing a back-up liquidity facility that the SSPE can use if it is unable to issue securities, particularly commercial paper. Investment in securitisations exposes RBS to market risk and credit risk, both non-counterparty and counterparty.

Securitisation

To generate additional fee income, RBS may play other roles as well:

Sponsor - RBS may establish and manage a term securitisation that purchases bonds or other financial assets from third parties. It may do so on its own account or on behalf of its customers. Additionally, historically established and managed ABCP conduits. In its role as sponsor, RBS is particularly exposed to credit and liquidity risk.

Arranger - RBS may structure a securitisation transaction, drafting the documentation that governs the behaviour of the SSPE, and then sell the securities issued by the SSPE to investors. It may act as arranger for securitisation transactions it originates or, alternatively, for securitisation transactions originated by its customers, principally large corporates.

Manager - RBS may manage the securitisation as required by the terms of the transaction. This may, for example, entail rebalancing the asset pool as and when necessary.

Underwriter - RBS may underwrite the securities issued by an SSPE. The associated securitisation transaction may be originated by RBS or its customers.

Other administrative roles - As a 'contractual party', RBS may do any of the following, alone or in combination:

- hold the bank account of an SSPE on its own books;
- monitor the credit quality of the underlying assets on behalf of investors;
- report on the performance of the SSPE to investors; and
- make payments to investors on behalf of the SSPE.

Types of risks

As noted above, acting as an originator, sponsor or investor in a securitisation transaction may give rise to both credit and market risk. The CRR prescribes how the regulatory capital held in connection with those risks is calculated. In addition, RBS may incur other types of risk.

Credit risk - The risk of loss arising from the failure of a customer or counterparty (or, in the case of a securitisation, an SSPE) to meet its obligations to settle outstanding amounts. Securitisation may expose RBS to credit risk for any of several reasons.

If RBS invests in an SSPE by purchasing or (in the case of a securitisation it has originated) retaining the bonds it issues, conducting derivative transactions with it or lending to it, RBS is exposed to the risk that the SSPE may fail to meet its obligations to settle outstanding amounts to it. This may happen because cash flows generated by the underlying assets are insufficient to repay creditors, including bondholders, derivative counterparties or lenders, or in the event of a third party, such as a bank account provider or derivative counterparty, defaulting on its obligation to the SSPE. In such cases, the SSPE pays principal and interest to creditors in order of seniority, with the most senior paid first.

When RBS originates a securitisation transaction, if the securitisation structure does not transfer the risks of the underlying assets, including credit risk, to a third party, it is exposed to credit risk on those assets just as it would be if the securitisation had never taken place. Credit risk is heightened if the assets in the SSPE are not diversified by sector, geography or borrower.

RBS may seek to mitigate credit risk arising from the purchase (or retention) of bonds issued by an SSPE through the use of unfunded protection, usually credit default swaps, but also guarantees. It hedges the credit risk associated with purchased bonds, which are generally held in the trading book, as appropriate. It does not usually hedge the credit risk associated with retained bonds, which are generally held in the non-trading book.

RCR holds legacy securitisation assets guaranteed by monoline insurance companies suffering financial distress, which reduces the value to RBS of their guarantees. For more information on unfunded protection and disclosure of monoline exposures, refer to page 287 of the 2014 ARA.

Market risk - The risk of loss arising from fluctuations in interest rates, credit spreads, foreign currency rates and other factors, such as market volatilities, that may lead to a reduction in earnings, economic value or both. Securitisation may expose RBS to market risk for two major reasons.

First, if RBS invests in a securitisation, it is indirectly exposed to the risk of loss due to fluctuations in interest rates, foreign currency rates and other prices. For example, if it purchases notes issued by an SSPE paying interest at a rate other than the rate paid by the assets the SSPE holds, the two rates may respond differently to changes in market interest rates, which may adversely affect the SSPE's ability to meet its obligations and cause RBS to suffer a loss. Similarly, if market interest rates rise, the value of fixed notes issued by an SSPE will fall, which may cause RBS to suffer a loss.

If RBS purchases notes issued by an SSPE in a currency other than the currency of the underlying assets, giving rise to the possibility that the cash flows generated by the assets may not be sufficient to repay investors, it may also suffer a loss.

Second, if the structure of a securitisation transaction does not transfer the market risk of the underlying assets to a third party, RBS remains exposed to that risk as if the securitisation had never taken place.

Liquidity and funding risk - The risk that RBS will be unable to meet its financial obligations when they fall due. For further information, refer to pages 228 to 230 of the 2014 ARA. RBS originates securitisations to diversify its sources of funding. It also sponsors securitisations, and as sponsor, it may provide liquidity facilities to the SSPE. If the SSPE utilises these facilities, RBS will need to fund them, giving rise to the risk that it may not be able to do so.

Legal risk - The risk that RBS may incur losses as a result of the failure of the documentation relating to a securitisation to perform as expected. Legal risk is elevated if the parties to the transaction are located in different jurisdictions, as documentation effective in one jurisdiction may not be effective in another. Additional losses may arise as a result of costs incurred by the parties in an effort to address documentary shortcomings.

This risk is heightened in the case of re-securitisations, as RBS needs to gather information surrounding each of the original transactions, together with an understanding of their interaction within the re-securitisation.

Securitisation

Types of risk *continued*

Regulatory risk - The risk of material loss or liability, legal or regulatory sanctions, or reputational damage, arising from the failure to comply with (or adequately plan for changes to) relevant official sector policy, laws, regulations or major industry standards in any location in which RBS operates.

Reputational risk - The risk of brand damage and/or financial loss arising from a failure to meet stakeholders' expectations of RBS's conduct and performance. If in its capacity as originator, sponsor or investor, RBS fails to meet the expectations of stakeholders, it may be unable to build or sustain relationships with customers, incur regulatory censure or experience reduced access to funding sources.

Operational risk - The risk of loss resulting from inadequate or failed internal processes, people and systems, or external events. For more information, refer to page 187 of the 2014 ARA.

Monitoring risks

RBS actively monitors and manages the risks inherent in its securitisation activities. With respect to the non-trading book, RCR manages the legacy positions mentioned above, including some re-securitisations. RBS Treasury manages other securitisations, particularly those used by RBS as a means of diversifying its funding sources. CIB conducts transactions with SSPEs and manages trading book securitisation positions, including some re-securitisations.

In the case of junior notes, all of the following risks are likely to be heightened and thus subject to increased scrutiny.

Credit risk

RBS's overall exposure to securitisation is governed by its sector concentration framework. If RBS retains or purchases bonds issued by an SSPE, conducts derivative transactions with it or lends to it, RBS monitors the performance of the vehicle in part by reviewing information provided by the trustee as well as by rating agencies or other third parties. Assisted by third party advisors, a specialist team monitors re-securitisations. If the securitisation structure does not transfer credit risk to a third party, RBS manages it as if the securitisation had never taken place. Re-securitisation exposures are subject to individual scrutiny.

Market risk

RBS manages this risk in accordance with its policy on market risk. Re-securitisation exposures are subject to individual scrutiny.

Liquidity and funding risk

RBS manages these risks in accordance with its policy on liquidity and funding risk.

Legal risk

To manage legal risk, RBS follows a protocol designed to ensure that it meets its obligations as originator before and after the transaction is completed. Additionally, it monitors changes in relevant legislation in various jurisdictions as required thereafter.

Regulatory risk

Well established policies and supporting processes are in place to ensure timely identification of, and effective responses to, changes in official sector requirements, laws, regulations and major industry standards affecting RBS.

Reputational risk

RBS manages reputational risk in accordance with its reputational risk management framework.

Operational risk

RBS manages operational risk in accordance with its operational risk management framework.

Regulatory treatment of securitisation

RBS determines the regulatory capital required for exposures related to its securitisation activities in accordance with the CRR. In so doing, with respect to each securitisation transaction, it considers:

- the effectiveness of the securitisation structure in achieving risk transfer; and
- whether the securitisation positions it holds relate to the trading or non-trading book.

Refer to Chart 3 on the following page for an illustration of the regulatory treatment of securitisation.

In instances where it is an originator, in accordance with the CRR, RBS carries out a significant risk transfer assessment to evaluate whether the securitisation structure effectively transfers the risks associated with the underlying assets to the holders of the securitisation positions.

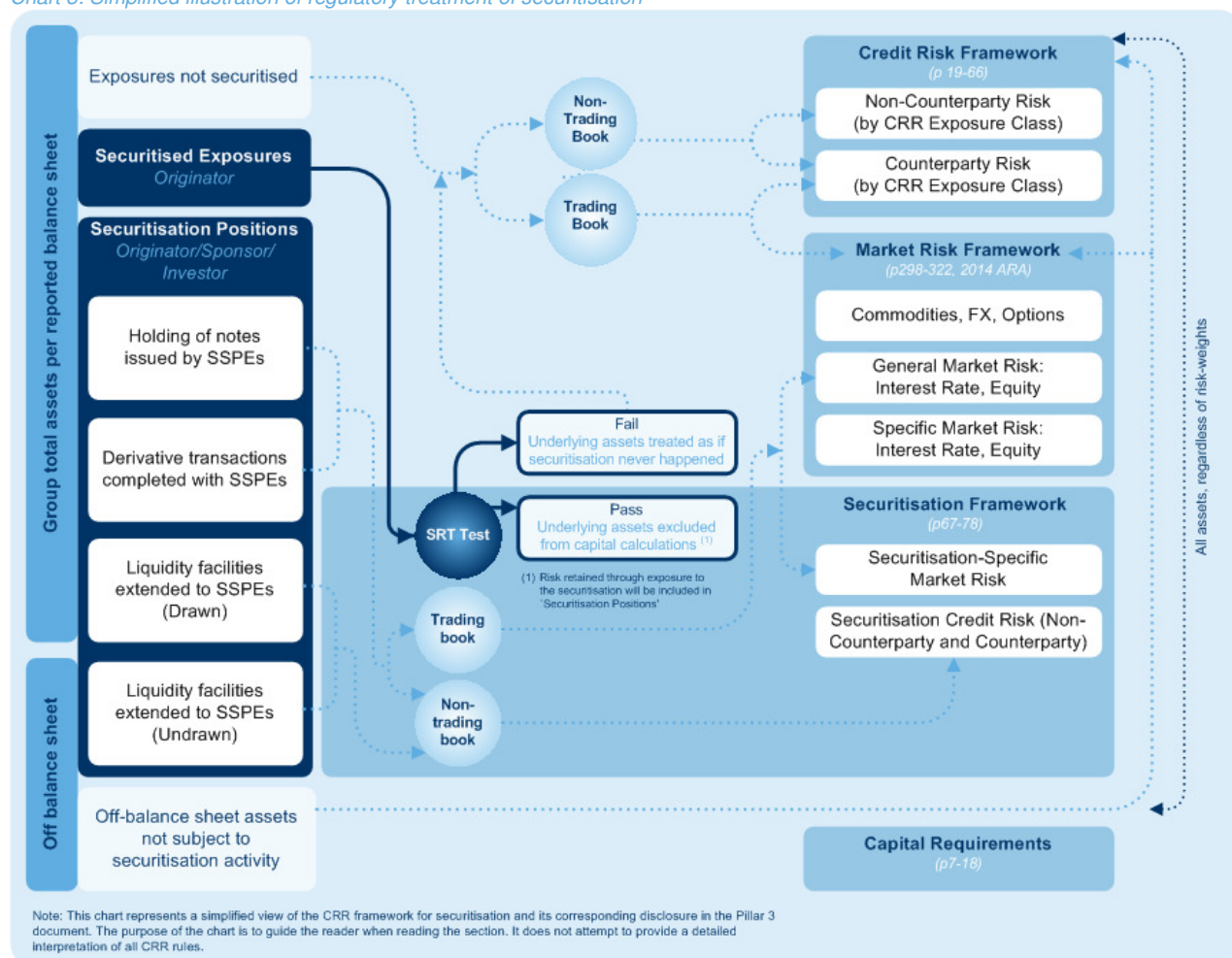
If significant risk transfer takes place, RBS need not hold any capital against the underlying assets. However, to the extent that it does not, RBS must hold capital against the underlying assets as if the securitisation had never taken place. In other words, RBS does so in accordance with CRR rules governing the calculation of capital held in connection with credit risk, whether non-counterparty or counterparty, and market risk.

As noted earlier, RBS may play any of several roles in respect of securitisations. Of these, three may result in RBS holding securitisation positions in connection with which a capital charge is required: originator; sponsor; or investor.

In the case of securitisation positions related to the trading book, RBS calculates regulatory capital needed for specific and general market risks (refer to page 313 of the 2014 ARA). In the case of exposures related to the non-trading book, RBS calculates regulatory capital needed for credit risk, either non-counterparty or counterparty.

Securitisation

Chart 3: Simplified illustration of regulatory treatment of securitisation



Calculation of risk-weighted exposures

The regulatory framework for securitisation allows RWA calculation using either the STD or the IRB approach. The choice of approach depends on the credit framework adopted by the firm under Pillar 1 for the underlying portfolio of securitised exposures. RBS holds securitisation positions subject to both approaches, as shown in Table 43.

RBS categorises securitised exposures according to risk-weight band when calculating RWAs. Under the CRR, unrated positions under both the STD and IRB approaches are classified under the highest risk-weight band: 1,250%. Risk-weight bands are shown in Tables 44 and 45.

Under both approaches, RBS uses the ratings based approach (RBA) to assess rated positions. It recognises ratings issued by Standard & Poor's, Moody's, Fitch or DBRS when assessing debt issued by SSPEs under the RBA. Most transactions are rated by two or more of these rating agencies, which are formally classified as external credit assessment institutions.

For the legacy ABCP conduit programmes it sponsors, RBS uses the internal assessment approach (IAA). Under the IAA, it applies published rating agency methodologies to the individual transactions funded through the programme, assigning internal credit grades and implied ratings, which it then uses to determine capital requirements for the facilities relating to each transaction. At programme level, the commercial paper issued by the conduits receives a public short-term rating, which is determined primarily by RBS's rating as sponsor, and capital requirements for programme level facilities referencing this rating.

Summary of accounting policies including derecognition

Accounting assessment takes place at the time of closing a transaction and under accounting rules, depends on a securitisation's residual risk. By contrast, regulatory assessments (refer to page 69) take place at regular intervals. The resulting capital calculations can differ depending on the change in residual risk over time.

Securitisation

Recognition of sales

Securitisation vehicles are assessed for consolidation in accordance with RBS's published accounting policy *Basis of Consolidation* (refer to page 349 of the 2014 ARA). A securitisation is treated as a sale if the securitised assets are derecognised from the consolidated balance sheet in accordance with RBS's published accounting policy *Derecognition* (refer to the 2014 ARA page 355).

RBS applies its accounting policies *Provisions; Loan commitments; and Financial guarantee contracts* (set out on pages 352 and 355 of the 2014 ARA) to contractual commitments, such as liquidity lines, that could require it to provide financial support for securitised assets.

Key assumptions for valuing securitisation positions

Securitisation positions are valued using external information, such as market data for recent transactions, price information from third-party managers and advisors, and asset performance data provided to all bond holders at interest payment dates.

Synthetic securitisations

Synthetic securitisations are assessed using the same approach as non-synthetic securitisations. Any derivatives are treated in accordance with RBS's published accounting policy *Derivatives and hedging* (refer to page 356 of the 2014 ARA).

Assets awaiting securitisation

Financial assets are valued using RBS's accounting policy for financial assets (refer to page 353 of the 2014 ARA). At both 31 December 2014 and 31 December 2013, no assets were categorised as awaiting securitisation.

Implicit support

RBS has not provided support to any securitisation transactions beyond its contractual obligations.

Securitisation and re-securitisation exposures

Additional information detailing accounting policies, and treatment of securitisations and re-securitisations can be found on page 423 of the 2014 ARA.

Types of transactions

In the role of originator, RBS securitises a variety of assets which typically include the following:

Residential mortgages and commercial real estate loans - RBS securitises residential mortgages and commercial real estate loans that it originates itself. Mortgages and real estate loans are assigned to SSPEs, which fund themselves principally through the issue of floating rate notes.

Credit card receivables - In the UK, RBS securitises credit card receivables that it originates itself. Noteholders have a proportionate interest in a pool of credit card receivables that are assigned by RBS to a receivables trust.

Other loan types - RBS selectively securitises other loans that it originates, principally those to corporates and small and medium-sized enterprises.

SSPEs used by RBS

SSPEs used by RBS hold either the securitised assets themselves (traditional securitisations) or the rights to those assets (synthetic securitisations).

At 31 December 2014, the four multi-seller commercial paper conduit programmes for which RBS provides programme-wide credit enhancement and liquidity facilities had no externally issued commercial paper. The conduit programmes available for use were Thames Asset Global Securitization, George Street Finance, Abel Tasman and Orchid Funding Corporation. Details can be found in the conduit disclosure on page 423 of the 2014 ARA.

The transactions in which RBS acts as a swap counterparty, has originated all the assets and continues to administer the associated SSPEs include the following:

- Arran (cards master trust);
- Arran (UK residential mortgages SSPEs);
- Celtic (Irish residential mortgages SSPEs);
- Epic (commercial real estate SSPEs);
- Greenock (UK residential mortgages SSPEs); and
- Talisman (commercial real estate SSPEs).

All of the securities issued by the Arran cards master trust and Greenock were retained by RBS.

Notes on the following tables

Tables 43 to 46 show total securitisation positions, as discussed under Regulatory treatment of securitisation on page 69. The exposures included those retained from RBS's own securitised assets, investments in SSPE notes, credit lines to SSPEs and derivative transactions with SSPEs.

The term 'exposure amount' used in the following tables refers to EAD, which is calculated according to CRR rules.

Exposure amount is shown along with other measures in Tables 43, 44 and 47. Tables 45 and 46 show exposure amounts exclusively. Short positions are excluded from these tables.

Table 49 shows outstanding amounts of retained securitised positions, as disclosed in investor reports.

Securitisation

Table 43: Securitisation positions, retained or purchased, RWAs and minimum capital requirements

The following table shows exposures, RWAs, minimum capital requirements and capital deductions calculated under IRB and STD approaches. 2014 was prepared in accordance with Basel III guidance whereas 2013 was prepared in accordance with Basel 2.5.

	Aggregate amounts of securitisation positions retained or purchased				Of which, re-securitisation positions retained or purchased			
	Exposure amount £m	RWAs £m	Minimum capital requirements £m	Of which deduction from capital £m	Exposure amount £m	RWAs £m	Minimum capital requirements £m	Of which deduction from capital £m
2014 - non-trading book								
IRB approach (1)	17,416	5,624	450	—	189	202	16	—
Standardised approach	1,358	3,204	256	—	50	20	2	—
	18,774	8,828	706	—	239	222	18	—
2013 - non-trading book								
IRB approach (1)	20,968	4,181	683	348	254	158	12	24
Standardised approach	1,389	401	248	216	48	19	2	—
	22,357	4,582	931	564	302	177	14	24
2014 - trading book								
IRB approach	1,121	2,713	217	—	226	671	54	—
Standardised approach	105	337	27	—	17	206	16	—
	1,226	3,050	244	—	243	877	70	—
2013 - trading book								
IRB approach	1,453	1,099	582	495	396	365	206	178
Standardised approach	1,247	442	473	437	249	92	102	95
	2,700	1,541	1,055	932	645	457	308	273

Note:

(1) Includes EAD of £2.2 billion (2013 - £2.1 billion) and RWAs of £0.8 billion (2013 - £0.8 billion) related to counterparty credit risk associated with derivative trades. The relevant market risk is captured in the trading book.

Key points

- Total exposure amounts for retained or purchased securitisation and re-securitisation positions in both the non-trading and trading books continued to decline in 2014 in line with RBS's risk reduction strategy.
- In the non-trading book, the decrease in total exposure was largely driven by disposals of legacy AFS European mortgage-backed securities (MBS) in RBS N.V. (accounting for an exposure reduction of £2.3 billion and an RWA reduction of £229 million) as RBS took advantage of improved market conditions.
- In the trading book, the decrease in exposure was primarily driven by the decision to exit US asset-backed product trading, reflected in the exposures under the STD approach.
- In both books, RWAs increased significantly due to the implementation of a rule change under Basel III, which removed the option of deductions from capital for certain securitisation exposures that receive a 1,250% risk-weight. This change was not included in CRD IV, but the change in presentation is consistent with Basel III and facilitates international comparability. The upward RWA impact of this rule change was partly offset by the downward impact of the overall declines in exposure, as explained above.

Securitisation

Table 44: Securitisation positions, retained or purchased, by risk-weightings

The following table shows exposures and minimum capital requirements according to risk-weight bands.

Risk-weight bands	Aggregate amounts of securitisation positions retained or purchased						Of which, re-securitisation positions retained or purchased					
	Exposure amount			Minimum capital requirements			Exposure amount			Minimum capital requirements		
	STD £m	IRB £m	Total £m	STD £m	IRB £m	Total £m	STD £m	IRB £m	Total £m	STD £m	IRB £m	Total £m
2014 - non-trading book (1)												
≤ 10%	—	11,789	11,789	—	74	74	—	—	—	—	—	—
> 10% ≤ 20%	900	2,891	3,791	14	38	52	—	13	13	—	—	—
> 20% ≤ 50%	52	804	856	2	27	29	50	36	86	2	1	3
> 50% ≤ 100%	157	1,305	1,462	8	77	85	—	47	47	—	2	2
> 100% ≤ 350%	24	126	150	7	26	33	—	—	—	—	—	—
> 350% ≤ 650%	—	292	292	—	89	89	—	1	1	—	—	—
1,250%	225	209	434	225	119	344	—	92	92	—	13	13
	1,358	17,416	18,774	256	450	706	50	189	239	2	16	18
2013 - non-trading book (1)												
≤ 10%	—	13,615	13,615	—	85	85	—	—	—	—	—	—
> 10% ≤ 20%	861	4,198	5,059	13	53	66	—	38	38	—	1	1
> 20% ≤ 50%	271	1,742	2,013	9	55	64	48	110	158	2	2	4
> 50% ≤ 100%	9	832	841	1	59	60	—	67	67	—	3	3
> 100% ≤ 350%	32	12	44	9	2	11	—	—	—	—	—	—
> 350% ≤ 650%	—	221	221	—	81	81	—	15	15	—	6	6
1,250%/deduction	216	348	564	216	348	564	—	24	24	—	—	—
	1,389	20,968	22,357	248	683	931	48	254	302	2	12	14
2014 - trading book												
≤ 10%	—	214	214	—	1	1	—	—	—	—	—	—
> 10% ≤ 20%	67	174	241	1	2	3	—	21	21	—	—	—
> 20% ≤ 50%	12	175	187	1	6	7	—	82	82	—	2	2
> 50% ≤ 100%	1	307	308	—	20	20	1	68	69	—	5	5
> 100% ≤ 350%	—	17	17	—	4	4	—	7	7	—	2	2
> 350% ≤ 650%	—	53	53	—	18	18	—	—	—	—	—	—
1,250%	25	181	206	25	166	191	16	48	64	16	45	61
	105	1,121	1,226	27	217	244	17	226	243	16	54	70
2013 - trading book												
≤ 10%	—	169	169	—	4	4	—	5	5	—	—	—
> 10% ≤ 20%	379	235	614	6	4	10	—	53	53	—	1	1
> 20% ≤ 50%	274	80	354	10	3	13	119	5	124	4	—	4
> 50% ≤ 100%	120	305	425	10	25	35	27	79	106	2	6	8
> 100% ≤ 350%	37	52	89	10	10	20	8	35	43	1	6	7
> 350% ≤ 650%	—	115	115	—	40	40	—	39	39	—	14	14
> 650% ≤ 1,250%	—	2	2	—	1	1	—	2	2	—	1	1
1,250%/deduction	437	495	932	437	495	932	95	178	273	95	178	273
	1,247	1,453	2,700	473	582	1,055	249	396	645	102	206	308

Note:

(1) Non-trading book IRB exposure includes EAD of £2.2 billion (2013 - £2.1 billion) and RWAs of £0.8 billion (2013 - £0.8 billion) related to counterparty credit risk associated with derivative trades. The relevant market risk is captured in the trading book.

Key points

- The year-on-year decline in securitisation exposure was evident across the majority of risk-weight bands, in line with the overall risk reduction strategy.
- One notable exception was in the non-trading book, where exposure rose in the 50% ≤ 100% band, reflecting rating downgrades of assets, with a corresponding decrease in the 20% ≤ 50% band.

Securitisation

Table 45: Securitisation positions, retained or purchased, by risk-weightings and underlying exposure type

The following table shows exposures by underlying exposure type and risk-weight bands.

Risk-weight bands	Residential mortgages £m	Commercial mortgages £m	Credit card receivables £m	Leasing £m	Loans to corporates or SMEs £m	Customer loans £m	Trade receivables £m	Auto receivables £m	Re-securitisation £m	Other assets £m	Total £m
2014 - non-trading book (1)											
≤ 10%	5,527	311	882	192	43	1,055	158	3,454	—	167	11,789
> 10% ≤ 20%	1,686	550	216	406	54	59	—	712	13	95	3,791
> 20% ≤ 50%	63	243	—	145	—	—	—	—	86	319	856
> 50% ≤ 100%	477	294	—	—	—	8	7	—	47	629	1,462
> 100% ≤ 350%	24	121	—	—	—	—	—	—	—	5	150
> 350% ≤ 650%	91	199	—	—	—	—	—	—	1	1	292
1,250%	259	38	—	39	—	—	—	—	92	6	434
	8,127	1,756	1,098	782	97	1,122	165	4,166	239	1,222	18,774
2013 - non-trading book (1)											
≤ 10%	7,797	220	786	181	20	707	269	2,948	—	687	13,615
> 10% ≤ 20%	2,234	881	342	416	115	82	—	365	38	586	5,059
> 20% ≤ 50%	274	474	—	—	53	—	—	—	158	1,054	2,013
> 50% ≤ 100%	107	312	—	—	—	9	7	—	67	339	841
> 100% ≤ 350%	32	—	—	—	—	—	—	—	—	12	44
> 350% ≤ 650%	14	190	—	—	—	—	—	—	15	2	221
1,250%/deduction	310	100	—	58	—	—	—	—	24	72	564
	10,768	2,177	1,128	655	188	798	276	3,313	302	2,752	22,357
2014 - trading book											
≤ 10%	95	—	—	—	—	—	—	—	—	119	214
> 10% ≤ 20%	119	16	—	—	—	—	—	—	21	85	241
> 20% ≤ 50%	19	40	—	—	—	—	—	—	81	47	187
> 50% ≤ 100%	44	25	—	—	—	—	—	—	69	170	308
> 100% ≤ 350%	2	2	—	—	—	—	—	—	7	6	17
> 350% ≤ 650%	20	15	—	—	—	—	—	—	—	18	53
1,250%	46	39	—	—	—	—	—	—	65	56	206
	345	137	—	—	—	—	—	—	243	501	1,226
2013 - trading book											
≤ 10%	48	—	—	—	—	—	—	—	5	116	169
> 10% ≤ 20%	108	62	7	—	—	—	—	53	53	331	614
> 20% ≤ 50%	27	25	1	—	—	—	—	4	124	173	354
> 50% ≤ 100%	38	50	—	—	—	—	—	3	106	228	425
> 100% ≤ 350%	2	20	—	—	—	—	—	—	43	24	89
> 350% ≤ 650%	18	27	—	—	—	—	—	—	39	31	115
> 650% ≤ 1,250%	—	—	—	—	—	—	—	—	2	—	2
1,250%/deduction	236	148	—	—	—	—	—	—	273	275	932
	477	332	8	—	—	—	—	60	645	1,178	2,700

Notes:

(1) Includes counterparty credit risk EAD of £2.2 billion (2013 - £2.1 billion), which is primarily related to residential mortgages of £1.0 billion (2013 - £1.2 billion) and other assets of £1.2 billion (2013 - £0.9 billion).

(2) Unrated positions are included within the 1,250% band.

Key points

- In the non-trading book, the overall decline in exposure was largely driven by the RBS N.V. disposals of legacy MBS, reflected in the residential mortgages exposure class, and by the reduction of positions in line with overall strategy, affecting various exposure classes.
- The downward trend was partly offset by a rise in auto receivables exposure, reflecting positive credit risk appetite for UK assets and increased US exposure on transactions supporting key clients.
- In the trading book, exposure declined for almost all exposure types in the majority of risk-weight bands, driven by business strategy.

Securitisation

Table 46: Securitisation positions, retained or purchased, on and off-balance sheet

The following table shows underlying exposures by:

- the role of RBS;
- on and off-balance sheet categories; and
- underlying exposure type.

The off-balance sheet category represents the part of a liquidity facility that has not been utilised (undrawn).

Underlying exposure type	As originator		As sponsor		As investor		Total	
	On-balance sheet £m	Off-balance sheet £m	On-balance sheet £m	Off-balance sheet £m	On-balance sheet (1) £m	Off-balance sheet £m	On-balance sheet £m	Off-balance sheet £m
2014 - non-trading book (2)								
Residential mortgages	—	—	465	90	5,682	1,890	6,147	1,980
Commercial mortgages	29	—	—	—	1,130	597	1,159	597
Credit card receivables	—	—	—	—	471	627	471	627
Leasing	—	—	—	—	573	209	573	209
Loans to corporates or SMEs	—	—	—	—	38	59	38	59
Consumer loans	—	—	64	75	603	380	667	455
Trade receivables	—	—	—	—	93	72	93	72
Auto receivables	—	—	—	—	3,119	1,047	3,119	1,047
Re-securitisations	11	—	—	—	226	2	237	2
Other assets	—	—	41	1	554	626	595	627
	40	—	570	166	12,489	5,509	13,099	5,675
2013 - non-trading book (2)								
Residential mortgages	—	—	720	342	8,289	1,417	9,009	1,759
Commercial mortgages	85	—	175	4	1,463	450	1,723	454
Credit card receivables	—	—	184	8	501	435	685	443
Leasing	—	—	—	—	547	108	547	108
Loans to corporates or SMEs	—	—	—	—	20	168	20	168
Consumer loans	—	—	63	29	553	153	616	182
Trade receivables	—	—	158	20	86	12	244	32
Auto receivables	—	—	20	—	2,465	828	2,485	828
Re-securitisations	8	—	—	—	270	24	278	24
Other assets	5	—	102	3	1,624	1,018	1,731	1,021
	98	—	1,422	406	15,818	4,613	17,338	5,019
2014 - trading book								
Residential mortgages	—	—	—	—	308	37	308	37
Commercial mortgages	2	—	—	—	135	—	137	—
Re-securitisations	16	—	—	—	134	93	150	93
Other assets	3	—	—	—	424	74	427	74
	21	—	—	—	1,001	204	1,022	204
2013 - trading book								
Residential mortgages	8	—	—	—	433	36	441	36
Commercial mortgages	14	2	—	—	233	83	247	85
Re-securitisations	155	—	—	—	350	140	505	140
Other assets	41	—	—	—	1,009	128	1,050	128
	218	2	—	—	2,093	387	2,311	389

Notes:

- (1) On-balance sheet amount of £14.1 billion differs from £25.2 billion of asset-backed securities (ABS) within debt securities on the balance sheet principally as the securitisation positions above: exclude US government guaranteed debt securities; and include loans and liquidity facilities to SSPE, as well as derivative transactions all of which would be excluded from ABS.
- (2) Includes counterparty credit risk EAD of £2.2 billion (2013 - £2.1 billion), which is primarily related to residential mortgages of £1.0 billion (2013 - £1.2 billion) and other assets of £1.2 billion (2013 - £0.9 billion).

Securitisation

Key points

- Where RBS acted as investor, the overall reduction in on-balance-sheet exposures in the non-trading book was largely driven by the disposals of legacy available-for-sale residential mortgage-backed securities. Movements in individual exposure types also reflected the reclassifications explained earlier.
- As regards off-balance-sheet exposure, the increase in commercial mortgages reflected a rise in the value of the derivative hedging this exposure. The increase in credit card and consumer loan receivables reflected a commitment to a client that was largely undrawn at year end.
- Where RBS acted as sponsor, the reduction was largely driven by the disposal or early repayment of residential mortgage-backed securities and general unwinding of positions in line with overall strategy.

Table 47: Securitisation positions subject to market risk capital requirements, trading book minimum capital requirements

The following table shows trading book exposures subject to securitisation specific market risk capital regulations.

RBS had no synthetic exposures subject to the capital regulations at either 31 December 2014 or 31 December 2013.

	Exposure amount	Minimum capital requirement (1)
	Traditional £m	Traditional £m
<u>Underlying portfolio</u>		
2014 - trading book		
Residential mortgages	345	56
Commercial mortgages	137	47
Credit card receivables	—	—
Auto receivables	—	—
Re-securitisations	243	71
Other assets	501	70
	<u>1,226</u>	<u>244</u>
<u>2013 - trading book (2)</u>		
Residential mortgages	241	12
Commercial mortgages	184	25
Credit card receivables	8	—
Auto receivables	60	1
Re-securitisations	372	36
Other assets	903	49
	<u>1,768</u>	<u>123</u>

Notes:

(1) For 2013, securitisation positions in the 1,250% risk-weight band were not subject to the capital requirements and were therefore not included.

(2) For 2013, capital derivatives were excluded.

Key point

- The decrease in exposure was primarily driven by the decision to exit US asset-backed product trading.

Securitisation

Table 48: Securitisation activity by RBS during the year and recognised gain or loss on sale

The following table shows RBS's securitisation of its own assets during the year.

Exposure type	Outstanding amounts of exposures securitised						Total new securitised exposures £m
	As originator				As sponsor		
	Traditional £m	Recognised gain or loss on sale £m	Synthetic £m	Recognised gain or loss on sale £m	Traditional £m	Recognised gain or loss on sale £m	
2014 - non-trading book							
Commercial mortgages	1,421	31	—	—	—	—	1,452
2013 - non-trading book							
Commercial mortgages	2,953	68	—	—	—	—	3,021
2014 - trading book							
Re-securitisations	—	—	—	—	—	—	—
2013 - trading book							
Re-securitisations	996	—	—	—	—	—	996

Securitisation

Table 49: Securitisation positions, retained, outstanding and related past due exposures

The following table shows outstanding and related past due exposures pertaining to RBS's retained positions where RBS was the originator or sponsor. Where the securitisation was through a joint venture or through similar arrangements, the entire asset pool information is also disclosed separately below.

	Total		Non-trading exposures				Trading exposures				Memorandum: Entire asset pool		
	Of which		Originator		Sponsor		Of which	Originator			Of which	Of which	
	Exposures	past due	Traditional	Synthetic	Traditional	Total	past due	Traditional	Synthetic	Total	past due	Exposures	past due
31 December 2014	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Residential mortgages	603	12	—	—	524	524	—	79	—	79	12	79	12
Commercial mortgages	4,145	129	1,064	582	—	1,646	—	2,499	—	2,499	129	8,544	235
Loans to corporates or SMEs	41	—	—	—	41	41	—	—	—	—	—	—	—
Consumer loans	97	—	—	—	97	97	—	—	—	—	—	—	—
Resecuritisations	4,183	686	1,138	—	—	1,138	13	3,045	—	3,045	673	5,619	689
Other assets	814	21	141	—	29	170	1	644	—	644	20	1,607	46
	9,883	848	2,343	582	691	3,616	14	6,267	—	6,267	834	15,849	982
31 December 2013													
Residential mortgages	1,368	29	—	—	1,259	1,259	—	109	—	109	29	109	29
Commercial mortgages	3,830	73	1,240	718	—	1,958	—	1,671	201	1,872	73	5,980	179
Credit card receivables	184	—	—	—	184	184	—	—	—	—	—	—	—
Loans to corporates or SMEs	49	—	—	—	49	49	—	—	—	—	—	—	—
Consumer loans	94	—	—	—	94	94	—	—	—	—	—	—	—
Trade receivables	99	—	—	—	99	99	—	—	—	—	—	—	—
Auto receivables	20	—	—	—	20	20	—	—	—	—	—	—	—
Resecuritisations	8,811	3,010	982	—	—	982	9	7,829	—	7,829	3,001	10,233	3,013
Other assets	2,259	81	1,039	—	82	1,121	42	1,138	—	1,138	39	4,816	160
	16,714	3,193	3,261	718	1,787	5,766	51	10,747	201	10,948	3,142	21,138	3,381

Notes:

- (1) Outstanding and related past due exposures have been based on pool amounts from investor reports except for multiple resecuritisations where certificate balances have been used.
- (2) For securitisations where RBS acted as investor, as disclosed in Table 46, information on underlying assets is not available and therefore not included in the table above.
- (3) Losses on past due exposures recognised during 2014 and 2013 were nil.

Key point

- The reduction in securitisation exposures primarily reflects the run-down of the US asset-backed products business in CIB.

Appendix 1 – Transitional own funds

		RBS		RBS plc 2014	NWB Plc 2014	UBIL 2014	CFG 2014
		2014	CRR prescribed residual amounts				
		£m	£m	£m	£m	£m	£m
CET1 capital: instruments and reserves							
1	Capital instruments and the related share premium accounts	27,104	—	27,104	31,995	3,904	11,964
	<i>of which: ordinary shares</i>	6,366	—	6,366	6,608	1,678	4
2	Retained earnings	952	—	952	20,542	7,009	829
3	Accumulated other comprehensive income (and other reserves)	27,051	—	27,051	1,028	668	(454)
	Public sector capital injections grandfathered until 1 January 2018	510	—	510	—	—	—
5a	Independently reviewed interim net profits net of any foreseeable charge or dividend	—	—	—	2,260	828	—
6	CET1 capital before regulatory adjustments	55,617	—	55,617	53,565	13,841	12,339
CET1 capital: regulatory adjustments							
7	Additional value adjustments	(384)	—	(384)	(324)	(1)	—
8	Intangible assets (net of related tax liability)	(8,306)	—	(8,306)	(917)	(530)	(4,513)
10	Deferred tax assets that rely on future profitability excluding those arising from temporary differences (net of related tax liability)	(1,222)	—	(1,222)	(258)	(742)	—
11	Fair value reserves related to gains or losses on cash flow hedges	(1,029)	—	(1,029)	(755)	3	285
12	Negative amounts resulting from the calculation of expected loss amounts	(1,491)	—	(1,491)	(805)	(785)	—
14	Gains or losses on liabilities valued at fair value resulting from changes in own credit standing	500	—	500	1,300	—	—
15	Defined-benefit pension fund assets	(238)	—	(238)	(127)	—	—
22	Amount exceeding the 15% threshold (negative amount)	—	—	—	(14,809)	(2,318)	—
23	<i>Of which: direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities</i>	—	—	—	(14,809)	(2,318)	—
25a	Losses for the current financial period (negative amount)	(3,470)	—	(3,470)	(2,119)	—	—
26a	Regulatory adjustments relating to unrealised gains and losses pursuant to articles 467 and 468	(270)	270	—	(252)	—	(47)
26b	Amount to be deducted from or added to CET1 capital with regard to additional filters and deductions required pre CRR	(58)	—	(58)	—	310	372
27	Qualifying AT1 deductions that exceed the AT1 capital of the institution (negative amount)	—	—	—	—	(5)	—
28	Total regulatory adjustments to CET1	(15,968)	270	(15,698)	(19,066)	293	(3,903)
29	CET1 capital	39,649	270	39,919	34,499	9,468	8,436
AT1 capital: instruments							
33	Amount of qualifying items referred to in Article 484(4) and the related share premium accounts subject to phase out from AT1	5,820	(5,820)	—	3,503	234	—
34	Qualifying tier 1 capital included in consolidated AT1 capital (including minority interests not included in row 5 CET1) issued by subsidiaries and held by third parties	1,648	(1,648)	—	—	—	—
35	<i>of which: instruments issued by subsidiaries subject to phase out</i>	1,648	(1,648)	—	—	—	—
36	AT1 capital before regulatory adjustments	7,468	(7,468)	—	3,503	234	—

Appendix 1 – Transitional own funds

		RBS		Final	RBS plc	NWB plc	UBIL	CFG
		2014	CRR prescribed	CRD IV	2014	2014	2014	2014
		£m	residual amounts	£m	£m	£m	£m	£m
			£m					
AT1 capital: regulatory adjustments								
40	Direct, indirect and synthetic holdings by the institution of the AT1 instruments of financial sector entities where the institution has a significant investment in those entities (amount above 10% threshold and net of eligible short positions)	—	—	—	(120)	(130)	—	—
41b	Residual amounts deducted from AT1 capital with regard to deduction from Tier 2 (T2) capital during the transitional period	—	—	—	(1,171)	(10)	—	—
	<i>of which: Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities</i>	—	—	—	(1,171)	—	—	—
43	Total regulatory adjustments to AT1 capital	—	—	—	(1,291)	(140)	—	—
44	AT1 capital	7,468	(7,468)	—	2,212	94	—	—
45	Tier 1 capital (T1 = CET1 + AT1)	47,117	(7,198)	39,919	36,711	9,562	4,181	8,436
T2 capital: instruments and provisions								
46	Capital instruments and the related share premium accounts	5,542	—	5,542	18,723	4,400	463	1,505
47	Amount of qualifying items referred to in Article 484 (4) and the related share premium accounts subject to phase out from T2	594	(594)	—	1,704	980	65	—
48	Qualifying own funds instruments included in consolidated T2 capital (including minority interests and AT1 instruments not included in CET1 or AT1) issued by subsidiaries and held by third parties	7,490	(3,175)	4,315	—	—	—	—
49	<i>of which: instruments issued by subsidiaries subject to phase out</i>	3,175	(3,175)	—	—	—	—	—
50	Credit risk adjustments	—	—	—	—	—	—	805
51	T2 capital before regulatory adjustments	13,626	(3,769)	9,857	20,427	5,380	528	2,310
T2 capital: regulatory adjustments								
55	Direct and indirect holdings by the institution of the T2 instruments and subordinated loans of financial sector entities where the institution has a significant investment in those entities (net of eligible short positions)	—	—	—	(1,756)	(16)	—	—
56b	Residual amounts deducted from T2 capital with regard to deduction from AT1 capital during the transitional period	—	—	—	(80)	(86)	—	—
56c	Amount to be deducted from or added to T2 capital with regard to additional filters and deductions required pre CRR.	—	—	—	(41)	(8)	(5)	—
57	Total regulatory adjustments to T2 capital	—	—	—	(1,877)	(110)	(5)	—
58	T2 capital	13,626	(3,769)	9,857	18,550	5,270	523	2,310
59	Total capital (TC = T1 + T2)	60,743	(10,967)	49,776	55,261	14,832	4,704	10,746
60	Total risk-weighted assets	355,914	—	355,914	263,923	68,304	24,179	68,389

Appendix 1 – Transitional own funds

		RBS						
		2014	CRR prescribed	Final	RBS plc	NWB plc	UBIL	CFG
		£m	residual amounts	CRD IV	2014	2014	2014	2014
		£m	£m	£m	£m	£m	£m	£m
Capital ratios and buffers								
61	CET1 (as a percentage of risk exposure amount)	11.1%	—	11.2%	13.1%	13.9%	17.3%	12.3%
62	T1 (as a percentage of risk exposure amount)	13.2%	—	11.2%	13.9%	14.0%	17.3%	12.3%
63	Total capital (as a percentage of risk exposure amount)	17.1%	—	14.0%	20.9%	21.7%	19.5%	15.7%
68	CET1 available to meet buffers	7.1%	—	7.2%	9.1%	9.9%	13.3%	8.3%
Amounts below the threshold deduction								
72	Direct and indirect holdings of the capital of financial sector entities where the institution does not have a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	2,325	—	2,325	2,037	11	5	—
73	Direct and indirect holdings by the institution of the CET1 instruments of financial sector entities where the institution has a significant investment in those entities (amount below 10% threshold and net of eligible short positions)	755	—	755	1,510	590	1	—
75	Deferred tax assets arising from temporary differences (amount below 10% threshold, net of related tax liability)	61	—	61	168	196	2	—
Available caps on the inclusion of provisions in T2								
77	Cap on inclusion of credit risk adjustments in T2 under standardised approach	1,269	—	1,269	1,480	262	30	—
79	Cap for inclusion of credit risk adjustments in T2 under internal ratings-based approach	980	—	980	490	244	120	—
Capital instruments subject to phase-out arrangements (only applicable between 1 January 2013 and 1 January 2022)								
82	Current cap on AT1 instruments subject to phase out arrangements	7,679	—	7,679	4,004	234	—	—
83	Amount excluded from AT1 due to cap (excess over cap after redemptions and maturities)	1,643	—	1,643	—	64	—	—
84	Current cap on T2 instruments subject to phase out arrangements	5,380	—	5,380	2,226	980	99	—
85	Amount excluded from T2 due to cap (excess over cap after redemptions and maturities)	733	—	733	—	111	—	—

		Equity	Equity
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	GB00B7T77214	0121889D LN
3	Governing law(s) of the instrument	Scots	Scots
4	Transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1
5	Post-transitional CRR rules	Common Equity Tier 1	Common Equity Tier 1
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated
7	Instrument type (specified by each jurisdiction)	Ordinary shares	B Shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 27,048m	GBP 25,101m
9	Nominal amount of instrument	-	GBP 510m
9a	Issue price	-	£0.50
9b	Redemption price	-	-
10	Accounting classification	Shareholder's equity	Shareholder's equity
11	Original date of issuance	-	-
12	Perpetual or dated	Perpetual	Perpetual
13	Original maturity date	-	-
14	Issuer call subject to prior supervisory approval	-	-
15	Optional call date, contingent call dates and redemption amount	-	-
16	Subsequent call dates, if applicable	-	-
Coupons / dividends			
17	Fixed or floating dividend/coupon	-	-
18	Coupon rate and any related index	-	-
19	Existence of a dividend stopper	-	-
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	-	-
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	-	-
21	Existence of step up or other incentive to redeem	-	-
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Convertible
24	If convertible, conversion triggers(s)	-	Holder's option to convert each Series 1 Class B Share into new and/or existing ordinary shares at any time (1)
25	If convertible, fully or partially	-	Always fully
26	If convertible, conversion rate	-	ten B shares for each ordinary share
27	If convertible, mandatory or optional conversion	-	Optional; and at the option of the holder
28	If convertible, specify instrument type convertible into	-	Ordinary shares
29	If convertible, specify issuer of instrument it converts into	-	The Royal Bank of Scotland Group plc
30	Write down features (contractual)	-	-
	Write down features (statutory)	-	-
31	If write-down, write down trigger(s)	-	-
32	If write-down, full or partial	-	-
33	If write-down, permanent or temporary	-	-
34	If temporary write-down, description of write up mechanism	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Immediately subordinate to additional tier 1	Immediately subordinate to additional tier 1
36	Non-compliant transitioned features	No	No
37	If yes, specify non compliant features	-	-
Notes			(1) In December 2009, the company entered into an acquisition and contingent capital agreement with HM Treasury. HM Treasury agreed to acquire at 50p per share 51 billion B shares with a nominal value of £0.01 each and a dividend access share with a nominal value of £0.01; these shares were issued to HM Treasury on 22 December 2009. Net proceeds were £25.1 billion. The B shares do not generally carry voting rights at general meetings of ordinary shareholders. Following the subdivision and consolidation of ordinary shares in 2012 and subject to anti-dilution adjustments, each B share is entitled to one tenth of the cash dividend of an ordinary share and may be converted at any time at the option of the holder into ordinary shares at the rate of ten B shares for each ordinary share. HM Treasury has agreed not to convert its B shares into ordinary shares to the extent that its holding of ordinary shares following the conversion would represent more than 75% of the company's issued ordinary share capital.

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Additional Tier 1	Additional Tier 1	Additional Tier 1
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US7800977966	US7800977701	US7800977628
3	Governing law(s) of the instrument	Scots	Scots	Scots
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (specified by each jurisdiction)	Equity Preference Shares	Equity Preference Shares	Equity Preference Shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 313m	GBP 292m	GBP 138m
9	Nominal amount of instrument	USD 925m	USD 1,000m	USD 550m
9a	Issue price	U.S.\$25	U.S.\$25	U.S.\$25
9b	Redemption price	U.S.\$25	U.S.\$25	U.S.\$25
10	Accounting classification	Shareholder's Equity	Shareholder's Equity	Shareholder's Equity
11	Original date of issuance	26-Aug-04	18-May-05	09-Nov-05
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	No
15	Optional call date, contingent call dates and redemption amount	30 September 2009 at U.S.\$25	30 June 2010 at U.S.\$25	31 December 2010 at U.S.\$25
16	Subsequent call dates, if applicable	At any time	At any time	At any time
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	6.4 per cent	6.35 per cent	6.25 per cent
19	Existence of a dividend stopper	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Tier 2	Subordinate to Tier 2	Subordinate to Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Additional Tier 1	Additional Tier 1	Additional Tier 1
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US7800977545	US7800977479	US7800977396
3	Governing law(s) of the instrument	Scots	Scots	Scots
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (specified by each jurisdiction)	Equity Preference Shares	Equity Preference Shares	Equity Preference Shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 268m	GBP 126m	GBP 321m
9	Nominal amount of instrument	USD 675m	USD 650m	USD 950m
9a	Issue price	U.S.\$25	U.S.\$25	U.S.\$25
9b	Redemption price	U.S.\$25	U.S.\$25	U.S.\$25
10	Accounting classification	Shareholder's Equity	Shareholder's Equity	Shareholder's Equity
11	Original date of issuance	25-May-06	27-Dec-06	28-Jun-07
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	No
15	Optional call date, contingent call dates and redemption amount	30 June 2011 at U.S.\$25	30 December 2011 at U.S.\$25	30 June 2012 at U.S.\$25
16	Subsequent call dates, if applicable	At any time	At any time	At any time
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	6.75 per cent	6.125 per cent	6.6 per cent.
19	Existence of a dividend stopper	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Tier 2	Subordinate to Tier 2	Subordinate to Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Additional Tier 1	Additional Tier 1	Additional Tier 1
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US7800977131	US780097AU54	XS0205935470
3	Governing law(s) of the instrument	Scots	Scots	Scots
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (specified by each jurisdiction)	Equity Preference Shares	Equity Preference Shares	Equity Preference Shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 615m	GBP 494m	GBP 860m
9	Nominal amount of instrument	USD 1,600m	USD 1,500m	EUR 1,250m
9a	Issue price	U.S.\$25	U.S.\$100,000	€ 1,000
9b	Redemption price	U.S.\$25	U.S.\$100,000	€ 1,000
10	Accounting classification	Shareholder's Equity	Shareholder's Equity	Shareholder's Equity
11	Original date of issuance	27-Sep-07	04-Oct-07	29-Nov-04
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	No
15	Optional call date, contingent call dates and redemption amount	31 December 2012 at U.S.\$25	29 September 2017 / Regulatory Call on any dividend payment date / U.S.\$100,000	31 December 2009 at €1,000
16	Subsequent call dates, if applicable	At any time	Any quarterly dividend payment date falling on the tenth anniversary after first call	31 March, 30 June, 30 September and 31 December each year
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed	Fixed to Floating	Fixed
18	Coupon rate and any related index	7.25 per cent	7.640 per cent to September 2017; 3 month US dollar LIBOR plus 2.32 per cent thereafter	5.50 per cent
19	Existence of a dividend stopper	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Tier 2	Subordinate to Tier 2	Subordinate to Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Additional Tier 1	Additional Tier 1	Additional Tier 1
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	DE000A0E6C37	XS0323734961	GB00B2825B77
3	Governing law(s) of the instrument	Scots	Scots	Scots
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (specified by each jurisdiction)	Equity Preference Shares	Equity Preference Shares	Equity Preference Shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 512m	GBP 325m	GBP 54m
9	Nominal amount of instrument	EUR 1,250m	EUR 1,300m	GBP 750m
9a	Issue price	€ 1,000	€ 50,000	£1,000
9b	Redemption price	€ 1,000	€ 50,000	£1,000
10	Accounting classification	Shareholder's Equity	Shareholder's Equity	Shareholder's Equity
11	Original date of issuance	28-Jun-05	04-Oct-07	04-Oct-07
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	30 June 2010 at €1,000	29 September 2017 / Regulatory Call at any time to first call date / €50,000	5 October 2012 at £1,000
16	Subsequent call dates, if applicable	31 March, 30 June, 30 September and 31 December each year	Any Quarterly Dividend Payment Date after first call	Any Quarterly Dividend Payment Date
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed	Fixed to floating	Floating
18	Coupon rate and any related index	5.25 per cent	7.0916 per cent to September 2017. If not redeemed, then 3 month EURIBOR plus 2.33 per cent thereafter.	3 month Sterling LIBOR + 2.33 per cent
19	Existence of a dividend stopper	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Fully discretionary	Fully discretionary	Fully discretionary
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Tier 2	Subordinate to Tier 2	Subordinate to Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Additional Tier 1	Additional Tier 1	Additional Tier 1
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	CA780097AT83	US780097AS09	US780097AH44
3	Governing law(s) of the instrument	English	English	New York
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (specified by each jurisdiction)	Paid Up Equity	Paid Up Equity	Perpetual Tier One Securities
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 156m	GBP 275m	GBP 484m
9	Nominal amount of instrument	CAD 600m	USD 1,600m	USD 1,200m
9a	Issue price	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Paid Equity	Paid Equity	Liability - amortised cost
11	Original date of issuance	04-Oct-07	04-Oct-07	20-Aug-01
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	5 October 2017 / Tax and Regulatory Call at any time to October 2017 and thereafter on any Interest Payment Date / 100 per cent.	5 October 2017 / Tax and Regulatory Call at any time to October 2017 and thereafter on any Interest Payment Date / 100 per cent.	30 September 2031 / Tax and Regulatory Call at any time / 100 per cent.
16	Subsequent call dates, if applicable	Each Interest Payment Date after first call	Each Interest Payment Date after first call	Each Interest Payment Date after first call
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed to floating.	Fixed to floating	Fixed to floating
18	Coupon rate and any related index	6.666 per cent to October 2017. Thereafter three month CAD-BA-CDOR plus 2.76 per cent	6.990 per cent to October 2017. Thereafter, 3 month US dollar LIBOR plus 2.67 per annum	7.648 per cent to September 2031, thereafter 3 month US dollar LIBOR plus 2.5 per cent
19	Existence of a dividend stopper	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Fully discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes	Yes	Yes
22	Non-cumulative or cumulative	Cumulative and ACSM	Cumulative and ACSM	Cumulative and ACSM
23	Convertible or non-convertible	Non-convertible	Non-convertible	Convertible
24	If convertible, conversion triggers(s)	-	-	Issuer's option to convert to Upper Tier 2 Securities subject to a Tax, Tier 1 Disqualification or Delisting Event
25	If convertible, fully or partially	-	-	Always fully
26	If convertible, conversion rate	-	-	Par conversion
27	If convertible, mandatory or optional conversion	-	-	Optional; and At the option of the Issuer
28	If convertible, specify instrument type convertible into	-	-	Upper Tier 2
29	If convertible, specify issuer of instrument it converts into	-	-	The Royal Bank of Scotland Group plc
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime not expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Tier 2	Subordinate to Tier 2	Subordinate to Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Without Loss-Absorption Trigger	Without Loss-Absorption Trigger	Without Loss-Absorption Trigger
		Step-up	Step-up	Step-up
		Dividend Stopper	Dividend Stopper	Dividend Stopper
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Additional Tier 1	Additional Tier 1	Additional Tier 1
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US7800978048	US7800978790	US7800977883
3	Governing law(s) of the instrument	Scots	Scots	Scots
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (specified by each jurisdiction)	Debt Preference Shares	Debt Preference Shares	Debt Preference Shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 100m	GBP 155m	GBP 481m
9	Nominal amount of instrument	USD 200m	USD 300m	USD 850m
9a	Issue price	U.S.\$25	U.S.\$25	U.S.\$25
9b	Redemption price	U.S.\$25	U.S.\$25	U.S.\$25
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	26-Mar-97	08-Feb-99	01-Oct-04
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	No
15	Optional call date, contingent call dates and redemption amount	31 March 2007 at U.S.\$25	31 March 2004 at U.S.\$25	Any date falling on or after the fifth anniversary from the date of allotment at U.S.\$25
16	Subsequent call dates, if applicable	At any time	At any time	At any time
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	7.65 per cent.	7.25 per cent.	5.75 per cent.
19	Existence of a dividend stopper	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Tier 2	Subordinate to Tier 2	Subordinate to Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Additional Tier 1	Additional Tier 1	Additional Tier 1
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc	National Westminster Bank plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US780097AE13	XS0121856859	GB0006227051
3	Governing law(s) of the instrument	Scots	Scots	English
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Debt Preference Shares	Debt Preference Shares	Debt Preference Shares
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 41m	GBP 15m	GBP 140m
9	Nominal amount of instrument	USD 1,000m	GBP 200m	GBP 140m
9a	Issue price	U.S.\$1,000	£1,000	110.11 pence
9b	Redemption price	U.S.\$1,000	£1,000	-
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	06-Mar-00	14-Dec-00	17-Sep-91
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	No
15	Optional call date, contingent call dates and redemption amount	31 March 2010 at U.S.\$1,000	31 December 2010 at £1,000	-
16	Subsequent call dates, if applicable	At any time	At any time	-
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed.
18	Coupon rate and any related index	9.118 per cent.	7.387 per cent	9 per cent.
19	Existence of a dividend stopper	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes	Yes	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative and ACSM
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Tier 2	Subordinate to Tier 2	Subordinate to Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Without Loss-Absorption Trigger Investor Stock Settlement Option Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Investor Stock Settlement Option Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Additional Tier 1	Additional Tier 1	Additional Tier 1
1	Issuer	National Westminster Bank plc	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US6385398820	XS0159056208	US74927PAA75
3	Governing law(s) of the instrument	English	Delaware/English/New York	Delaware/English/New York
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Consolidated	Consolidated
7	Instrument type (specified by each jurisdiction)	Debt Preference Shares	Trust Preferred Securities	Trust Preferred Securities
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 157m	GBP 311m	GBP 252m
9	Nominal amount of instrument	USD 300m	USD 750m	USD 650m
9a	Issue price	U.S.\$25	U.S.\$1,000	U.S.\$1,000
9b	Redemption price	U.S.\$25	U.S.\$1,000	U.S.\$1,000
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	08-Apr-97	05-Dec-02	10-Dec-03
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	9 April 2002 at U.S.\$25	31 March 2008 / Tax and Regulatory Call at any time / U.S.\$1,000	3 January 2034 / Tax and Regulatory Call at any time / U.S.\$1,000
16	Subsequent call dates, if applicable	On any Dividend Payment Date	On any distribution payment date	On any distribution payment date after first call
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed.	Fixed	Fixed to floating
18	Coupon rate and any related index	7.7628 per cent.	6.80 per cent.	6.425 per cent to January 2034, and thereafter 3 month US dollar LIBOR plus 1.9425 per cent
19	Existence of a dividend stopper	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No	Yes
22	Non-cumulative or cumulative	Non-cumulative and ACSM	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Non-convertible	Convertible	Convertible
24	If convertible, conversion triggers(s)	-	Substitute Dollar Preference Shares of Group for TPS following a Substitution Event	Substitute Dollar Preference Shares of Group for TPS following a Substitution Event
25	If convertible, fully or partially	-	Always fully	Always fully
26	If convertible, conversion rate	-	Equal to the aggregate liquidation preference of the TPS (U.S.\$1,000) held.	Equal to the aggregate liquidation preference of the TPS (U.S.\$1,000) held.
27	If convertible, mandatory or optional conversion	-	Mandatory; and At the option of Group	Mandatory; and At the option of Group
28	If convertible, specify instrument type convertible into	-	Non-cumulative Preference Shares	Non-cumulative Preference Shares
29	If convertible, specify issuer of instrument it converts into	-	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime not expected to be available	Statutory regime not expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Tier 2	Subordinate to Tier 2	Subordinate to Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Dividend Stopper No Waiver of Set-Off Rights	Without Loss-Absorption Trigger Step-up Dividend Stopper No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Additional Tier 1	Additional Tier 1	Additional Tier 1
1	Issuer	The Royal Bank of Scotland N.V.	The Royal Bank of Scotland N.V.	The Royal Bank of Scotland N.V.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US74928K2087	US74928M2044	US74928P2074
3	Governing law(s) of the instrument	Delaware/New York/Dutch	Delaware/New York/Dutch	Delaware/New York/Dutch
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Trust Preferred Securities	Trust Preferred Securities	Trust Preferred Securities
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 823m	GBP 128m	GBP 1,153m
9	Nominal amount of instrument	USD 1,285m	USD 200m	USD 1,800m
9a	Issue price	U.S.\$25	U.S.\$25	U.S.\$25
9b	Redemption price	U.S.\$25	U.S.\$25	U.S.\$25
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	03-Jul-03	30-Sep-03	08-Feb-04
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	3 July 2008 / Tax and Regulatory Call at any time / U.S.\$25	30 September 2008 / Tax and Regulatory Call at any time / U.S.\$25	18 February 2009 / Tax and Regulatory Call at any time / U.S.\$25
16	Subsequent call dates, if applicable	At any time	At any time	At any time
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	5.90 per cent.	6.25 per cent.	6.08 per cent.
19	Existence of a dividend stopper	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Convertible	Convertible	Convertible
24	If convertible, conversion triggers(s)	Substitute TPS for perpetual, non-cumulative, capital securities of the Bank following a Regulatory Event	Substitute TPS for perpetual, non-cumulative, capital securities of the Bank following a Regulatory Event	Substitute TPS for perpetual, non-cumulative, capital securities of the Bank following a Regulatory Event
		Always fully	Always fully	Always fully
25	If convertible, fully or partially	Equal to the aggregate liquidation preference of the TPS (U.S.\$25) held.	Equal to the aggregate liquidation preference of the TPS (U.S.\$25) held.	Equal to the aggregate liquidation preference of the TPS (U.S.\$25) held.
26	If convertible, conversion rate	Mandatory; and At the option of Bank	Mandatory; and At the option of Bank	Mandatory; and At the option of Bank
27	If convertible, mandatory or optional conversion	Perpetual, non-cumulative capital securities	Perpetual, non-cumulative capital securities	Perpetual, non-cumulative capital securities
28	If convertible, specify instrument type convertible into			
29	If convertible, specify issuer of instrument it converts into	ABN AMRO Bank N.V.	ABN AMRO Bank N.V.	ABN AMRO Bank N.V.
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime not expected to be available	Statutory regime not expected to be available	Statutory regime not expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Tier 2	Subordinate to Tier 2	Subordinate to Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Without Loss-Absorption Trigger	Without Loss-Absorption Trigger	Without Loss-Absorption Trigger
		Dividend Stopper	Dividend Stopper	Dividend Stopper
		No Waiver of Set-Off Rights	No Waiver of Set-Off Rights	No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Additional Tier 1	Additional Tier 1	Additional Tier 1
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US74927FAA93	XS0237530497	XS0277453774
3	Governing law(s) of the instrument	Delaware/English/New York	Delaware/English/New York	Delaware/English/New York
4	Transitional CRR rules	Additional Tier 1	Additional Tier 1	Additional Tier 1
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (specified by each jurisdiction)	Trust Preferred Securities	Trust Preferred Securities	Trust Preferred Securities
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 153m	GBP 112m	GBP 93m
9	Nominal amount of instrument	USD 1,000m	EUR 500m	GBP 400m
9a	Issue price	U.S.\$1,000	€ 1,000	U.S.\$1,000
9b	Redemption price	U.S.\$1,000	€ 1,000	U.S.\$1,000
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	24-Aug-04	12-Dec-05	08-Dec-06
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	30 September 2014 / Tax Call at any time / U.S.\$1,000	12 January 2016 / Tax Call at any time / €1,000	8 June 2017 / Tax Call at any time / U.S.\$1,000
16	Subsequent call dates, if applicable	On any distribution payment date	On any distribution payment date after first call	On any distribution payment date after first call
Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating	Fixed to Floating	Fixed to Floating
18	Coupon rate and any related index	3 month US dollar LIBOR plus 1.80 per cent.	4.243 per cent to January 2016 and thereafter 3 month EURIBOR plus 1.69 per cent.	5.6457 per cent to 8 June 2017. Thereafter 3 month sterling LIBOR plus 1.69 per cent.
19	Existence of a dividend stopper	Yes	Yes	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes	Yes	Yes
22	Non-cumulative or cumulative	Non-cumulative	Non-cumulative	Non-cumulative
23	Convertible or non-convertible	Convertible	Convertible	Convertible
24	If convertible, conversion triggers(s)	Substitute Dollar Preference Shares of Group for TPS following a Substitution Event	Substitute Euro Preference Shares of Group for TPS following a Substitution Event	Substitute Sterling Preference Shares of Group for TPS following a Substitution Event
		Always fully	Always fully	Always fully
25	If convertible, fully or partially	Equal to the aggregate liquidation preference of the TPS (U.S.\$1,000) held.	Equal to the aggregate liquidation preference of the TPS (€1,000) held.	Equal to the aggregate liquidation preference of the TPS (£1,000) held.
26	If convertible, conversion rate	Mandatory; and At the option of Group	Mandatory; and At the option of Group	Mandatory; and At the option of Group
		Non-cumulative Preference Shares	Non-cumulative Preference Shares	Non-cumulative Preference Shares
29	If convertible, specify issuer of instrument it converts into	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime not expected to be available	Statutory regime not expected to be available	Statutory regime not expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Tier 2	Subordinate to Tier 2	Subordinate to Tier 2
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Without Loss-Absorption Trigger	Without Loss-Absorption Trigger	Without Loss-Absorption Trigger
		Step-up	Step-up	Step-up
		Dividend Stopper	Dividend Stopper	Dividend Stopper
		No Waiver of Set-Off Rights	No Waiver of Set-Off Rights	No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	GB0007548026	GB0007548133	XS0164828385
3	Governing law(s) of the instrument	Scots	Scots	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 0m	GBP 1m	GBP 54m
9	Nominal amount of instrument	GBP m	GBP 1m	GBP 500m
9a	Issue price	£1:10/- per share (2)	£1	98.672 per cent
9b	Redemption price	-	-	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	02-Oct-19	01-Jan-99	14-Mar-03
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	Yes
15	Optional call date, contingent call dates and redemption amount	-	-	14 March 2016 / Tax Call at any time / 100 per cent.
16	Subsequent call dates, if applicable	-	-	Each fifth anniversary after first call
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed to Fixed
18	Coupon rate and any related index	11 per cent.	5.5 per cent	5.125 per cent. to March 2016 and thereafter five year gilt plus 1.95 per cent.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No	Yes
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible.
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	No Waiver of Set-Off Rights	No Waiver of Set-Off Rights	Step-up No Waiver of Set-Off Rights
Notes		(2) £1:10/- per share being £1, the nominal amount of the share and a 10/- premium).		

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	CA780097AR28	XS0045071932	XS0206633082
3	Governing law(s) of the instrument	English	English	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 261m	GBP 103m	GBP 35m
9	Nominal amount of instrument	CAD 700m	GBP 200m	GBP 600m
9a	Issue price	99.954 per cent	100 per cent	99.788 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	11-May-06	12-Aug-93	03-Dec-04
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	12 May 2016 / Tax Call on any Interest Payment Date after the fifth anniversary of the issue / 100 per cent.	12 August 2018 / Tax Call at any time / 100 per cent	3 December 2019 / Tax Call at any time after the fifth anniversary of the issue / 100 per cent.
16	Subsequent call dates, if applicable	Each Interest Payment Date after first call	Each fifth anniversary after first call	Each fifth anniversary after first call
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed to Floating	Fixed to Fixed	Fixed to Fixed
18	Coupon rate and any related index	5.370 per cent. to May 2016 and thereafter 3 month CAD-BA-CDOR plus 1.48 per cent	9.5 per cent. to August 2018 and thereafter higher of 9.5 percent or the five year gilt plus 2.375 per cent.	5.5 per cent. to December 2019 and thereafter the five year benchmark gilt plus 1.84 per cent.
19	Existence of a dividend stopper	Yes	No	Yes
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Fully discretionary	Partially discretionary	Fully discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes	Yes	Yes
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible.	Non-convertible.	Non-convertible.
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Step-up Dividend Stopper No Waiver of Set-Off Rights	Step-up Secured / Guaranteed No Waiver of Set-Off Rights	Step-up Dividend Stopper No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0144810529	XS0154144132	XS0138939854
3	Governing law(s) of the instrument	English	English	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 21m	GBP 20m	GBP 20m
9	Nominal amount of instrument	GBP 500m	GBP 300m	GBP 500m
9a	Issue price	99.974 per cent	100.014 per cent	99.506 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	22-Mar-02	16-Sep-02	29-Nov-01
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	22 March 2022 / Tax Call at any time / 100 per cent	16 September 2026 / Tax Call at any time / 100 per cent	07 June 2032 / Tax Call at any time / 100 per cent
16	Subsequent call dates, if applicable	Each fifth anniversary after first call	Each fifth anniversary after first call	Each fifth anniversary after first call
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed to Fixed	Fixed to Fixed	Fixed to Fixed
18	Coupon rate and any related index	5.625 per cent. to March 2022 and thereafter the five year gilt plus 2.05 per cent.	5.625 per cent. to September 2026 and thereafter the five year gilt plus 2.10 per cent.	5.625 per cent. to June 2032 and thereafter the five year gilt plus 2.41 per cent.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes	Yes	Yes
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible.	Non-convertible.	Non-convertible.
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Step-up No Waiver of Set-Off Rights	Step-up No Waiver of Set-Off Rights	Step-up No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland plc	The Royal Bank of Scotland Group plc	National Westminster Bank Plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0116447599	GB0007547507	XS0102480786
3	Governing law(s) of the instrument	English	English	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 30m	GBP 68m	GBP 8m
9	Nominal amount of instrument	GBP 175m	USD 350m	EUR 100m
9a	Issue price	99.208 per cent	100 per cent	100.00 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	31-Aug-00	11-Dec-85	05-Oct-99
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	No	Yes
15	Optional call date, contingent call dates and redemption amount	31 August 2010 / Tax Call at any time / 100 per cent	December 1990 / Tax Call on any Interest Payment Date / 100 per cent	October 2009 / Tax Call on any Interest Payment Date / 100 per cent
16	Subsequent call dates, if applicable	-	Each Interest Payment Date	Each Interest Payment Date
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed to Fixed	Floating	Floating
18	Coupon rate and any related index	4.956 per cent.	6 month US LIMEAN plus 0.25 per cent	3 month EURIBOR plus 2.15 per cent
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No	Yes
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible.	Non-convertible.	Non-convertible.
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	No Waiver of Set-Off Rights	Calls / early repayment at sole discretion of Issuer No Waiver of Set-Off Rights	Step-up
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	National Westminster Bank Plc	National Westminster Bank Plc	National Westminster Bank Plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0102480869	XS0102493680	XS0041078535
3	Governing law(s) of the instrument	English	English	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 138m	GBP 55m	GBP 35m
9	Nominal amount of instrument	EUR 400m	GBP 200m	GBP 200m
9a	Issue price	99.651 per cent	99.053 per cent	100.851 per cent
9b	Redemption price	100 per cent	100 per cent	Variable (3)
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	05-Oct-99	05-Oct-99	17-Dec-92
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	Yes	Yes	No
15	Optional call date, contingent call dates and redemption amount	5 October 2009 / Tax Call on any Interest Payment Date / 100 per cent	5 October 2022 / Tax Call at any time / 100 per cent.	18 December 2022 / Tax Call at any time / Variable (3)
16	Subsequent call dates, if applicable	Each Interest Payment Date	Each fifth anniversary after first call	At any time after 17 December 2022
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed to Floating	Fixed to Fixed	Fixed
18	Coupon rate and any related index	3 month EURIBOR plus 2.15 per cent	7.125 per cent to October 2022 and thereafter, the Five Year Gilt plus 3.08 per cent	11.5 per cent.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	Yes	Yes	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible.	Non-convertible.	Convertible
24	If convertible, conversion triggers(s)	-	-	At option of the Issuer
25	If convertible, fully or partially	-	-	Always Fully
26	If convertible, conversion rate	-	-	100 per cent
27	If convertible, mandatory or optional conversion	-	-	Optional; and At the option of the Issuer
28	If convertible, specify instrument type convertible into	-	-	Additional Tier 1. Convertible into 8.392 per cent. Non-Cumulative Preference Shares of £1 nominal value each.
29	If convertible, specify issuer of instrument it converts into	-	-	National Westminster Bank Plc
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Step-up	Step-up	Conditions for redemption No Waiver of Set-Off Rights
Notes				(3) After first call and before 17 December 2052: the higher of the principal amount or the price equal to the Benchmark Gilt having a maturity as near as possible to 17 December 2052. If on or after 17 December 2052: the principal amount of the Notes .

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	National Westminster Bank Plc	National Westminster Bank Plc	National Westminster Bank Plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	GB0006267073	GB0006267180	LU0001547172
3	Governing law(s) of the instrument	English	English	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 124m	GBP 147m	GBP 183m
9	Nominal amount of instrument	USD 500m	USD 500m	USD 500m
9a	Issue price	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	09-Jul-85	09-Jul-85	27-Nov-85
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	No
15	Optional call date, contingent call dates and redemption amount	July 1990 / Tax Call on any Interest Payment Date / 100 per cent	July 1990 / Tax Call on any Interest Payment Date / 100 per cent	November 1990 / Tax Call on any Interest Payment Date / 100 per cent
16	Subsequent call dates, if applicable	Each Interest Payment Date	Each Interest Payment Date	Each Interest Payment Date
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating	Floating	Floating
18	Coupon rate and any related index	6 month US dollar Limean plus 0.25%	6 month US dollar Limean plus 0.25%	3 month US dollar Limean plus 0.25%
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible.	Non-convertible.	Non-convertible.
24	If convertible, conversion triggers(s)	-	-	-
		-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
		-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Conditions for redemption No Waiver of Set-Off Rights	Conditions for redemption No Waiver of Set-Off Rights	Conditions for redemption No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	Ulster Bank Ireland Limited	Ulster Bank Ireland Limited	Ulster Bank Ireland Limited
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	IE0004325282	IE0004325399	IE0004325514
3	Governing law(s) of the instrument	Irish	Irish	Irish
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 1m	GBP 30m	GBP 20m
9	Nominal amount of instrument	GBP 1m	EUR 38m	GBP 20m
9a	Issue price	100 per cent	100 per cent	100 per cent
9b	Redemption price	-	-	-
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	07-Sep-98 (4)	07-Sep-98 (5)	07-Sep-98 (5)
12	Perpetual or dated	Perpetual	Perpetual	Perpetual
13	Original maturity date	No maturity	No maturity	No maturity
14	Issuer call subject to prior supervisory approval	No	No	No
15	Optional call date, contingent call dates and redemption amount	-	-	-
16	Subsequent call dates, if applicable	-	-	-
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating.	Fixed.	Fixed.
18	Coupon rate and any related index	6 month Sterling LIBOR plus 2.55 per cent	11.375 per cent.	11.75 per cent.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Partially discretionary	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Partially discretionary	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	No Waiver of Set-Off Rights	No Waiver of Set-Off Rights	No Waiver of Set-Off Rights
Notes		(4) Original PIBs issued by First National Building Society on 18/03/1994	(5) Original PIBs issued by First National Building Society on 11/05/1993	(5) Original PIBs issued by First National Building Society on 11/05/1993

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland plc	The Royal Bank of Scotland N.V.	The Royal Bank of Scotland N.V.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0201065496	XS0233906808	XS0213858243
3	Governing law(s) of the instrument	English	The Netherlands	The Netherlands
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 777m	GBP 1m	GBP 12m
9	Nominal amount of instrument	EUR 1,000m	EUR 5m	USD 1,500m
9a	Issue price	98.966 per cent	100 per cent	99.860 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	22-Sep-04	26-Oct-05	09-Mar-05
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	22-Sep-21	26-Oct-15	09-Mar-15
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	22 September 2016 / Tax Call at any time until first call, thereafter only on an Interest Payment date / 100 per cent.	26 October 2010 / Tax Call on any Interest Payment Date / 100 per cent.	9 March 2010 / Tax Call on any Interest Payment Date / 100 per cent.
16	Subsequent call dates, if applicable	Each Interest Payment Date after first call	Each Interest Payment Date	Each Interest Payment Date
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed to Floating	Floating to Floating.	Floating to Floating.
18	Coupon rate and any related index	4.625 per cent to September 2016, thereafter 3 month EURIBOR plus 1.30 per cent.	3 month EURIBOR plus 1.50 per cent.	3 month US LIBOR plus 0.70 per cent
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Yes	Yes	Yes
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible.	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Step-up	Step-up Secured / Guaranteed Enhancements of Seniority Conditions for redemption Acceleration otherwise than on liquidation No Waiver of Set-Off Rights	Step-up Secured / Guaranteed Enhancements of Seniority Conditions for Redemption Acceleration otherwise than on liquidation No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland N.V.	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0221082125	US780097AY76	US780097AZ42
3	Governing law(s) of the instrument	The Netherlands	New York	New York
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Consolidated	Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 27m	GBP 638m	GBP 1,270m
9	Nominal amount of instrument	EUR 1,500m	USD 1,000m	USD 2,000m
9a	Issue price	99.762 per cent	99.859 per cent	99.098 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	08-Jun-05	10-Jun-13	19-Dec-13
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	08-Jun-15	10-Jun-23	19-Dec-23
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	8 June 2010 / Tax Call on any Interest Payment Date / 100 per cent.	Tax and Regulatory Call at any time	Tax and Regulatory Call at any time
16	Subsequent call dates, if applicable	Each Interest Payment Date	-	-
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Floating to Floating.	Fixed	Fixed
18	Coupon rate and any related index	3 month EURIBOR plus 0.75 per cent	6.100 per cent.	6.000 per cent.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	Yes	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	See below	See below
	Write down features (statutory)	Statutory regime expected to be available	Contractual acknowledgement of statutory bail-in	Contractual acknowledgement of statutory bail-in
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	No	No
37	If yes, specify non compliant features	Step-up Secured / Guaranteed Enhancements of Seniority Conditions for Redemption Acceleration otherwise than on liquidationNo Waiver of Set-Off Rights	-	-
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland Group plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS1049037200	US780099CH81	US780097AM39
3	Governing law(s) of the instrument	English	New York	New York
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Consolidated	Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 773m	GBP 1,425m	GBP 157m
9	Nominal amount of instrument	EUR 1,000m	USD 2,250m	USD 350m
9a	Issue price	99.632 per cent	99.213 per cent	99.872 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	25-Mar-14	21-May-14	03-Jul-03
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	25-Mar-24	28-May-24	03-Jul-18
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	25 March 2019 at €1,000	Tax and Regulatory Call	Tax Call on any interest payment date
16	Subsequent call dates, if applicable	-	-	-
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed to Fixed	Fixed	Fixed
18	Coupon rate and any related index	3.625 per cent Reset to 5 year Mid-Swap +265bps on 25 March 2019 if not called.	5.125 per cent	4.70 per cent.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Partially discretionary
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Partially discretionary
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	See below	No
	Write down features (statutory)	Statutory regime expected to be available	Contractual acknowledgement of statutory bail-in	Statutory regime not expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	No	No	Yes
37	If yes, specify non compliant features	-	-	Subordination of damages
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland Group plc	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US780099CE50	XS0167127447	XS0050948958
3	Governing law(s) of the instrument	New York	English	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 1,435m	GBP 29m	GBP 21m
9	Nominal amount of instrument	USD 2,250m	EUR 750m	GBP 250m
9a	Issue price	99.923 per cent	99.866 per cent	99.97 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	04-Dec-12	22-Apr-03	22-Jun-94
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	15-Dec-22	22-Apr-15	22-Jun-15
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Tax and Regulatory Call at any time	Tax Call at any time	Tax Call at any time
16	Subsequent call dates, if applicable	-	-	-
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	6.125 per cent.	4.875 per cent.	9.625 per cent.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible.	Non-convertible.
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime not expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non compliant features	-	-	-
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	CH0022976853	CH0022976853.1	CH0024899590
3	Governing law(s) of the instrument	English	English	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 43m	GBP 11m	GBP 22m
9	Nominal amount of instrument	CHF 400m	CHF 100m	CHF 200m
9a	Issue price	101.10 per cent	98.90 per cent	97.40 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	02-Nov-05	05-Dec-05	20-Apr-06
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	02-Nov-15	02-Nov-15	02-Nov-15
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Tax Call at any time	Tax Call at any time	Tax Call at any time
16	Subsequent call dates, if applicable	-	-	-
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	2.375 per cent.	2.375 per cent.	2.375 per cent.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible.	Non-convertible.	Non-convertible.
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non compliant features	-	-	-
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0271858606	XS0157843771	XS0356705219
3	Governing law(s) of the instrument	English	English	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 243m	GBP 45m	GBP 1,012m
9	Nominal amount of instrument	EUR 750m	EUR 100m	EUR 2,000m
9a	Issue price	101.009 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	23-Oct-06	15-Nov-02	09-Apr-08
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	23-Jan-17	15-Nov-17	09-Apr-18
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Tax Call at any time	Tax Call on any Interest Payment Date	Tax and Regulatory Call at any time
16	Subsequent call dates, if applicable	-	-	-
Coupons / dividends				
17	Fixed or floating dividend/coupon	Fixed	Floating	Fixed
18	Coupon rate and any related index	4.35 per cent.	6 month EURIBOR plus 0.45 per cent	6.934 per cent.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible.	Non-convertible	Non-convertible.
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non compliant features	-	-	-
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0123062886	XS0305575572	XS0357281046
3	Governing law(s) of the instrument	English	English	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 80m	GBP 233m	GBP 112m
9	Nominal amount of instrument	USD 126m	EUR 300m	EUR 144m
9a	Issue price	100 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - fair value option	Liability - fair value option
11	Original date of issuance	18-Sep-00	14-Jun-07	23-Apr-08
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	18-Sep-20	14-Jun-22	23-Apr-23
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Tax Call on any interest payment date	Tax and Regulatory Call only on an Interest Payment Date	Tax and Regulatory Call on any Interest Payment Date
16	Subsequent call dates, if applicable	-	-	-
Coupons / dividends				
17	Fixed or floating dividend/coupon	Floating	CMS-Linked Floating	Inflation Linked
18	Coupon rate and any related index	US dollar 6 month LIBOR plus 0.50 per cent	10yr EUR CMS plus 0.01 per cent. (6)	Index Inflation Ratio plus 4 per cent (floored at 6 per cent)
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Partially discretionary	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Partially discretionary	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible.	Non-convertible.	Non-convertible.
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non compliant features	-	-	-
Notes			(6) 10yr EUR CMS means the “EURIBOR-ISDA-LIBOR Swap Rate-10:00” (the annual swap rate for euro swap transactions with a 10-year maturity, expressed as a percentage)	

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0753308559	XS0753308807	AU3CB0191294
3	Governing law(s) of the instrument	English	English	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Tier 2
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 1,361m	GBP 438m	GBP 463m
9	Nominal amount of instrument	USD 2,132m	EUR 564m	AUD 883m
9a	Issue price	99.571 per cent	99.865 per cent	99.536 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	16-Mar-12	16-Mar-12	19-Mar-12
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	16-Mar-22	16-Mar-22	19-Mar-22
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	16 March 2017 / Tax and Regulatory Call at any time / 100 per cent.	16 March 2017 / Tax and Regulatory Call at any time / 100 per cent.	19 March 2017 / Tax and Regulatory Call at any time / 100 per cent.
16	Subsequent call dates, if applicable	-	-	-
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed to Fixed	Fixed to Fixed	Fixed to Fixed
18	Coupon rate and any related index	9.500 per cent. until 16 March 2017 and thereafter the 5 Year Mid-Swap Rate plus 8.50 per cent.	10.50 per cent. until 16 March 2017 and thereafter the 5 Year Mid-Swap Rate plus 9.00 per cent.	13.125 per cent until 19 March 2017 and thereafter the 5 Year Mid-Swap Rate plus 8.75 per cent.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible.	Non-convertible.	Non-convertible.
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	No	No	No
37	If yes, specify non compliant features	-	-	-
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland plc	The Royal Bank of Scotland plc	National Westminster Bank Plc
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	CA78010XAL51	CH0180006097	XS0090254722
3	Governing law(s) of the instrument	English	English	English
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Tier 2	Tier 2	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 232m	GBP 80m	GBP 298m
9	Nominal amount of instrument	CAD 420m	CHF 124m	GBP 300m
9a	Issue price	100.00 per cent	99.758 per cent	98.578 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	16-Mar-12	16-Mar-12	07-Sep-98
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	16-Mar-22	16-Mar-22	07-Sep-21
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	16 March 2017 / Tax and Regulatory Call at any time / 100 per cent.	16 March 2017 / Tax and Regulatory Call at any time / 100 per cent.	Tax Call at any time
16	Subsequent call dates, if applicable	-	-	-
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed to Fixed	Fixed to Fixed	Fixed
18	Coupon rate and any related index	10.500 per cent. until 16 March 2017 and thereafter the 5 Year Mid-Swap Rate plus 8.75 per cent.	9.375 per cent. until 16 March 2017 and thereafter the 5 Year Mid-Swap Rate plus 9.00 per cent	6.5 per cent.
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible.	Non-convertible.	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	No	No	Yes
37	If yes, specify non compliant features	-	-	Subordination
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	National Westminster Bank Plc	The Royal Bank of Scotland N.V.	The Royal Bank of Scotland N.V.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0079432299	XS0067935253	XS0067976364
3	Governing law(s) of the instrument	English	The Netherlands	The Netherlands
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 40m	GBP 6m	GBP 2m
9	Nominal amount of instrument	GBP 300m	DEM 50m (7)	DEM 14m (7)
9a	Issue price	100.811 per cent	100 per cent	100 per cent
9b	Redemption price	100 per cent	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	09-Sep-97	15-Jul-96	18-Jul-96
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	09-Sep-15	15-Jul-16	18-Jul-16
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Tax Call at any time	Tax Call at any time	Tax Call at any time
16	Subsequent call dates, if applicable	-	-	-
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed	Fixed
18	Coupon rate and any related index	7.875 per cent	7.42 per cent	7.38 per cent
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Subordination	Secured / Guaranteed Enhancements of Seniority Conditions for Redemption Acceleration otherwise than on liquiditation No Waiver of Set-Off Rights	Secured / Guaranteed Enhancements of Seniority Conditions for Redemption Acceleration otherwise than on liquiditation No Waiver of Set-Off Rights
Notes			(7) DEM refers to Deutschmarks	(7) DEM refers to Deutschmarks

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland N.V.	The Royal Bank of Scotland N.V.	The Royal Bank of Scotland N.V.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	USN02627AR30	NL0000122505	XS0088804504
3	Governing law(s) of the instrument	New York	The Netherlands	The Netherlands
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 218m	GBP 175m	GBP 30m
9	Nominal amount of instrument	USD 500m	EUR 250m	USD 165m
9a	Issue price	99.893 per cent	101.5 per cent	100 per cent
9b	Redemption price	100 per cent	100 per cent	Accrual yield
10	Accounting classification	Liability - amortised cost	Liability - fair value option	Liability - fair value option
11	Original date of issuance	02-Jun-03	10-Jun-99	02-Jul-98
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	04-Jun-18	10-Jun-19	16-Dec-19
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Tax Call at any time	Tax Call annually on 10 June	Tax Call at any time
16	Subsequent call dates, if applicable	-	-	-
	Coupons / dividends			
17	Fixed or floating dividend/coupon	Fixed	Fixed to Floating	Variable Fixed Amount Instalment
18	Coupon rate and any related index	4.65 per cent	10 year EUR Swap rate floored at 4.70 per cent	Variable paid in Instalments
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime not expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Secured / Guaranteed Enhancements of Seniority Conditions for Redemption Acceleration otherwise than on liquiditation No Waiver of Set-Off Rights	Secured / Guaranteed Enhancements of Seniority Conditions for Redemption Acceleration otherwise than on liquiditation No Waiver of Set-Off Rights	Secured / Guaranteed Enhancements of Seniority Conditions for Redemption Acceleration otherwise than on liquiditation No Waiver of Set-Off Rights
Notes				

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland N.V.	The Royal Bank of Scotland N.V.	The Royal Bank of Scotland N.V.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	XS0093450608	XS0214553348	XS0123050956
3	Governing law(s) of the instrument	The Netherlands	The Netherlands	The Netherlands
4	Transitional CRR rules	Tier 2	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 35m	GBP 12m	GBP 131m
9	Nominal amount of instrument	USD 72m	EUR 15m	EUR 150m
9a	Issue price	71.22007953 per cent	100 per cent	97.94118 per cent
9b	Redemption price	Accrual yield	100 per cent	Outstanding Aggregate Nominal Amount
10	Accounting classification	Liability - fair value option	Liability - fair value option	Liability - fair value option
11	Original date of issuance	22-Dec-98	04-Apr-05	23-Jan-01
12	Perpetual or dated	Dated	Dated	Dated
13	Original maturity date	16-Dec-19	04-Apr-20	28-Feb-41
14	Issuer call subject to prior supervisory approval	Yes	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Tax Call at any time	Tax Call on any interest payment date	Tax Call at any time
16	Subsequent call dates, if applicable	-	-	-
Coupons / dividends				
17	Fixed or floating dividend/coupon	Variable Fixed Amount Instalment	Fixed to Floating	Variable paid in Instalments
18	Coupon rate and any related index	Variable paid in Instalments	(10yr EUR CMS*89.00) per cent. (6)	Variable paid in Instalments
19	Existence of a dividend stopper	No	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-	-
25	If convertible, fully or partially	-	-	-
26	If convertible, conversion rate	-	-	-
27	If convertible, mandatory or optional conversion	-	-	-
28	If convertible, specify instrument type convertible into	-	-	-
29	If convertible, specify issuer of instrument it converts into	-	-	-
30	Write down features (contractual)	No	No	No
	Write down features (statutory)	Statutory regime expected to be available	Statutory regime expected to be available	Statutory regime expected to be available
31	If write-down, write down trigger(s)	-	-	-
32	If write-down, full or partial	-	-	-
33	If write-down, permanent or temporary	-	-	-
34	If temporary write-down, description of write up mechanism	-	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes	Yes
37	If yes, specify non compliant features	Secured / Guaranteed Enhancements of Seniority Conditions for Redemption Acceleration otherwise than on liquiditation No Waiver of Set-Off Rights	Secured / Guaranteed Enhancements of Seniority Conditions for Redemption Acceleration otherwise than on liquiditation No Waiver of Set-Off Rights	Secured / Guaranteed Enhancements of Seniority Conditions for Redemption Acceleration otherwise than on liquiditation No Waiver of Set-Off Rights
Notes			(6) 10yr EUR CMS means the “EURIBOR-ISDA-LIBOR Swap Rate-10:00” (the annual swap rate for euro swap transactions with a 10-year maturity, expressed as a percentage)	

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

		Tier 2	Tier 2
1	Issuer	The Royal Bank of Scotland N.V.	The Royal Bank of Scotland N.V.
2	Unique identifier (eg CUSIP, ISIN or Bloomberg identifier for private placement)	US00077TAB08	US00077TAA25
3	Governing law(s) of the instrument	New York	New York
4	Transitional CRR rules	Tier 2	Tier 2
5	Post-transitional CRR rules	Ineligible	Ineligible
6	Eligible at solo/(sub-)consolidated/ solo & (sub-) consolidated	Solo & Consolidated	Solo & Consolidated
7	Instrument type (specified by each jurisdiction)	Tier 2	Tier 2
8	Amount recognised in regulatory capital (currency in million, as of most recent reporting date)	GBP 96m	GBP 87m
9	Nominal amount of instrument	USD 150m	USD 136m
9a	Issue price	99.178 per cent	99.70 per cent
9b	Redemption price	100 per cent	100 per cent
10	Accounting classification	Liability - amortised cost	Liability - amortised cost
11	Original date of issuance	20-Oct-93	27-May-93
12	Perpetual or dated	Dated	Dated
13	Original maturity date	15-Oct-93	15-May-23
14	Issuer call subject to prior supervisory approval	Yes	Yes
15	Optional call date, contingent call dates and redemption amount	Tax Call at any time	Tax Call at any time
16	Subsequent call dates, if applicable	-	-
	Coupons / dividends		
17	Fixed or floating dividend/coupon	Fixed	Fixed
18	Coupon rate and any related index	7.125 per cent.	7.75 per cent.
19	Existence of a dividend stopper	No	No
20a	Fully discretionary, partially discretionary or mandatory (in terms of timing)	Mandatory	Mandatory
20b	Fully discretionary, partially discretionary or mandatory (in terms of amount)	Mandatory	Mandatory
21	Existence of step up or other incentive to redeem	No	No
22	Non-cumulative or cumulative	Cumulative	Cumulative
23	Convertible or non-convertible	Non-convertible	Non-convertible
24	If convertible, conversion triggers(s)	-	-
25	If convertible, fully or partially	-	-
26	If convertible, conversion rate	-	-
27	If convertible, mandatory or optional conversion	-	-
28	If convertible, specify instrument type convertible into	-	-
29	If convertible, specify issuer of instrument it converts into	-	-
30	Write down features (contractual)	No	No
	Write down features (statutory)	Statutory regime not expected to be available	Statutory regime not expected to be available
31	If write-down, write down trigger(s)	-	-
32	If write-down, full or partial	-	-
33	If write-down, permanent or temporary	-	-
34	If temporary write-down, description of write up mechanism	-	-
35	Position in subordination heirarchy in liquidiation (specify instrument type immediately senior to instrument)	Subordinate to Senior Creditors	Subordinate to Senior Creditors
36	Non-compliant transitioned features	Yes	Yes
37	If yes, specify non compliant features	Secured / Guaranteed Enhancements of Seniority Acceleration otherwise than on liquiditation No Waiver of Set-Off Rights	Secured / Guaranteed Enhancements of Seniority Acceleration otherwise than on liquiditation No Waiver of Set-Off Rights
Notes			

Amounts reported for Additional Tier 1 and Tier 2 instruments are before grandfathering restrictions imposed by CRR.

Appendix 3 – Asset encumbrance

Encumbered and unencumbered assets at 31 December 2014, based on the requirements in Part Eight of CRR and related Guideline issued by the European Banking Authority (EBA) in June 2014, is set out below.

EBA asset encumbrance

Assets	Carrying amount of encumbered assets £m	Fair value of encumbered assets £m	Carrying amount of unencumbered assets £m	Fair value of unencumbered assets £m
2014				
Loans on demand	2,519	—	85,091	—
Equity instruments	2,883	2,883	2,816	2,816
Debt securities	32,621	32,614	54,996	54,943
Loans and advances other than loans on demand	54,627	—	364,396	—
Other assets	17,433	—	440,979	—
Assets of the reporting institution	110,083		948,278	

Collateral received	Fair value of encumbered collateral received or own debt securities issued £m	Unencumbered	
		Fair value of collateral received or own debt securities issued available for encumbrance £m	Nominal amount of collateral received or own debt securities issued not available for encumbrance £m
2014			
Equity instruments	4,901	—	—
Debt securities	90,703	4,180	—
Collateral received by the reporting institution	95,604	4,180	—

Sources of encumbrance	Matching liabilities, contingent liabilities or securities lent £m	Assets, collateral received and own debt securities issued other than covered bonds and asset-backed securities encumbered £m
2014		
Derivatives	48,363	48,363
Deposits	63,795	66,155
Debt securities issued	12,688	20,029
Carrying amount of selected financial liabilities	124,846	134,547
Other sources of encumbrance	64,280	71,141

RBS's primary funding source is its customer deposit base, primarily built through its retail and commercial franchises in the UK, Ireland and the US. These deposits form a stable base which fully funds RBS's customer lending activities. However, RBS does provide securities financing transactions and collateralised borrowing in CIB and these result in off-balance sheet encumbrance. Other sources of encumbrance are securities pledged in derivatives transactions, covered bond programme in the UK.

Appendix 4 – CRR roadmap

For tables included in this roadmap, also refer to related key points.

CRR ref	High-level summary	Compliance reference
Scope of disclosure requirements		
431 (1)	Requirement to publish Pillar 3 disclosures.	RBS publishes Pillar 3 disclosures.
431 (2)	Firms with permission to use specific operational risk methodologies must disclose operational risk information.	2014 ARA on pages 188-190.
431 (3)	Institution must have a policy covering frequency of disclosures. Their verification, comprehensiveness and appropriateness.	RBS has a Pillar 3 policy.
431 (4)	Explanation of ratings decision upon request.	2014 ARA pages 18-19; 54
Non-material, proprietary or confidential information		
432 (1)	Institutions may omit information that is not material if certain conditions are respected.	RBS complies with all relevant disclosure requirements.
432 (2)	Institutions may omit information that is proprietary or confidential if certain conditions are respected.	RBS does not omit any information on the grounds that it may be proprietary or confidential.
432 (3)	Where 432 (1) and (2) apply this must be stated in the disclosures, and more general information must be disclosed.	Not applicable
432 (4)	Use of 432 (1) or (2) is without prejudice to scope of liability for failure to disclose material information.	Not applicable
Frequency of disclosure		
433	Disclosures must be published once a year at a minimum, and more frequently if necessary.	Required disclosures are published annually at a minimum. Disclosures are published as follows: Capital and leverage disclosures quarterly in interim management statements (IMs); credit and market risk disclosures semi-annually in IMs and ARA; regulatory credit risk, securitisation and asset encumbrance disclosures annually in Pillar 3 report; country-by-country information annually in Sustainability report; operational risk and remuneration disclosures annually in the ARA.
Means of disclosures		
434 (1)	To include of disclosures in one appropriate medium, or provide clear cross-references.	Most disclosures are contained in the ARA with cross references and additional regulatory credit risk securitisation and asset encumbrance disclosures in this report. Signposting directs the reader to other publications where appropriate.
434 (2)	Disclosures made under other requirements (e.g. accounting) can be used to satisfy Pillar 3 if appropriate.	This reference guide sets out cross references as does Basis of disclosure.
Risk management objectives and policies		
435 (1)	Disclose information on	
435 (1) (a)	the strategies and processes to manage those risks	2014 ARA page 65-68; 170-175; 181-183. Conduct, operational, regulatory and reputational risk: 2014 ARA pages 185-186; 188-189; 192 Credit risk: pages 19-20 and 2014 ARA pages 233-236; 242-245; 258-259 Market risk: 2014 ARA pages 303-312 Counterparty credit risk: pages 59; 62-63 and 2014 ARA page 257
435 (1) (b)	structure and organisation of risk management function	2014 ARA 177-179
435 (1) (c)	risk reporting and measurement systems	See risk sections covered above under 435 (1) (a)
435 (1) (d)	hedging and mitigating risk - policies and processes	2014 ARA pages 189; 201; 236; 243; 258; 325; 331; 334
435 (1) (e)	adequacy of risk management arrangements.	Report of the Board Risk Committee in 2014 ARA pages 62-68.
435 (1) (f)	concise risk statement approved by the Board.	As for 435 (1) (e)
435 (2)	Information on governance arrangements, including information on Board composition and recruitment, and risk committees.	Governance report in 2014 ARA pages 43-72. Also refer to the Compliance with CRD IV document on the RBS website: rbs.com/about/corporate-governance .
435 (2) (a)	Number of directorships held by directors.	2014 ARA pages 46-49
435 (2) (b)	Recruitment policy of the Board, their experience and expertise.	2014 ARA pages 50-54
435 (2) (c)	Policy on diversity of Board membership and results against targets.	ARA 2014 pages 55-56
435 (2) (d)	Disclosure of whether a dedicated risk committee is in place, and number of meeting in the year.	2014 ARA pages 62-64
435 (2) (e)	Description of information flow risk to Board.	2014 page 177

Appendix 4 – CRR roadmap

CRR ref	High-level summary	Compliance reference
<i>Scope of application</i>		
436 (a)	Name of institution.	Page 5
436 (b)	Difference in basis of consolidation for accounting and prudential purposes, naming entities that are:	
436 (b) (i)	Fully consolidated;	Pages 5-6; Chart 2
436 (b) (ii)	Proportionally consolidated;	
436 (b) (iii)	Deducted from own funds;	
436 (b) (iv)	Neither consolidated nor deducted.	
436 (c)	Impediments to transfer of funds between parent and subsidiaries.	There are no such impediments. Refer to page 7
436 (d)	Capital shortfalls in any subsidiaries outside of scope of consolidation.	Entities outside the scope of consolidation are appropriately capitalised.
436 (e)	Making use of articles on derogations from a) prudential requirements or b) liquidity requirements for individual subsidiaries/entities.	RBS makes use of these provisions according to its waiver from the PRA.
<i>Own funds</i>		
437 (1)	Requirements regarding capital resources table.	Table 1: RBS capital and leverage ratios Table 2: RBS and significant subsidiaries capital ratios Table 9: RBS capital resources Appendix 1: RBS and significant subsidiaries transitional own funds Table 10: Capital instruments Appendix 2: main features of instruments included in RBS transitional capital resources RBS follows the implementation standards
437 (2)	EBA to publish implementation standards for points above	
<i>Capital requirements</i>		
438 (a)	Summary of institution's approach to assessing adequacy of capital levels.	Discussions of capital calculations are contained in each risk type management section (credit, market and operational), and for significant subsidiaries General discussion on capital planning is on page 203 in 2014 ARA. RBS has not received this request from its regulator. For ICAAP 2014 ARA Page 202.
438 (b)	Result of ICAAP on demand from authorities.	Table 6
438 (c)	Capital requirement amounts for credit risk for each Standardised approach exposure class.	Various other tables contain capital requirements throughout the report.
438 (d)	Capital requirements amounts for credit risk for each Internal Ratings Based Approach exposure class.	Table 5 and various other tables throughout the document.
438 (e)	Capital requirements amounts for market risk or settlement risk, or large exposures where they exceed limits.	Capital requirements for market risk are disclosed in Table 8.
438 (f)	Capital requirement amounts for operational risk, separately for the basic indicator approach, the Standardised approach, and the advanced measurement approaches as applicable.	RBS uses standardised approach. Table 4 includes operational risk capital requirements.
438 (endnote)	Requirement to disclose specialised lending exposures and equity exposures in the banking book falling under the simple risk weight approach.	Corporate exposures subject to the slotting approach: Table 27. Equity exposures under the Simple approach: Table 30

Appendix 4 – CRR roadmap

CRR ref	High-level summary	Compliance reference
Exposure to counterparty credit risk (CCR)		
439 (a)	Description of process to assign internal capital and credit limits to CCR exposures.	Pages 59-63
439 (b)	Discussion of process to secure collateral and establishing reserves.	Page 63
439 (c)	Discussion of management of wrong-way exposures.	Page 63
439 (d)	Disclosure of collateral to be provided (outflows) in the event of a ratings downgrade.	Page 63 & 2014 ARA page 490
439 (e)	Derivation of net derivative credit exposure.	Table 36
439 (f)	Exposure values for mark-to-market, original exposure, standardised and internal model methods.	Table 36
439 (g)	Notional value of credit derivative hedges and current credit exposure by type of exposure.	Tables 37 and 39
439 (h)	Notional amounts of credit derivative transactions for own credit, intermediation, bought and sold, by product type.	Table 39
439 (i)	Estimate of alpha, if applicable.	The alpha used by RBS is 1.4. Refer to page 59.
Capital buffers		
440 (1) (a)	Geographical distribution of relevant credit exposures.	The capital buffer is not in force as at the time of publication. Table 13 shows RWAs associated with each geographical region. Table 17 shows non counterparty credit risk exposures by approach and exposure class by geographical region.
440 (1) (b)	Amount of the institution specific countercyclical capital buffer.	RBS and its significant subsidiaries will comply with the standards once applicable.
440 (2)	EBA will issue technical implementation standards related to 440 (1).	
Indicators of global systemic importance		
441 (1)	Disclosure of the indicators of global systemic importance.	2014 ARA page 196.
441 (2)	EBA will issue technical implementation standards related to 441 (1).	RBS will comply with the standards once applicable.
Credit risk adjustments		
442 (a)	Disclosure of bank's definitions of past due and impaired.	Impairment on page 234 of the 2014 ARA; past due defined in glossary 2014 ARA page 509. Information regarding Significant subsidiaries is included below where different from RBS.
442 (b)	Approaches for calculating credit risk adjustments.	Page 56 and 2014 ARA pages 234-236; 245; 259
442 (c)	Disclosure of pre-CRM EAD by exposure class.	Refer to points 442 (d), (e), (f) below which break down this total.
442 (d)	Disclosures of pre-CRM EAD by geography and exposure class.	Table 17
442 (e)	Disclosures of pre-CRM EAD by industry and exposure class.	Table 16
442 (f)	Disclosures of pre-CRM EAD by residual maturity and exposure class.	Table 18
442 (g)	Breakdown of impaired, past due, specific and general credit adjustments, and impairment charges for the period, by exposure class or counterparty type.	Table 40: past due and impaired exposures and, provisions by industry sector for RBS and significant subsidiaries.
442 (g) (i)		
442 (g) (ii)		
442 (g) (iii)		
442 (h)	Impaired, past due exposures, by geographical area, and amounts of specific and general impairment for each geography.	Table 41
442 (i)	Reconciliation of changes in specific and general credit risk adjustments.	2014 ARA page 294: impairment provisions flow statement
442 (i) (i)		
442 (i) (ii)		
442 (i) (iii)		
442 (i) (iv)		
442 (i) (v)		
442 (endnote)	Specific credit risk adjustments recorded to income statement are disclosed separately.	2014 ARA page 296: impairment charge analysis

Appendix 4 – CRR roadmap

CRR ref	High-level summary	Compliance reference
Unencumbered assets		
443	Disclosures on unencumbered assets.	Appendix 3
Use of ECAs		
444 (a)	Names of the ECAs used in the calculation of Standardised approach RWAs, and reasons for any changes.	Page 55
444 (b)	Exposure classes associated with each ECAI.	Table 32
444 (c)	Process for translating external ratings into credit quality steps.	Pages 42; 55
444 (d)	Mapping of external rating to credit quality steps.	Table 31
444 (e)	Exposure value pre and post-credit risk mitigation, by CQS.	Table 32
Exposure to market risk		
445	Disclosure of position risk, large exposures exceeding limits, FX, settlement and commodities risk.	Market risk minimum capital requirements: Table 8. 2014 ARA pages 306; 322
Operational risk		
446	Scope of approaches used to calculate operational risk.	Page 4: RBS uses standardised approach
Exposure in equities not included in the trading book		
		Table 16: EAD pre CRM for equities; page 36 for RWAs and minimum capital requirements.
Exposure to interest rate risk on positions not included in the trading book		
		2014 ARA page 317-318
Exposure to securitisation positions		
449	Exposure to securitisations positions.	
449 (a)	Objectives in relation to securitisation activity.	Page 67
449 (b)	Nature of other risks in securitised assets, including liquidity.	Page 68-69
449 (c)	Risks in re-securitisation activity stemming from seniority of underlying securitisations and ultimate underlying assets.	Page 68-70
449 (d)	The roles played by institutions in the securitisation process.	Page 67-68
449 (e)	Indication of the extent of involvement in these roles.	Table 46
449 (f)	Processes in place to monitor changes in credit and market risks of securitisation exposures, and how the processes differ for re-securitisation exposures.	Page 68-69
449 (g)	Description of the institution's policies with respect to hedging and unfunded protection, and identification of material hedge counterparties.	Page 69
449 (h)	Approaches to calculation of RWA for securitisations mapped to types of exposures.	Page 70
449 (i)	Types of SSPEs used to securitise third-party exposures, and list of SSPEs.	Page 71
449 (j)	Summary of accounting policies for securitisations:	Page 70-71
449 (k)	Names of ECAs used for securitisations.	Page 70
449 (l)	Full description of Internal Assessment Approach.	Page 70
449 (m)	Explanation of changes in quantitative disclosures.	Refer to key points for tables 43-49.
449 (n)	Banking and trading book securitisation exposures:	
449 (n) (i)	Amount of outstanding exposures securitised;	Table 49
449 (n) (ii)	On balance sheet securitisation retained or purchased, and off-balance sheet exposures;	Table 46
449 (n) (iii)	Amount of assets awaiting securitisation;	Page 71
449 (n) (iv)	Early amortisation treatment; aggregate drawn exposures, capital requirements;	Table 44
449 (n) (v)	Deducted or 1,250%-weighted securitisation positions;	Table 44 & 45
449 (n) (vi)	Amount of exposures securitised and recognised gains or losses on sales.	Table 48
449 (o)	Banking and trading book securitisations by risk band:	
449 (o) (i)	Retained and purchased exposure and associated capital requirements, broken down by risk-weight bands;	Table 44
449 (o) (ii)	Retained and purchased re-securitisation exposures before and after hedging and insurance; exposure to financial guarantors broken down by guarantor credit worthiness.	Table 44 and 45; 2014 ARA page 283, 287
449 (p)	Impaired assets and recognised losses related to banking book securitisations, by exposure type.	Table 49
449 (q)	Exposure and capital requirements for trading book securitisations, separately into traditional.	Table 47
449 (r)	Whether the institution has provided non-contractual financial support to securitisation vehicles.	Page 71

Appendix 4 – CRR roadmap

CRR ref	High-level summary	Compliance reference
Remuneration disclosures		
450	Remuneration	Directors' remuneration report and Other remuneration disclosures in 2014 ARA pages 73-93; covers all parts of RBS, including significant subsidiaries. Also, refer to Compliance with CRD IV and Directors' Remuneration Policy documents on the RBS website: rbs.com/about/board-and-governance.html
Leverage		
451 (1) (a)	Leverage ratio, and breakdown of total exposure measure,	Table 1 and 2014 ARA 209-210
451 (1) (b)	including reconciliation to financial statements, and	2014 ARA 209-210
451 (1) (c)	derecognised fiduciary items.	Not applicable
451 (1) (d)	Description of the risk management approach to mitigate	2014 ARA pages 2-4, 171, 196
451 (1) (e)	excessive leverage, and factors that impacted the leverage ratio during the year.	
451 (2)	EBA to publish implementation standards for points above.	RBS follows the implementation standards.
Use of the IRB approach to credit risk		
452 (a)	Permission for use of the IRB approach from authority.	Page 19
452 (b)	Explanation of:	
452 (b) (i)	Internal rating scales, mapped to external ratings;	Table 22
452 (b) (ii)	Use of internal ratings for purposes other than capital requirement calculations;	2014 ARA page 235; 245; 259
452 (b) (iii)	Management and recognition of credit risk mitigation;	Pages 40-41
452 (b) (iv)	Controls around ratings systems.	
452 (c)	Ratings processes for each IRB asset class.	Pages 19-20 and key points
452 (d)	Exposure values by IRB exposure class, separately for Advanced and Foundation IRB.	Table 14, also shown throughout the report
452 (e)-(h)	For each exposure class, disclosed separately by obligor grade:	Tables 23-29 and key points
452 (e)-(f)	Total exposure, separating loans and undrawn exposures where applicable, and exposure-weighted average risk weight.	Table 23-29 and key points
452 (g)	Actual specific risk adjustments for the period and explanation of changes.	Table 33
452 (h)	Commentary on drivers of losses in preceding period.	Table 34 and key points
452 (i)	Predicted against actual losses for sufficient period, and historical analysis to help assess the performance of the rating system over a sufficient period.	Table 35 and key points
452 (j)	For all IRB exposure classes:	Tables 33-35 and key points
452 (j) (i)	Where applicable, PD and LGD by each country where the	Table 17 by geographical region
452 (j) (ii)	bank operates.	
Use of credit risk mitigation techniques		
453 (a)	Use of on and off-balance sheet netting.	2014 ARA page 275
453 (b)	How collateral valuation is managed.	2014 ARA page 236
453 (c)	Description of types of collateral used by RBS.	2014 ARA page 243; 254-255; 258; 261
453 (d)	Guarantor and credit derivative counterparty, creditworthiness.	2014 ARA page 236; 243
453 (e)	Market or credit risk concentrations within risk mitigation exposures.	2014 ARA page 242; 246-247; 275-278
453 (f)	Standardised or Foundation IRB approach, exposure value covered by eligible collateral.	Table 21
453 (g)	Exposures covered by guarantees or credit derivatives.	Table 20; Table 21

Appendix 4 – CRR roadmap

CRR ref	High-level summary	Compliance reference
	Use of the Advanced Measurement Approaches to operational risk (454)	Not applicable as standardised approach
	Use of internal market risk models	All in 2014 ARA
455 (a) (i)	Characteristics of the market risk models.	Pages 304-305; 307; 309
455 (a) (ii)	Methodology for all-price risk measure and incremental risk charge.	Page 312
455 (a) (iii)	Descriptions of stress tests applied to the portfolios.	Page 310
455 (a) (iv)	Methodology for back-testing and validating the models.	Pages 307; 315-316
455 (b)	Scope of permission for use of the models.	Page 311
455 (c)	Policies and processes to determine trading book classification, and to comply with prudential valuation requirements.	Pages 299; 301-302; 303-304; 315
455 (d)	High/Low/Mean values over the year of VaR, SVaR, all-price risk measure and incremental risk charge.	Pages 306, 313
455 (e)	The elements of the own fund calculation.	Page 313
455 (f)	Weighted average liquidity horizons of portfolios covered by models.	Page 312
455 (g)	Comparison of end-of-day VaR measures compared with one-day changes in portfolio's value.	Page 307-308

Glossary

Acronyms

ABCP	Asset-backed commercial paper	IPRE	Income-producing real estate
ABS	Asset-backed securities	IRB	Internal ratings based
AFS	Available-for-sale	LGD	Loss given default
ARA	Annual Report and Accounts	LIBOR	London Interbank Offered Rate
AQ	Asset quality	MBS	Mortgage-backed securities
AVC	Asset value correlation	MTM	mark-to-market
BBSW	Bank Bill Swap Reference Rate (Australia)	NTIRR	Non-traded interest rate risk
CCF	Credit conversion factor	OTC	Over-the-counter
CDOR	Canadian Dollar Offered Rate	PBB	Personal & Business Banking
CEM	Counterparty exposure management	PD	Probability of default
CFG	Citizens Financial Group	PFE	Potential future exposure
CIB	Corporate & Institutional Banking	PIT	Point-in-time
CPB	Commercial & Private Banking	PRA	Prudential Regulation Authority
CQS	Credit quality steps	RAR	Risk asset ratio
CRD	Capital Requirements Directive	RBA	Ratings based approach
CRM	Credit risk mitigation	RBS	The Royal Bank of Scotland Group plc and its subsidiaries
CRR	Capital Requirement Regulation	RBSSI	RBS Securities Inc.
CVA	Credit valuation adjustment	RCR	RBS Capital Resolution
EAD	Exposure at default	RMBS	Residential mortgage-backed securities
EBA	European Banking Authority	RoW	Rest of the World
ECAI	External Credit Assessment Institution	RWAs	Risk-weighted assets
EPE	Expected positive exposure	S&P	Standard and Poor
EU	European Union	SFTs	Securities financing transactions
EURIBOR	Euro Interbank Offered Rate	SMEs	Small and medium-sized enterprises
FI	Financial institution	SSPE	Securitisation special purpose entity
IAA	Internal assessment approach	STD	Standardised
IAS	International Accounting Standard	SVAR	Stressed value-at-risk
ICAAP	Internal capital adequacy assessment process	TMT	Telecommunications, media, technology
IFRS	International Financial Reporting Standard	TTC	Through-the-cycle
IMM	Internal model method	VaR	Value-at-risk
IMS	Interim management statement		

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Key terms

Also refer to pages 505 to 511 of the 2014 ARA.

Alpha - in the context of regulatory capital for counterparty risk, under the internal model method, alpha is a multiplier applied to the effective expected positive exposure (EPE) to determine the exposure at default. Alpha may be set using an own estimate with a floor of 1.2. It accounts for the extra capital needed for derivatives, compared to loans with the same EPE, to reflect the additional risks.

Asset-backed commercial paper (ABCP) - a form of asset-backed security generally issued by a commercial paper conduit.

Asset quality (AQ) band - probability of default banding for all counterparties on a scale of 1 to 10.

Basel II - the capital adequacy framework issued by the Basel Committee on Banking Supervision in June 2006 in the form of the 'International Convergence of Capital Measurement and Capital Standards'.

Basel III - in December 2010, the Basel Committee on Banking Supervision issued final rules: 'Basel III: A global regulatory framework for more resilient banks and banking systems' and 'Basel III: International framework for liquidity risk measurement, standards and monitoring'. This came into effect on 1 January 2014.

Central counterparty (CCP) default fund - a mechanism that allows the sharing (mutualisation) of losses among the central counterparty's clearing members. It is used where the losses incurred by the CCP following the default of a clearing member are greater than the margins and default fund contributions provided by that clearing member and any other defence the CCP may use before recurring to the default fund contributions of the remaining clearing members. In view of this, the risk of loss associated with exposures from default fund contributions is higher than that associated with trade exposures. Therefore, this type of exposures should be subject to a higher own funds requirement.

Commercial paper conduit - a structured entity that issues commercial paper and uses the proceeds to purchase or fund a pool of assets. The commercial paper is secured on the assets and is redeemed either by further commercial paper issuance, repayment of assets or liquidity drawings.

Common Equity Tier 1 capital - the highest quality form of regulatory capital under Basel III comprising common shares issued and related share premium, retained earnings and other reserves excluding the cash flow hedging reserve, less specified regulatory adjustments.

Core Tier 1 capital - called-up share capital and eligible reserves plus equity non-controlling interests, less intangible assets and other regulatory deductions, under the Basel II regime.

Counterparty credit risk - the risk that a counterparty defaults before the maturity of a derivative or securities financing transaction. In contrast to non-counterparty credit risk, the exposure to counterparty credit risk varies by reference to a market factor (e.g. interest rate, exchange rate, asset price).

CRD IV - the European Union has implemented the Basel III capital proposals through the Capital Requirements Regulation and the Capital Requirements Directive (CRD), collectively known as CRD IV. CRD IV was implemented on 1 January 2014. Some of the European Banking Authority's technical standards are still to be finalised through adoption by the European Commission and implemented within the UK.

Credit conversion factor (CCF) - the CCF is an estimate of the proportion of undrawn commitments that will be drawn at the point of default. It is used in determining EAD and reflects the assumption that drawn balance at default might be greater than the current balance.

Credit default swap - a contract where the protection seller receives premium or interest-related payments in return for contracting to make payments to the protection buyer upon a defined credit event in relation to a reference financial asset or portfolio of financial assets. Credit events usually include bankruptcy, payment default and rating downgrades.

Credit grade - a rating that represents an assessment of the creditworthiness of a customer. It is a point on a scale representing the probability of default of a customer.

Credit quality step (CQS) - a grade on the PRA credit quality assessment scale based on the credit ratings of external credit assessment institutions. It is used to assign risk weights under the standardised approach to credit risk.

Credit risk - the risk of financial loss due to the failure of a customer, or counterparty, to meet its obligation to settle outstanding amounts.

Credit risk mitigation (CRM) - reducing the credit risk of an exposure by application of techniques such as netting, collateral, guarantees and credit derivatives.

Credit spread - the credit spread is the yield spread between securities with the same currency and maturity structure but with different associated credit risks, with the yield spread rising as the credit rating worsens. It is the premium over the benchmark or risk-free rate required by the market to take on a lower credit quality.

Credit valuation adjustment (CVA) - the CVA is the difference between the risk-free value of a portfolio of trades and its market value, taking into account the counterparty's risk of default. It represents the market value of counterparty credit risk, or an estimate of the adjustment to fair value that a market participant would make to reflect the creditworthiness of its counterparty.

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Effective expected positive exposure (effective EPE) - effective EPE is a measure used to determine EAD for OTC derivatives under the internal model method. It is calculated as the weighted average of non-decreasing expected positive exposures. The weight of each exposure is calculated as a percentage of total expected exposure over the relevant period. When calculating the minimum capital requirement, the average is taken over the first year.

Expected loss - expected loss represents the anticipated loss on an exposure over one year. It is determined by multiplying probability of default, loss given default and exposure at default and can be calculated at individual, credit facility, customer or portfolio level.

Exposure - a claim, contingent claim or position which carries a risk of financial loss.

Exposure at default (EAD) - an estimate of the extent to which the bank will be exposed under a specific facility, in the event of the default of a counterparty.

Exposure class - exposures are assigned to classes defined under CRR, namely article 147 for the advanced IRB approach and article 112 for the standardised approach. This classification is required by the regulatory framework when calculating the capital requirements of banks.

Fair value - the amount for which an asset could be exchanged or a liability settled, between knowledgeable and willing parties in an arm's length transaction.

Guarantees - an agreement by a third party to cover the potential loss to RBS should a specified counterparty default on its commitments.

Haircut - a downward adjustment to collateral value to reflect its nature, any currency or maturity mismatches between a credit risk mitigant and the underlying exposure to which it is being applied.

Income-producing real estate - comprises real estate exposures that meet the following CRR (or regulatory) criteria for specialised lending exposures: (i) the exposure is to an entity that was created specifically to finance and/or operate physical assets; (ii) the contractual arrangements give the lender a substantial degree of control over the assets and the income that they generate; and (iii) the primary source of repayment of the obligation is the income generated by the assets being financed, rather than the independent capacity of a broader commercial enterprise. It therefore constitutes a sub-set of RBS's overall exposure to commercial real estate.

Interest rate risk - the adverse impact on the value or interest income of a financial asset arising from changes in interest rates.

Internal Capital Adequacy Assessment Process (ICAAP) - RBS's own assessment, as part of CRR requirements, of its risks, how it intends to mitigate those risks and how much current and future capital is necessary having considered other mitigating factors.

Internal model method (IMM) - in the context of counterparty credit risk, the IMM is the most risk-sensitive and sophisticated approach to calculating EAD out of the three methods available under CRR. Under the IMM firms may use their internal model which should be aligned to the firm's internal risk management practices. EAD is calculated as the product of alpha and EPE.

Internal ratings based approach (IRB) - a method of estimating the amount of credit risk taken by a bank. Under IRB a bank may use internal estimates to generate risk components for use in the calculation of its credit risk regulatory capital requirements. There are two approaches: foundation and advanced (including retail).

Latent loss provisions - loan impairment provisions held against impairments in the performing loan portfolio that have been incurred as a result of events occurring before the balance sheet date but which have not been identified as impaired at the balance sheet date.

Loss given default (LGD) - an estimate of the amount that will not be recovered by RBS in the event of default, plus the cost of debt collection activities and the delay in cash recovery.

Margin period of risk - The time period from the last exchange of collateral covering a netting set of transactions with a defaulting counterparty until that counterparty is closed out and the resulting market risk is re-hedged.

Market risk - the risk of loss arising from fluctuations in interest rates, credit spreads, foreign currency rates, equity prices, commodity prices and other risk-related factors such as market volatilities that may lead to a reduction in earnings, economic value or both.

Mark-to-market (mtm) - the adjustment in the value of an asset or liability to reflect any change in market prices.

Mark-to-market method - in the context of counterparty credit risk, the mtm method is the simplest of three methods used to determine exposure values. The exposure value is calculated as the mtm value plus the potential future exposure (PFE) value, where the PFE is a percentage of the notional value of the contract. The percentage to be applied varies by product and maturity.

Minimum capital requirements - the minimum amount of regulatory capital that a financial institution must hold to meet the Pillar 1 requirements for credit, market and operational risk.

Monoline insurers (monolines) - entities that specialise in providing credit protection against the notional and interest cash flows due to the holders of debt instruments in the event of default. This protection is typically in the form of derivatives such as credit default swaps.

Netting - the process by which the value of assets taken from a given counterparty is offset by the value of assets given to the same counterparty, thereby reducing the exposure of one party to the other to the difference between the two.

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Non-trading book - positions, exposures, assets and liabilities that are not in the trading book. It is also referred to as “banking book”.

Operational risk - the risk of loss resulting from inadequate or failed processes, people, systems or from external events.

Over-the-counter (OTC) derivatives - derivatives with tailored terms and conditions negotiated bilaterally, in contrast to exchange traded derivatives which have standardised terms and conditions.

Pillar 1 - the part of Basel III that sets out the process by which regulatory capital requirements should be calculated for credit, market and operational risk

Pillar 2 - the part of Basel III that sets out the process by which a bank should review its overall capital adequacy and the processes under which the supervisors evaluate how well financial institutions are assessing their risks and take appropriate actions in response to the assessments.

Pillar 3 - the part of Basel III that sets out the information banks must disclose about their risks, the amount of capital required to absorb them, and their approach to risk management. The aim is to strengthen market discipline.

Point-in-time (PIT) - an assessment of PD or a rating system based on a view of a counterparty's current rather than future financial situation given economic conditions. This differs from a through-the-cycle approach, which considers performance over the duration of an economic cycle.

Position risk requirement - a capital requirement applied to a position treated under Part Three, Title 1, Chapter 3 (Market risk) as part of the calculation of the market risk capital requirement.

Probability of default (PD) - the likelihood that a customer will fail to make full and timely repayment of credit obligations over a one year time horizon.

Prudential Regulation Authority (PRA) - the statutory body responsible, from 1 April 2013, for the prudential supervision of banks, building societies, insurers and a small number of significant investment firms in the UK. The PRA is a subsidiary of the Bank of England.

Repo - refer to sale and repurchase agreements.

Re-securitisations - securitisations in which the underlying pools of assets are themselves bonds issued by securitisation SPEs.

Residential mortgage-backed securities (RMBS) - asset-backed securities for which the underlying asset portfolios are residential mortgages.

Residual maturity - the remaining time in years that a borrower is permitted to take to fully discharge its contractual obligation (principal, interest and fees) under the terms of a loan agreement.

Reverse repurchase agreement (reverse repo) - repurchase agreements are short-term funding arrangements that allow counterparties to use financial securities as collateral for interest-bearing cash loans. The borrower agrees to sell a security to the lender subject to a commitment to repurchase the same security at an agreed date and price; usually the original sale price plus an amount representing interest for the period. Refer to sale and repurchase agreements.

Risk-weighted assets (RWAs) - assets adjusted for their associated risks using weightings established in accordance with the Basel Capital Accord as implemented by the PRA. Certain assets are not weighted but deducted from capital.

Sale and repurchase agreements - in a sale and repurchase agreement one party, the seller, sells a financial asset to another party, the buyer, at the same time the seller agrees to reacquire and the buyer to resell it at a later date. From the seller's perspective such agreements are repurchase agreements (repos) and from the buyer's reverse repurchase agreements (reverse repos).

Securitisation - a process by which assets or cash flows are transformed into transferable securities. The underlying assets or cash flows are transferred by the originator or an intermediary, typically an investment bank, to a structured entity which issues securities to investors. Asset securitisations involve issuing debt securities (asset-backed securities) that are backed by the cash flows of income generating assets (ranging from credit card receivables to residential mortgage loans).

Securitisation position - refers to any exposures RBS may have to a securitisation. These include not only the securities issued by a securitisation SPE, but also loans, liquidity facilities and derivatives transacted with a securitisation SPE.

Securitisation special purpose entity (SSPE) - an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. SSPEs are usually established for a specific, limited purpose, they do not carry out a business or trade and typically have no employees. They take a variety of legal forms - trusts, partnerships and companies - and fulfil many different functions.

Securitized exposure - an asset, or a pool of assets, that has been securitised, either via a traditional securitisation or a synthetic securitisation. See traditional securitisation and synthetic securitisation below.

Standard industrial classification - a classification of businesses by type or economic activity. It is applied by international government agencies to provide a framework for the collection, tabulation, presentation and analysis of data related to industry sectors, and its use promotes uniformity.

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Standardised (STD) approach - a method used to calculate credit risk capital requirements under Pillar 1 of Basel III. In this approach the risk-weights used in the capital calculation are determined by regulators. For operational risk, capital requirements are determined by multiplying three years' historical gross income by a percentage determined by the regulator. The percentage ranges from 12% to 18%, depending on the type of underlying business being considered.

Stress testing - a technique used to evaluate the potential effects on an institution's financial condition of an exceptional but plausible event and/or movement in a set of financial variables.

Stressed value-at-risk - a VaR measure using historical data from a one year period of stressed market conditions. For the purposes of calculating regulatory stressed VaR, a time horizon of ten trading days is assumed at a confidence level of 99% (Refer to VaR definition below).

Supervisory slotting approach - a method of calculating regulatory capital, specifically for lending exposures in project finance and income-producing real estate, where the PD estimates do not meet the minimum IRB standards. Under this approach, the bank classifies exposures from 1 to 5, where 1 is Strong and 5 is Default. Specific risk-weights are assigned to the classifications in line with CRR article 153(5).

Synthetic securitisation - a securitisation process in which, the originating bank retains legal ownership of a pool of assets, but transfers the associated credit risk to an SSPE through the use of credit-linked notes or credit derivatives.

Tier 1 capital - Core Tier 1 capital plus other Tier 1 securities in issue, less material holdings in financial companies.

Tier 1 capital ratio - Tier 1 capital as a percentage of risk-weighted assets.

Tier 2 capital - qualifying subordinated debt and other Tier 2 securities in issue, eligible collective impairment allowances, unrealised available-for-sale equity gains and revaluation reserves less certain regulatory deductions.

Trading book - a trading book consists of positions in financial instruments and commodities held either with the intent to trade, or in order to hedge other elements of the trading book. To be eligible for trading book capital treatment, financial instruments must either be free of any restrictive covenants on their tradability, or able to be hedged.

Traditional securitisation - securitisation in which the originating bank transfers legal ownership of a pool of assets to an SSPE.

Undrawn commitments - assets/liabilities that have been committed but not yet transacted. In terms of credit risk, these are obligations to make loans or other payments in the future.

Value-at-risk (VaR) - for the purpose of market risk, VaR is a technique that produces estimates of the potential loss in the market value of a portfolio over a specified time period at a given confidence level.