Dated 2 April 2015

THE ROYAL BANK OF SCOTLAND GROUP PLC

REGISTRATION DOCUMENT

Table of Contents

Page

INTRODUCTION

This document constitutes a registration document ("**Registration Document**") for the purposes of Article 5.3 of Directive 2003/71/EC, as amended (the "**Prospectus Directive**") and has been prepared for the purpose of giving information with respect to The Royal Bank of Scotland Group plc (the "**Issuer**" or "**RBSG**"), whose registered office address appears on the last page of this Registration Document, and its subsidiaries consolidated in accordance with International Financial Reporting Standards (RBSG, together with its subsidiaries consolidated in accordance with International Financial Reporting Standards, the "**Group**") which, according to the particular nature of the Issuer and the securities which it may offer or apply to have admitted to trading on a regulated market, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of the Issuer.

The Issuer accepts responsibility for the information contained in this Registration Document. To the best of the knowledge of the Issuer (which has taken all reasonable care to ensure that such is the case), the information contained in this Registration Document is in accordance with the facts and does not omit anything likely to affect the import of such information.

This Registration Document has been filed with, and approved by, the Financial Conduct Authority (the "**FCA**") under Part VI of the Financial Services and Markets Act 2000 (the "**FSMA**").

Standard & Poor's Credit Market Services Europe Limited ("**Standard & Poor's**") is expected to rate: senior notes issued by RBSG with a maturity of one year or more "BBB-"; senior notes issued by RBSG with a maturity of less than one year "A-3"; and dated subordinated notes, undated tier 2 notes and tier 1 notes issued by RBSG will be rated on a case-by-case basis. Fitch Ratings Limited ("**Fitch**") is expected to rate: senior notes issued by RBSG with a maturity of one year or more "A"; senior notes issued by RBSG with a maturity of less than one year "F1"; and dated subordinated notes, undated tier 2 notes and tier 1 notes issued by RBSG will be rated on a case-by-case basis. Moody's Investors Service Limited ("**Moody's**") is expected to rate: senior notes issued by RBSG with a maturity of one year or more "Baa2"; senior notes issued by RBSG with a maturity of less than one year "P-2"; and dated subordinated notes, undated tier 2 notes and tier 1 notes issued by RBSG will be rated on a case-by-case basis.

As defined by Standard & Poor's, a "BBB" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it is adequate. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the Issuer to meet its financial commitment on the obligation. As defined by Standard & Poor's, an "A-3" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it is adequate. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity of the Issuer to meet its financial commitment on the obligation. As defined by Standard & Poor's, an addition of a plus (+) or minus (-) sign shows relative standing within the major rating categories.

As defined by Fitch, an "A" rating indicates that the Issuer has a strong capacity for payment of its financial commitments on the relevant notes issued by it. This capacity may, nevertheless, be more vulnerable to adverse business or economic conditions than is the case for higher ratings. As defined by Fitch, an "F1" rating indicates that the Issuer has the strongest intrinsic capacity for timely payment of its financial commitments on the relevant notes issued by it.

As defined by Moody's, a "Baa" rating means the ability of the Issuer to meet its obligations on the relevant notes issued by it is judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics. As defined by Moody's, the addition of a

“2” indicates a mid-range ranking. As defined by Moody’s, a “P-2” rating means that the Issuer has a strong ability to repay its short-term debt obligations on the relevant notes issued by it.

The rating definitions set out above constitute third-party information and were obtained in the English language from (i) the publication entitled “Standard & Poor’s Ratings Definitions — 20 November 2014” published by Standard & Poor’s (available at www.standardandpoors.com), (ii) the publication entitled “Rating Symbols and Definitions — August 2014” published by Moody’s (available at www.moodys.com) and (iii) the publication entitled “Definitions of Ratings and Other Forms of Opinion — December 2014” published by Fitch (available at www.fitchratings.com). The information found at the websites referred to in the previous sentence does not form part of and is not incorporated by reference into this Registration Document. The ratings definitions set out above have been accurately reproduced from the sources identified above and, so far as RBSG is aware and is able to ascertain from information published by the third parties referred to above, no facts have been omitted which would render the ratings definitions set out above inaccurate or misleading.

A rating is not a recommendation to buy, sell or hold securities and may be subject to change, suspension or withdrawal at any time by the assigning rating agency.

The credit ratings included and referred to in this Registration Document have been issued by Standard & Poor’s Credit Market Services Europe Limited, Fitch Ratings Limited and Moody’s Investors Service Limited, each of which is established in the European Union (the “**EU**”) and is registered under Regulation (EC) No 1060/2009 (as amended) of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

The Commissioners of Her Majesty’s Treasury (“**HM Treasury**”) have neither reviewed this Registration Document nor verified the information contained in it, and HM Treasury makes no representation with respect to, and does not accept any responsibility for, the contents of this Registration Document or any other statement made or purported to be made on its behalf in connection with the Issuer or the issue and offering of securities by the Issuer. HM Treasury accordingly disclaims all and any liability, whether arising in tort or contract or otherwise, which it might otherwise have in respect of this Registration Document or any such statement.

RISK FACTORS

Prospective investors should consider carefully the risks set forth below and the other information set out elsewhere in this Registration Document (including any documents incorporated by reference herein) and reach their own views prior to making any investment decision with respect to any securities of the Issuer.

Set out below are certain risk factors which could have a material adverse effect on the business, operations, financial condition or prospects of the Group and cause the Group's future results to be materially different from expected results. The Group's results could also be affected by competition and other factors. The factors discussed below should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties the Group's businesses face. The Issuer has described only those risks relating to its operations that it considers to be material. There may be additional risks that the Issuer currently considers not to be material or of which it is not currently aware, and any of these risks could have the effects set forth above. All of these factors are contingencies which may or may not occur and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Investors should note that they bear the Issuer's solvency risk. Each of the risks highlighted below could have a material adverse effect on the amount of principal and interest which investors will receive in respect of securities issued by the Issuer. In addition, each of the risks highlighted below could adversely affect the trading price of such securities or the rights of investors under such securities and, as a result, investors could lose some or all of their investment.

The Group's ability to achieve its capital targets will depend on the success of the Group's plans to further reduce the size of its business through the restructuring of its corporate and institutional banking business and make further divestments of certain of its portfolios and businesses including its remaining stake in Citizens Financial Group.

In response to the global economic and financial crisis that began in 2008 and the weak economic environment that followed, the Group engaged in a financial and core business restructuring focused on achieving appropriate risk-adjusted returns under these changed circumstances, reducing reliance on wholesale funding, lowering exposure to capital-intensive businesses and meeting new capital standard requirements. In November 2013, following HM Treasury's assessment of the merits of creating an external "bad bank" to hold certain assets of the Group, the Group committed to take a series of actions to further derisk its business and strengthen its capital position. In order to strengthen its capital position and CET1 capital ratio, the Group decided to accelerate the divestment of Citizens Financial Group ("**CFG**"), the Group's US banking subsidiary, by selling off 28.75 per cent. in an initial public offering in September 2014, reaching agreement for the sale of a further 24.7 per cent. (subject to potential increase to up to 28.4 per cent.) in a public offering in March 2015, and fully divesting its interest in CFG by the end of 2016, and to intensify management actions to reduce risk-weighted assets (including through an accelerated divestment of certain of the non-core assets transferred to RBS Capital Resolution ("**RCR**")).

In the first quarter of 2015, the Group announced its intention to restructure its corporate and institutional banking ("**CIB**") business to focus on United Kingdom ("**UK**") corporate and financial institutions with a targeted presence in selected western European customer segments. The future CIB model will:

- focus on the Group's leading positions in UK rates, debt capital markets and foreign exchange;
- retain two trading hubs in the US and Singapore to support the main London trading operation;
- exit central and eastern Europe, the Middle East and Africa, and substantially reduce its presence in Asia and in the US; and
- complete the run-down of US asset-backed products.

Following the decision to refine the CIB business model, the Group has decided to lift its capital targets and move to a CET1 capital ratio of around 13 per cent. during the restructuring period (higher than the targets of 11 per cent. by 31 December 2015 and above 12 per cent. by the end of 2016 previously announced).

In addition, the Group is in the process of implementing the new divisional and functional structure put into place in 2014 and, as a result of the restructuring of its CIB business, is now taking further steps to implement a number of strategic initiatives which will result in a further reduction of the Group's balance sheet as well as the scope of its activities. Implementation by the Group of these initiatives will require significant restructuring of the Group at the same time that it will also be implementing structural changes to comply with regulatory changes including those introduced under the UK Financial Services (Banking Reform) Act 2013 (the "**Banking Reform Act 2013**"), including its ring-fencing requirements (the "**ring-fence**"). See also "*Implementation of the ring-fence in the UK which will begin in 2015 will result in material structural changes to the Group's business. These changes could have a material adverse effect on the Group.*". There can be no assurance that the Group will be able to successfully implement this restructuring programme together with other changes required of the Group in the time frames contemplated or at all, and, as a result, the Group may not be able to meet its capital targets.

The Group's ability to dispose of businesses and certain portfolios, including the further disposal of its remaining stake in CFG and potential disposals associated with the restructuring of its CIB business, and the price achieved for such disposals will be dependent on prevailing economic and market conditions, which remain volatile. As a result there is no assurance that the Group will be able to sell or run down (as applicable) the businesses it is now planning to sell or exit or asset portfolios it is seeking to sell either on favourable economic terms to the Group or at all. Material tax or other contingent liabilities could arise on the disposal or run-down of assets or businesses and there is no assurance that any conditions precedent agreed will be satisfied, or consents and approvals required will be obtained in a timely manner, or at all. The Group may be exposed to deteriorations in businesses or portfolios being sold between the announcement of the disposal and its completion, which period may span many months. In addition, the Group may be exposed to certain risks, including risks arising out of ongoing liabilities and obligations, breaches of covenants, representations and warranties, indemnity claims, transitional services arrangements and redundancy or other transaction related costs.

The occurrence of any of the risks described above could negatively affect the Group's ability to implement its strategic plan and achieve its capital targets and could have a material adverse effect on the Group's business, reputation, results of operations, financial condition and cash flows. There can also be no assurance that if the Group is able to execute its new strategic plan that the new strategy will ultimately be successful or beneficial to the Group.

Implementation of the ring-fence in the UK which will begin in 2015 will result in material structural changes to the Group's business. These changes could have a material adverse effect on the Group.

The UK Government's White Paper on Banking Reform published in September 2012 outlined material structural reforms in the UK banking industry. The measures were drawn in large part from the recommendations of the Independent Commission on Banking ("**ICB**"), which in its final report published in 2012, included the implementation of a ring-fence of retail banking operations. The implementation of the ring-fencing of retail banking operations was introduced under the Banking Reform Act 2013. The Banking Reform Act 2013 provided primary enabling legislation in the short term with a view to completing the legislative framework for the ring-fence of retail banking operations by May 2015, requiring compliance as soon as practicable thereafter and setting a final deadline for full implementation by 2019. In June 2014, HM Treasury published two statutory instruments, which were passed by Parliament in July 2014, setting out the detail of the ring-fencing regime, specifying which entities will be "ring-fenced banks" and the activities and services that ring-fenced banks can, and cannot, conduct which came into force on 1 January 2015. In October 2014, the PRA published its first consultation paper (CP19/14) on the PRA's ring-fencing rules, focusing on legal structure, governance and continuity of services and facilities. The PRA requested that all firms expected to be affected by ring-fencing, including the Group, submit a preliminary plan of their anticipated legal and operating structures to their supervisors by 6 January 2015, which the Group has done. The PRA will carry out further consultations during 2015 with the Group and other affected UK banks and is expected publish its final rules and supervisory statements during 2016.

Although final rules and supervisory statements will not be available until later in 2015 and early 2016, based on the proposals put forward by the Group to the PRA and the FCA to implement the ring-fence, the Group has identified a number of material risks associated with such implementation, in addition to the uncertainty associated with starting to plan implementation before final rules and guidance are in place. These risks will be exacerbated by the Group's other ongoing restructuring efforts.

- The Group intends to establish a ring-fence bank ("**RFB**") for its banking services while the non-ringfence group ("**NRFB**") will hold the Group's remaining CIB activities, the operations of RBS International and some corporate banking activities that are not permitted activities for the RFB and will be the remaining businesses following completion of the restructuring of the Group's CIB business. The establishment of the RFB and the NRFB will require a significant legal and organisational restructuring of the Group and the transfer of large numbers of customers between legal entities. The scale and complexity of completing this process and the operational and legal challenges that will need to be overcome will pose significant execution risks for the Group. The legal restructuring and migration of customers will have a material impact on how the Group conducts its business and the Group is unable to predict how some customers may react to any requirement to deal with both the RFB and NRFB to obtain certain products and services. Such implementation will be costly and although final implementation is not required until 2019, there is no certainty that the Group will be able to complete the legal restructuring and migration of customers to the RFB or NRFB, as applicable, such that the ring-fence exercise is completed on time or in accordance with future regulatory rules for which there is currently significant uncertainty.

- As part of the establishment of the RFB, it will be necessary for the RFB to operate independently from the NRFB and an entirely new corporate governance structure will need to be put in place by the Group to ensure the RFB's independence. These requirements have implications for how the Group sets up its board and committee corporate governance structure and the Group cannot predict how the Group will function as a public listed company with a subsidiary (the RFB) that will have an independent board and committee structure. In addition, the Group will need to revise its operations infrastructure so as to establish an appropriate level of segregation of the infrastructure of the RFB in areas such as information technology ("**IT**") infrastructure, human resources and the management of treasury operations, including capital and liquidity. The Group will also need to evaluate, among other things, the tax exposure of each of the RFB and NRFB, as well as the impact of the ring-fence on intra-group funding and the credit ratings and external funding arrangements of each of these entities. As this structure has never been tested, the Group cannot provide any assurances regarding its ability to successfully implement such a structure. Although the intention is to establish corporate governance and operations in accordance with applicable rules (although not yet finalised) that are as cost efficient as possible, the effects of operating the Group, the RFB and the NRFB in this manner could have a material adverse effect on the Group's business, financial condition and results of operations.

- In order to comply with the ring-fence requirements, from 2026 it will not be possible for the RFB and the NRFB to participate in the same pension plan. As a result, it will be necessary for either the RFB or the NRFB to leave the pension plan which will trigger certain legal and regulatory obligations. Although the Group will have a number of options available to it to meet its obligations resulting from the separation, it is expected that the costs of separation will be material, including possibly increasing annual cash contributions required to be made into the Group's pension plans. See "*The Group may be required to make further contributions to its pension schemes if the value of pension fund assets is not sufficient to cover potential obligations and to satisfy ring-fencing requirements.*".

Implementation of the ring-fence proposals in the UK will result in major changes to the Group's corporate structure, to the delivery of its business activities conducted in the UK and other jurisdictions where the Group will operate, as well as changes to the Group's business model. The steps required to implement the ring-fence of its retail and certain other core banking activities in the UK from other activities of the Group as well as restructuring other operations within the Group in order to comply with the new rules and regulations are extraordinarily complex and will take an extended period of time to put into place. Implementation will be costly and there can be no assurance that the ring-fence of the RFB and the NRFB will be completed on time to meet the regulatory deadline in 2019. As a result, the implementation of the ring-fence could have a material adverse effect on the Group's reputation, results of operations, financial condition and prospects.

The Group continues to implement certain divestment and restructuring activities announced in 2013 and 2014 as part of its 2013/2014 Strategic Plan but will now enter a further period of major restructuring through the implementation of the regulatory regime relating to the ring-fence of financial institutions by 2019 and the restructuring of the Group's CIB business. Although the goals of this long period of restructuring are to emerge as a less complex and safer bank there can be no assurance that the final results will be successful and that the Group will be a viable, competitive, customer focused and profitable bank.

In the third quarter of 2013 and in 2014, the Group revised its strategic plan by implementing its new divisional and functional structure and embarked on a major investment program to upgrade the Group's operations and IT infrastructure (the "**2013/2014 Strategic Plan**"). The 2013/2014 Strategic Plan built on the core business restructuring implemented by the Group after the financial crisis which initially focused on reducing the size of the Group's balance sheet, disposing of the "higher risk and capital intensive assets" in RCR and strengthening the Group's capital position, including though the full divestment of the Group's interest in CFG. The 2013/2014 Strategic Plan was intended to reduce the size of the Group's business, mainly within the Markets division, and further strengthen its capital position in response to continuing regulatory change and simplifying the Group by replacing the previous divisional structure with three customer facing franchises focused on the UK and a smaller group of UK based customers. The 2013/2014 Strategic Plan, the restructuring of the Group's CIB business, the implementation of a ring-fence compliant structure and the IT and operational investment programme (as described below) are hereinafter collectively referred to as the "**Transformation Plan**". With the implementation of the Transformation Plan, and in particular the restructuring of the Group's CIB business and implementation of the regulatory ring-fence regime coming into force in the UK, the Group is entering a further period of major restructuring, that will require significant resource and management attention over the next four years, with the intent to continue simplifying the Group's business, making the bank safer by narrowing its business focus, further strengthening its capital position and improving its customer offering.

Each aspect of the implementation of the Transformation Plan carries material risks. See also "*Implementation by the Group of the various initiatives and programmes which form part of the Group's Transformation Plan subjects the Group to increased and material execution risk.*". In addition, although the goal is to emerge as a simpler, safer, customer focused and profitable bank, the aggregate business of the Group will be materially smaller and different than the institution that entered the financial crisis as one of the largest and most diverse financial institutions in the world. On completion of the Transformation Plan in 2019 the Group will be primarily a UK and Western Europe focused bank with a much less diverse group of businesses, products and services. It will service a much smaller group of customers, including large corporate and financial institutions, with its focus and its potential for profitability and growth largely dependent on its success with its retail and SME customers in the UK.

This smaller customer base and geographic concentration also carry material business risks. As a result, in addition to the execution risks associated with completion of the Transformation Plan there can be no assurance that even if the Group executes the Transformation Plan it will prove to be a successful strategy or that the Group, on completion of the Transformation Plan, will be a viable, competitive, customer focused and profitable bank. For a further description of the risks associated with the various initiatives comprised in the Transformation Plan, see "*The Group's ability to achieve its capital targets will depend on the success of the Group's plans to further reduce the size of its business through the restructuring of its corporate and institutional banking business and make further divestments of certain of its portfolios and businesses including its remaining stake in Citizens Financial Group.*", "*Implementation of the ring-fence in the UK which will begin in 2015 will result in material structural changes to the Group's business. These changes could have a material adverse effect on the Group.*", and "*The Group is currently implementing a number of significant investment and rationalisation initiatives as part of the Group's IT and operational investment programme. Should such investment and rationalisation initiatives fail to achieve the expected results, it could have a material adverse impact on the Group's operations and its ability to retain or grow its customer business.*". Failure of the Transformation Plan to result in a viable, competitive, customer focused and profitable bank would have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is currently implementing a number of significant investment and rationalisation initiatives as part of the Group's IT and operational investment programme. Should such investment and rationalisation initiatives fail to achieve the expected results, it could have a material adverse impact on the Group's operations and its ability to retain or grow its customer business.

The intent of the 2013/2014 Strategic Plan and of the restructuring of the Group's CIB business is to further simplify and downsize the Group with an increased focus on service to its customers. Such initiatives are being combined and supplemented with significant investments in technology and more efficient support functions intended to contribute to delivering significant improvements in the Group's Return on Equity and costs : income ratio in the longer term as well as improve the resilience, accessibility and product offering of the Group.

The Group started implementing an investment programme of £750 million in 2013 expected to run through 2015 to materially upgrade its IT capability in the UK, to enhance the digital services provided to its bank customers and also improve the reliability and resilience of the IT systems following a number of system failures in the past couple of years. This investment in the Group's IT capability is intended to address the material increase in customer use of online and mobile technology for banking over the past few years as well as provide the capability to continue to grow such services in the future. Increasingly many of the products and services offered by the Group are, and will become, technology intensive and the Group's ability to develop such services has become increasingly important to retaining and growing the Group's customer business in the UK.

If the Group is unable to offer competitive, attractive and innovative products that are also profitable, it could lose market share, incur losses on some or all of its activities and lose opportunities for growth. In addition to upgrading its current IT infrastructure, the Group is also undertaking a major project to rationalise its legacy IT infrastructure, aiming to lower costs and improve resilience. With the implementation of the ring-fence regulatory regime there will be a further need to manage the Group's IT infrastructure to comply with the regulatory requirements of such regime.

As with any project of comparable size and complexity, there can be no assurance that the Group will be able to implement all of the initiatives forming part of its investment plan, including the IT investment programme on time or at all, and it may experience unexpected cost increases and delays. Any failure by the Group to realise the benefits of this investment programme, whether on time or at all, could have a material adverse effect on the Group's business, results of operations and its ability to retain or grow its customer business.

Implementation by the Group of the various initiatives and programmes which form part of the Group's Transformation Plan subjects the Group to increased and material execution risk.

The level of structural change intended to be implemented within the Group over the medium term as a result of the Transformation Plan, taken together with the overall scale of change to make the Group a smaller, more focused financial institution, will be disruptive and is likely to increase operational and people risks for the Group and to impact its revenues and business. As a result of the material restructuring plans that make up the Transformation Plan, the Group is subject to increased and material execution risk in many areas including:

- Implementation of the Transformation Plan is expected to result in significant costs, mainly in connection with the Group's restructuring of its CIB business, which costs will be incremental to current plans and exclude potential losses on the sale of financial assets and transfer of financial liabilities. Due to material uncertainties and factors outside the

Group's control, the costs of implementation could be materially higher than currently contemplated. One of the objectives of the Transformation Plan is also to achieve a medium-term reduction in annual underlying costs (i.e., excluding restructuring and conduct-related charges). Due to material uncertainties and factors outside the Group's control, this level of cost saving may not be achieved within the planned timescale or at any time.

- The Transformation Plan includes assumptions on levels of customer retention and revenue generation from the new business model. Due to material uncertainties and factors outside the Group's control, including normal levels of market fluctuation, this level of revenue may not be achieved in the timescale envisaged or at any time.
- The Group will be reliant on attracting and retaining qualified employees to manage the implementation of the Transformation Plan and, in particular, the restructuring of the Group's CIB business and to oversee the implementation of the ring-fence and operate in the new ring-fence environment. No assurance can be given that it will be able to attract and retain such employees. See also "*The Group may be unable to attract or retain senior management (including members of the Board) and other skilled personnel of the appropriate qualification and competence. The Group may also suffer if it does not maintain good employee relations.*".
- The significant reorganisation and restructuring resulting from the combined initiatives constituting the Transformation Plan will fundamentally change the Group's business. Implementation will be disruptive and will increase operational risk. See "*Operational risks are inherent in the Group's businesses and these risks could increase as the Group implements its Transformation Plan.*".
- The Transformation Plan makes certain assumptions about future regulation including, but not limited to, the rules to be issued by the PRA and FCA in connection with the ring-fence regime. Material differences between the rules ultimately adopted and the assumptions made in the plan proposed to implement the ring-fence could make it impossible to execute the ring-fence as currently envisaged.
- The Transformation Plan is also intended to improve the Group's control environment, particularly in its remaining CIB franchise. Due to material uncertainties, factors beyond the Group's control, and the increased operational risk described above, there can be no guarantee that such improvements will be achieved in the timescale envisaged or at any time or that it will not result in further regulatory scrutiny.

If any of the risks outlined above were to occur, singly or in the aggregate, they could have a material adverse effect on the Group's business, results of operations and financial condition.

The Group is subject to a number of legal, regulatory and governmental actions and investigations. Unfavourable outcomes in such actions and investigations could have a material adverse effect on the Group's operations, operating results, investor confidence and reputation.

The Group's operations are diverse and complex, and it operates in legal and regulatory environments that expose it to potentially significant litigation, regulatory and governmental investigations and other regulatory risk. As a result, the Group has recently settled a number of legal and regulatory investigations and is, and may in the future be, involved in a number of legal and regulatory proceedings and investigations in the UK, the EU, the US and other jurisdictions.

The Group is involved in ongoing class action litigation, investigations into foreign exchange trading and rate setting activities, continuing LIBOR related litigation and investigations, securitisation and securities related litigation and civil and criminal investigations, and anti-money laundering, sanctions, mis-selling and compliance related investigations, in addition to a number of other matters. In November 2014, the Group announced that it had reached a settlement with the FCA in the United Kingdom and with the Commodity Futures Trading Commission (the "**CFTC**") in the US in relation to investigations into failings in the Group's foreign exchange business within its Corporate & Institutional Banking division. The Group agreed to pay penalties of £217 million to the FCA and US$290 million to the CFTC to resolve the investigations. The Group continues to cooperate with these and other governmental and regulatory authorities and remains in discussion with these authorities on these issues including settlement discussions regarding the criminal investigation being conducted by the anti-trust and criminal division of the DOJ and certain other financial regulatory authorities. Settlements in relation to these ongoing investigations may result in additional financial, non-monetary penalties, and collateral consequences, which may be material, and may give rise to additional legal claims being asserted against the Group. The Group entered into a deferred prosecution agreement in 2013 in connection with the settlement of the charges relating to the LIBOR investigation (the "**LIBOR DPA**"). Findings of misconduct by the DOJ relating to the Group, its subsidiaries or employees, may result in a breach of the terms of the LIBOR DPA which may lead to an extension of its terms or further prosecution.

Legal, governmental and regulatory proceedings and investigations are subject to many uncertainties, and their outcomes, including the timing and amount of fines or settlements, which may be material, are often difficult to predict, particularly in the early stages of a case or investigation. It is expected that the Group will continue to have a material exposure to legacy litigation and governmental and regulatory proceedings and investigations in the medium term. For more detail on certain of the Group's ongoing legal, governmental and regulatory proceedings, see Note 32 in the 2014 Annual Report and Accounts of RBSG (as defined below). Adverse regulatory, governmental or law enforcement proceedings or adverse judgments in litigation could result in restrictions or limitations on the Group's operations or have a significant effect on the Group's reputation, results of operations and capital position.

The Group may be required to make new or increase existing provisions in relation to legal proceedings, investigations and governmental and regulatory matters. In Q3 2014, the Group booked a provision of £400 million relating to penalties incurred in connection with the investigations and reviews relating to foreign exchange trading settled with the FCA and the CFTC and during Q4 2014, an additional provision of £320 million was taken in respect of foreign exchange trading-related investigations. The Group also booked during 2014 additional provisions of £650 million for PPI (as defined below) (resulting in total provisions made for this matter of £3.7 billion, of which £2.9 billion had been utilised at 31 December 2014). The provision for interest rate hedging products redress and administration costs was also increased by £185 million in 2014, with total provisions relating to this matter totalling £1.4 billion, of which £1.0 billion had been utilised at 31 December 2014. Significant increases in provisions relating to ongoing investigations may have an adverse effect on the Group's reputation as well as its financial condition and results of operations.

The Group, like many other financial institutions, has come under greater regulatory scrutiny in recent years and expects heightened levels of regulatory supervision to continue for the foreseeable future, particularly as it relates to compliance with historical, new and existing corporate governance, employee compensation, conduct of business, consumer protection regimes, anti-money laundering and antiterrorism laws and regulations, as well as the provisions of applicable sanctions programmes. Past, current or future failures to comply with any one or more of these laws or regulations could have a material adverse effect on the Group's reputation, financial condition and results of operations.

The Group is subject to political risks.

Ahead of the upcoming UK election in May 2015, there is uncertainty around how the policies of the elected government may impact the Group, including a possible referendum on the UK's membership of the EU. The implementation of these policies, including the outcome of the EU referendum, could significantly impact the environment in which the Group operates and the fiscal, monetary, legal and regulatory requirements to which it is subject, and in turn could have a material adverse effect on its business, financial condition and results of operations.

The Group may be unable to attract or retain senior management (including members of the Board) and other skilled personnel of the appropriate qualification and competence. The Group may also suffer if it does not maintain good employee relations.

Implementation of the Group's strategy and its future success depends on its ability to attract, retain and remunerate highly skilled and qualified personnel, including senior management (which include directors and other key employees), in a highly competitive labour market. This cannot be guaranteed, particularly in light of heightened regulatory oversight of banks and the increasing scrutiny of, and (in some cases) restrictions placed upon, employee compensation arrangements, in particular those of banks in receipt of UK Government support (such as the Group). Following the implementation in the UK of provisions of CRD IV relating to compensation in the financial sector and taking into account the views of UKFI (as defined below), the Group is restricted from paying variable remuneration to individuals for a particular year in an amount higher than the level of his or her fixed remuneration which may place the Group at a competitive disadvantage.

The Group's directors as well as members of its executive committee and certain other senior managers and employees will also be subject to the new responsibility regime introduced under the Banking Reform Act 2013 which will impose greater responsibility on such individuals. The new rules include (i) a senior managers' regime which will require such senior managers to be pre-approved either by the PRA or FCA whilst the new rules themselves also introduce a "presumption of responsibility" for those approved as such - where contraventions of a relevant regulatory requirement occur, the accountable senior manager will be presumed guilty of misconduct unless he or she shows to the satisfaction of the relevant regulator that he or she took all reasonable steps to prevent the contravention occurring (or continuing), (ii) a certification regime which will require the Group to assess the fitness and propriety of certain of its employees (other than senior managers), who are considered to pose a risk of significant harm to the Group or its customers and (iii) a conduct rules regime (which as currently proposed would apply regulatory prescribed conduct rules to most employees of the Group with a UK nexus). The rules implementing the new regime are still under consultation by the PRA and the FCA and there remains uncertainty as to the final scope of the new rules and any transitional arrangements. Final rules are expected to enter into force in late 2015 (and early 2016 for the new certification regime). The new regulatory regime may contribute to reduce the pool of candidates for key management and non-executive roles, including non-executive directors with the right skills, knowledge and experience, or increase the number of departures of existing employees, given concerns over the reverse burden of proof as well as the allocation of responsibilities introduced by the new rules.

In addition to the effects of such measures on the Group's ability to retain non-executive directors, senior management and other key employees, the market for skilled personnel is increasingly competitive, thereby raising the cost of hiring, training and retaining skilled personnel.

The Group's changing strategy, particularly as a result of the Group's 2013/2014 Strategic Plan, including the accelerated disposal of the Group's interest in CFG, led to the departure of many experienced and capable employees. The continuing restructuring of the Group, including as a result of the restructuring of the Group's CIB business and the implementation of the ring-fence regulatory regime, is expected to lead to the departure of additional experienced and capable employees. The lack of continuity of senior management and the loss of important personnel coordinating certain or several aspects of the Transformation Plan could have an adverse impact on the implementation of the Group's Transformation Plan and regulatory commitments. The failure to attract or retain a sufficient number of appropriately skilled personnel to manage the complex restructuring required to implement the Transformation Plan, and in particular the implementation of the ring-fence and the restructuring of the Group's CIB business could prevent the Group from successfully implementing its strategy. This could have a material adverse effect on the Group's business, financial condition and results of operations.

In addition, certain of the Group's employees in the UK, continental Europe and other jurisdictions in which the Group operates are represented by employee representative bodies, including trade unions. Engagement with its employees and such bodies is important to the Group and a breakdown of these relationships could adversely affect the Group's business, reputation and results.

Operational risks are inherent in the Group's businesses and these risks could increase as the Group implements its Transformation Plan.

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has complex and geographically diverse operations and operational risk and losses can result from internal and external fraud, errors by employees or third parties, failure to document transactions properly or to obtain proper authorisations, failure to comply with applicable regulatory requirements and conduct of business rules (including those arising out of anti-bribery, anti-money laundering and anti-terrorism legislation, as well as the provisions of applicable sanctions programmes), equipment failures, business continuity and data security system failures, natural disasters or the inadequacy or failure of systems and controls, including those of the Group's suppliers or counterparties. Operational risks will be heightened as a result of the Group's implementation of its Transformation Plan as described in more detail under "*Implementation by the Group of the various initiatives and programmes which form part of the Group's Transformation Plan subjects the Group to increased and material execution risk.*" Although the Group has implemented risk controls and loss mitigation actions and significant resources and planning have been devoted to plans to mitigate operational risk associated with the Group's activities as well as the implementation of the Group's Transformation Plan, it is not possible to be certain that such actions have been or will be effective in controlling each of the operational risks faced by the Group. Ineffective management of operational risks, including the material operational risks that will arise in implementing the Transformation Plan, could have a material adverse effect on the Group's business, financial condition and results of operations. Notwithstanding anything contained in this risk factor, it should not be taken as implying that RBSG will be unable to comply with its obligations as a company with securities admitted to the Official List of the United Kingdom Listing Authority (the "**Official List**") nor that it, or its relevant subsidiaries, will be unable to comply with its or their obligations as supervised firms regulated by the FCA and the Prudential Regulation Authority (the "**PRA**").

The Group operates in highly competitive markets that are subject to intense scrutiny by the competition authorities. Its business and results of operations may be adversely

affected by increasing competitive pressures and competition rulings and other government measures.

The competitive landscape for banks and other financial institutions in the UK, the US and throughout the rest of Europe is changing rapidly. Recent regulatory and legal changes are likely to result in new market participants and changed competitive dynamics in certain key areas, such as in retail banking in the UK. The UK retail banking sector has been subjected to intense scrutiny by the UK competition authorities and by other bodies in recent years, including market reviews conducted by the Competition & Markets Authority ("**CMA**") and its predecessor the OFT (as defined below) regarding SME banking and Personal Current Accounts ("**PCAs**"), the ICB, whose final report was published in 2012 and the Parliamentary Commission on Banking Standards whose report was published in 2013. These reviews raised significant concerns about the effectiveness of competition in the banking sector.

In 2014, the CMA published two market studies about SME banking and PCAs. On the basis of its findings and following consultation, the CMA made a market investigation reference ("**MIR**") in relation to both SME banking and PCAs. An MIR can be made only if the CMA has reasonable grounds for suspecting that any feature, or combination of features, of a market in the UK for goods or services prevents, restricts or distorts competition. Such investigations typically last between 15-24 months and the CMA currently expects to publish provisional findings in September 2015. While it is too early to assess the potential impact on the Group of these reviews and investigations, the competitive landscape in which the Group operates may be significantly affected as a result and this impact will become more significant as the Group implements its Transformation Plan and its business is increasingly concentrated in the UK on retail activities.

The wholesale banking sector has also been the subject of recent scrutiny. In 2014, the FCA launched a review of competition in the wholesale sector (primarily relating to competition in wholesale securities and investment markets and related activities such as corporate banking) to identify areas which might merit in- depth market study and in February 2015 announced that it would be launching a market study to investigate competition in investment and corporate banking services. Adverse findings resulting from this study may result in the imposition of fines or restrictions on mergers and consolidations within the UK financial sector and the FCA may also refer the matter further to the CMA, which has extensive powers to take measures to restore effective competition.

The competitive landscape in the UK is also likely to be affected by the UK Government's implementation of the ring fence regime and other customer protection measures introduced by the Banking Reform Act 2013. Although final ring-fence rules will not be available until 2016, firms (including the Group) have submitted plans for their legal and operational structures to implement the new ring-fence regime to the PRA. The implementation of such plans may result in the consolidation of newly separated businesses or assets of certain financial institutions with those of other parties to realise new synergies or protect their competitive position. This consolidation, in combination with the introduction of new entrants into the markets in which the Group operates which is being actively encouraged by the UK Government is likely to increase competitive pressures on the Group.

In addition, certain competitors may have more efficient operations, including better IT systems allowing them to implement innovative technologies for delivering services to their customers, and may have access to lower cost funding and/or be able to attract deposits on more favourable terms than the Group. Furthermore, the Group's competitors may be better able to attract and retain clients and key employees, which may negatively impact the Group's relative performance and future prospects. In addition, recent and future disposals and restructurings by the Group in the context of its Transformation Plan as well as constraints imposed on the Group's compensation structure and its ability to compensate its employees at the same level as its competitors may also have an impact on its ability to compete effectively.

These and other changes to competition could have a material adverse effect on the Group's business, margins, profitability, financial condition and prospects.

The Group's businesses and performance can be negatively affected by actual or perceived global economic and financial market conditions and other global risks although the Group will be increasingly impacted by developments in the UK as its operations become gradually more focused on the UK.

On completion of the Group's Transformation Plan its business focus will be preponderantly in the UK. However, the Group's businesses and many of its customers are, and will be, affected by global economic conditions, perceptions of those conditions and future economic prospects. The outlook for the global economy over the near to medium-term is increasingly uncertain due to a number of factors including geopolitical risks, concerns around global growth and deflation. Risks to growth and stability stem mainly from continued imbalances in many countries in Europe and elsewhere, slowing growth in emerging markets and China and the potential consequences of continued sanctions and depressed oil prices on the Russian economy. Further instability may result from uncertainty as to how economies and counterparties will be affected, directly or indirectly, by lower oil prices and other commodity prices as well as to the impact of monetary policy measures adopted by the ECB, the US Federal Reserve and the Swiss Central Bank. There remains considerable uncertainty about when the Bank of England and the Federal Reserve will begin to raise policy interest rates. The Group's businesses and performance are also affected by financial market conditions. Although capital and credit markets around the world have been relatively stable since 2012, financial markets, in particular equity markets, experienced higher volatility in the last quarter of 2014 which has continued into 2015. This volatility is attributable to many of the factors noted above.

In addition, the Group is exposed to risks arising out of geopolitical events, such as trade barriers, exchange controls and other measures taken by sovereign governments that can hinder economic or financial activity levels. Furthermore, unfavourable political, military or diplomatic events, armed conflict, pandemics and terrorist acts and threats, and the responses to them by governments could also adversely affect economic activity and have an adverse effect upon the Group's business, financial condition and results of operations.

The challenging operating environment for the Group's businesses, created by uncertain economic and market conditions is characterised by:

- reduced activity levels, additional write-downs and impairment charges and lower profitability, which either alone or in combination with regulatory changes or the activities of other market participants may restrict the ability of the Group to access capital, funding and liquidity;
- prolonged periods of low interest rates resulting from ongoing central bank measures to foster economic growth which constrain, through margin compression and low returns on assets, the interest income earned by the Group; and
- the risk of increased volatility in yields and asset valuations as central banks start or accelerate looser monetary policies or tighten or unwind historically unprecedented loose monetary policy or extraordinary measures. The resulting environment of uncertainty for the market and consumers could lead to challenging trading and market conditions.

Developments relating to current economic conditions and the risk of a return to a volatile financial environment, including those discussed above, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

As the Group refocuses on its operations in the UK as a result of its Transformation Plan, and in particular the restructuring of the Group's CIB business, it is increasingly exposed to the UK economy. Although the prospects for the UK and the US remain the strongest among the G-7 and Ireland's economy continues to improve, actual or perceived difficult global economic conditions, failure to meet economic growth projections, particularly in the UK and the Group's key markets, the worsening of the scope and severity of the weak economic conditions currently experienced by a number of EU member states and elsewhere, potential volatility in the UK housing market and restrictions on mortgage lending as well as increased competition, particularly in the UK, would create challenging economic and market conditions and a difficult operating environment for the Group's businesses.

The Group is exposed to any weakening of the European economy and the renewed threat of default by certain countries in the Eurozone.

With few exceptions, countries in Europe have not yet recovered from the effects of the financial crisis. Consensus forecasts of growth in 2015 and 2016 for some of the largest European economies such as France and Italy are low. In addition, the possibility of a European sovereign default has risen due to the recent election in Greece and the outcome and impact of ongoing negotiations by the new Greek government with respect to its outstanding debt is uncertain. The risk that the effect of any sovereign default spreads by contagion to other EU economies and the UK economy remains. The euro could be abandoned as a currency by one or more countries, or in an extreme scenario, the abandonment of the euro could result in the dissolution of the European Economic and Monetary Union ("**EEMU**"). While the European Central Bank announced in January 2015 a €1.1 trillion quantitative easing programme designed to improve confidence in Eurozone equities and encourage more private bank lending, there remains considerable uncertainty as to whether such measures will be successful.

The effects on the UK, European and global economies of any potential dissolution of the EEMU or exit of one or more EU member states from the EEMU and the resulting redenomination of financial instruments from the euro to a different currency, are impossible to predict fully. However, if any such events were to occur they would likely:

- result in significant market dislocation;
- heighten counterparty risk;
- result in downgrades of credit ratings for European borrowers, giving rise to increases in credit spreads and decreases in security values;
- disrupt and adversely affect the economic activity of the UK and other European markets; and
- adversely affect the management of market risk and in particular asset and liability management due, in part, to redenomination of financial assets and liabilities and the potential for mismatches.

The occurrence of any of these events would have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group is subject to a variety of risks as a result of implementing the State Aid restructuring plan.

The Group obtained State Aid approval for the aid given to the Group by the UK Government as part of the placing and open offer undertaken by the Group in December 2008. RBSG announced on 9 April 2014 that it had entered into an agreement ("**DAS Retirement Agreement**") with HM Treasury for the future retirement of the Dividend Access Share ("**DAS**"). The European Commission ("**EC**") concluded that these new arrangements did not constitute new State Aid and approved changes to RBSG's restructuring plan in its State Aid Amendment Decision of 9 April 2014. RBSG also entered into a Revised State Aid Commitment Deed with HM Treasury under which it undertook to do all acts and things necessary to ensure that HM Treasury is able to comply with the revised State Aid commitments made by HM Treasury to the EC, which mainly relate to the deadline for the Group's divestment of the Williams & Glyn business and the divestment of the rest of the Group's interest in CFG.

Implementation of the State Aid restructuring plan exposes the Group to a number of risks. The most significant risks relate to required asset disposals, a number of which are now completed. The Group completed an initial public offering of CFG's common stock in September 2014. The divestment of Williams & Glyn continues to progress following the announcement of a pre-IPO investment by a consortium of investors in September 2013. The Group is required, pursuant to the terms of the State Aid Amendment Decision, to dispose of its remaining interest in CFG by the end of 2016 (with a possible 12 month extension) and must divest its interest in Williams & Glyn by way of an initial public offering by the end of 2016 with the disposal of the remainder of its interest by the end of 2017. Under the terms of the State Aid Amendment Decision, a divestiture trustee may be empowered to conduct these disposals, with the mandate to complete the disposal at no minimum price, if the Group fails to complete such required disposals within agreed or renegotiated time frames, which may result in the Group achieving less than the full value of its investment due to then prevailing market conditions. Furthermore, if the Group is unable to comply with the terms of the State Aid Amendment Decision, including the required divestments, it might constitute a misuse of aid which could have a material adverse impact on the Group.

The occurrence of any of the risks described above could have a material adverse effect on the Group's business, results of operations, financial condition, capital position and competitive position.

HM Treasury (or UK Financial Investments Limited ("UKFI") on its behalf) may be able to exercise a significant degree of influence over the Group and any proposed offer or sale of its interests may affect the price of securities issued by the Group.

The UK Government, through HM Treasury, currently holds 62.3 per cent. of the issued ordinary share capital of RBSG. On 22 December 2009, RBSG issued £25.5 billion of B Shares to the UK Government. The B Shares are convertible, at the option of the holder at any time, into ordinary shares. The UK Government has agreed that it shall not exercise the rights of conversion in respect of the B Shares if and to the extent that following any such conversion it would hold more than 75 per cent. of the total issued shares in the Group. Any breach of this agreement could result in the delisting of RBSG from the Official List of the United Kingdom Listing Authority and potentially other exchanges where its securities are currently listed and traded. HM Treasury (or the UKFI on its behalf) may sell all or a part of its holding of ordinary shares at any time. Any offers or sale of a substantial number of ordinary shares or securities convertible or exchangeable into ordinary shares by or on behalf of HM Treasury, or an expectation that it may undertake such an offer or sale, could negatively affect prevailing market prices for securities issued by the Group.

In addition, UKFI manages HM Treasury's shareholder relationship with the Group and, although HM Treasury has indicated that it intends to respect the commercial decisions of the Group and that the Group will continue to have its own independent board of directors and management team determining its own strategy, should HM Treasury's intentions change, its position as a majority shareholder (and UKFI's position as manager of this shareholding) means that HM Treasury or UKFI might be able to exercise a significant degree of influence over, among other things, the election of directors and appointment of senior management, dividend policy, remuneration policy, or limiting the Group's operations. The manner in which HM Treasury or UKFI exercises HM Treasury's rights as majority shareholder could give rise to conflict between the interests of HM Treasury and the interests of other shareholders. The Board has a duty to promote the success of the Group for the benefit of its members as a whole.

The Group's business performance could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy requirements.

Effective management of the Group's capital is critical to its ability to operate its businesses, and to pursue its strategy of returning to standalone strength. The Group is required by regulators in the UK, the EU, the US and other jurisdictions in which it undertakes regulated activities to maintain adequate capital resources. Adequate capital also gives the Group financial flexibility in the face of continuing turbulence and uncertainty in the global economy and specifically in its core UK, US and European markets. From 2016, in accordance with the provisions of the Capital Requirements Regulation ("**CRR**"), a minimum level of capital adequacy will be required to meet new regulatory capital requirements allowing the Group to make certain discretionary payments relating to CET1 capital (dividends), variable remuneration and payments on additional tier 1 instruments.

The Basel Committee on Banking Supervision's package of reforms to the regulatory capital framework ("**Basel III**") raised the quantity and quality of capital required to be held by a financial institution with an emphasis on Common Equity Tier 1 ("**CET1**") capital and introduces an additional requirement for both a capital conservation buffer and a countercyclical buffer to be met with CET1 capital. Global systemically important banks ("**GSIBs**") will be subject to an additional CET1 capital requirement, depending on a bank's systemic importance. The Group has been identified by the Financial Stability Board ("**FSB**") as a GSIB. The FSB list of GSIBs is updated annually, based on new data and changes to methodology. The November 2014 update placed the Group in the second from bottom category of GSIBs, subjecting it to more intensive oversight and supervision and requiring the Group to have additional loss absorption capacity of 1.5 per cent. in CET1 capital, to be phased in from the beginning of 2016.

In addition, regulatory proposals relating to domestically systemically important banks ("**DSIBs**") continue to be progressed and could impact the level of CET1 capital that is required to be held by the Group. The EBA published in December 2014 a quantitative methodology as to how European regulators could quantify which firms would qualify as DSIBs. In addition the Financial Policy Committee ("**FPC**") of the Bank of England intends to consult with firms in the UK on the UK framework.

Basel III has been implemented in the EU with a new Directive and Regulation (collectively known as "**CRD IV**") which became effective from 1 January 2014, subject to a number of transitional provisions and clarifications. A number of the requirements introduced under CRD IV have been and continue to be further supplemented through the Regulatory and Implementing Technical Standards ("**RTSs**"/"**ITSs**") produced by the European Banking Authority ("**EBA**") and to be adopted by the EC which are not yet all finalised. The EU rules deviate from the Basel III rules in certain aspects, and provide national flexibility to apply more stringent prudential requirements than set out in the Basel framework.

Under CRD IV, the Group is required, on a consolidated basis, to hold a minimum amount of regulatory capital of 8 per cent. of risk-weighted assets of which at least 4.5 per cent. must be CET1 capital and at least 6 per cent. must be tier 1 capital (together, the "**Pillar 1 requirements**"). In addition, national supervisory authorities may add extra capital requirements to cover risks they believe are not covered or insufficiently covered by the Pillar 1 requirements (the "**Pillar 2A guidance**"). The PRA requires that Pillar 2A risks should be met with at least 56 per cent. CET1 capital, no more than 44 per cent. additional tier 1 capital and at most 25 per cent. tier 2 capital. CRD IV also introduces five new capital buffers that are in addition to the Pillar 1 and Pillar 2A requirements and are to be met with CET1 capital: (i) the capital conservation buffer, (ii) the institution-specific counter-cyclical capital buffer, (iii) the global systemically important institutions buffer, (iv) the other systemically important institutions buffer and (v) the systemic risk buffer. Some or all of these buffers may be applicable to the Group as determined by the PRA. The combination of the capital conservation buffer, the institution-specific counter-cyclical capital buffer and the higher of (depending on the institution), the systemic risk buffer, the global systemically important institutions buffer and the other systemically important institution buffer, in each case (as applicable to the institution) is referred to as the "combined buffer requirement". The PRA has also introduced a firm specific Pillar 2B buffer ("**Pillar 2B buffer**") which is based on various factors including firm-specific stress test results and is to be met with CET1 capital. The PRA will assess the Pillar 2B buffer annually and UK Banks are required to meet the higher of the combined buffer requirement or Pillar 2B requirement. The PRA published a consultation in January 2015 suggesting certain changes to its Pillar 2A framework which will introduce new methodologies for determining Pillar 2A capital as well as the PRA's approach to operating the Pillar 2A buffer.

In addition, under the provisions of the CRR, which took effect from 1 January 2014, deferred tax assets that rely on future profitability (for example, deferred tax assets related to trade losses) and do not arise from temporary differences must be deducted in full from CET1 capital. Other deferred tax assets which rely on future profitability and arise from temporary differences are subject to a threshold test and only the amount in excess of the threshold is deducted from CET1 capital. The regulatory treatment of such deferred tax assets is dependent on there being no adverse changes to regulatory requirements.

Under Article 141 (Restrictions on distribution) of the CRD IV Directive, member states of the EU must require that institutions that fail to meet the "combined buffer requirement" will be subject to restricted "discretionary payments" (which are defined broadly by CRD IV as payments relating to CET1 capital (dividends), variable remuneration and payments on additional tier 1 instruments). The restrictions will be scaled according to the extent of the breach of the "combined buffer requirement" and calculated as a percentage of the profits of the institution since the last distribution of profits or "discretionary payment". Such calculation will result in a "maximum distributable amount" in each relevant period. As an example, the scaling is such that in the bottom quartile of the "combined buffer requirement", no "discretionary distributions" will be permitted to be paid. In the event of a breach of the combined buffer requirement, the Group will be required to calculate its maximum distributable amount, and as a consequence it may be necessary for the Group to reduce discretionary payments.

In October 2014 the FPC published its recommendation on the overall leverage ratio framework for the UK banking system. The FPC recommended a minimum leverage ratio requirement of 3 per cent. (to be met 75 per cent. by CET1 capital and a maximum of 25 per cent. by additional tier 1 capital), a supplementary leverage buffer applied to GSIBs equal to 35 per cent. of the corresponding risk-weighted systemic risk buffer (to be met by CET1 capital) and a countercyclical buffer equal to 35 per cent. of the risk-weighted countercyclical capital buffer (also to be met by CET1 capital). Transition timings have been aligned to those laid out in Basel III and the exposure measure will follow that laid out by the Basel Committee for Banking Supervision. The FPC explicitly ruled out a breach of the leverage ratio resulting in an automatic constraint to capital distributions via the "maximum distributable amount", preferring to leave this linked to risk-weighted assets for the purposes of simplicity. However, if a breach of the leverage buffers (both GSIB and countercyclical) were to occur then a recovery plan would need to be discussed with the PRA. The current Group leverage ratio is 4.2 per cent. fully met through CET1 capital leaving it above the minimum requirement while the countercyclical buffer is close to zero.

In addition to the capital requirements under CRD IV, the bank resolution and recovery directive ("**BRRD**") introduces requirements for banks to maintain at all times a sufficient aggregate amount of own funds and "eligible liabilities" (that is, liabilities that may be bailed in using the bail-in tool), known as the minimum requirements for eligible liabilities ("**MREL**"). The aim is that the minimum amount should be proportionate and adapted for each category of bank on the basis of their risk or the composition of their sources of funding. The UK Government has transposed the BRRD's provisions into law with a requirement that the Bank of England implements further secondary legislation to implement MREL requirements by 2016 which will take into account the regulatory technical standards to be developed by the EBA specifying the assessment criteria that resolution authorities should use to determine the minimum requirement for own funds and eligible liabilities for individual firms. The EBA noted that the technical standards would be compatible with the proposed term sheet published by the FSB on total loss absorbing capacity ("**TLAC**") requirements for GSIBs but there remains a degree of uncertainty as to the extent to which MREL and TLAC requirements may differ. As the implementation of capital and loss absorption requirements under BRRD in the UK is subject to adoption of secondary legislation and subject to PRA supervisory discretion in places, and the implementation and scope of TLAC remains subject to significant uncertainty, the Group is currently unable to predict the impact such rules would have on its overall capital and loss absorption requirements or its ability to comply with applicable capital or loss absorbency requirements or to make certain discretionary distributions.

Building on changes made to requirements in relation to the quality and aggregate quantity of capital that banks must hold, the Basel Committee on Banking Supervision and other agencies are increasingly focussed on changes that will increase, or re-calibrate, measures of risk-weighted assets as the key measure of the different categories of risk in the denominator of the risk-based capital ratio. There is no current global consensus regarding the key objectives of this further evolution of the international capital framework. One extreme position advocated by some regulators would materially deemphasise the role of a risk-based capital ratio. A more broadly held opinion among regulators seeks to retain the ratio but also reform it, in particular by addressing perceived excessive complexity and variability between banks and banking systems. In particular, the Basel Committee on Banking Supervision published a consultation paper in December 2014, in which it recommended reduced reliance on external credit ratings when assessing risk-weighted assets and to replace such ratings with certain risk drivers based on the particular type of exposure of each asset. While they are at different stages of maturity, a number of initiatives across risk types and business lines are in progress that will impact RWAs at their conclusion. While the quantum of impacts is uncertain owing to lack of clarity of definition of the changes and the timing of their introduction, the likelihood of an impact resulting from each initiative is high and such impacts could result in higher levels of risk-weighted assets.

The Basel Committee on Banking Supervision changes and other future changes to capital adequacy and loss absorbency and liquidity requirements in the EU, the UK, the US and in other jurisdictions in which the Group operates, including the Group's ability to satisfy the increasingly stringent stress case scenarios imposed by regulators and the adoption of the MREL and TLAC proposals, may require the Group to issue Tier 1 capital (including CET1 capital), Tier 2 capital and certain loss absorbing debt securities, and may result in existing Tier 1 and Tier 2 securities issued by the Group ceasing to count towards the Group's regulatory capital. The requirement to increase the Group's levels of CET1 capital and Tier 2 capital, or loss absorbing debt securities, which could be mandated by the Group's regulators, could have a number of negative consequences for the Group and its shareholders, including impairing the Group's ability to pay dividends on, or make other distributions in respect of, ordinary shares and diluting the ownership of existing shareholders of the Group. If the Group is unable to raise the requisite amount of Tier 1 and Tier 2 capital, or loss absorbing debt securities it may be required to reduce further the amount of its risk-weighted assets or total assets and engage in the disposal of core and other non-core businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to the Group.

On a fully loaded Basel III basis, the Group's CET1 capital ratio was 11.2 per cent. at 31 December 2014. The Group's Transformation Plan targets a fully loaded Basel III CET1 capital ratio of 13 per cent. over the restructuring period. The Group's ability to achieve such targets depends on a number of factors, including the implementation of the ring-fence, the execution of the restructuring of the Group's CIB business and the implementation of the 2013/2014 Strategic Plan, which includes plans for a further significant restructuring of the Group as well as further sales of its remaining stake in CFG in the US. See "*Forward-looking Statements*" and "*The Group's ability to achieve its capital targets will depend on the success of the Group's plans to further reduce the size of its business through the restructuring of its corporate and institutional banking business and make further divestments of certain of its portfolios and businesses including its remaining stake in Citizens Financial Group.*".

Any change that limits the Group's ability to implement its capital plan to access funding sources or to manage effectively its balance sheet and capital resources (including, for example, reductions in profits and retained earnings as a result of write-downs or otherwise, increases in risk-weighted assets, regulatory changes, actions by regulators, delays in the disposal of certain key assets or the inability to syndicate loans as a result of market conditions, a growth in unfunded pension exposures or otherwise) could have a material adverse effect on its business, financial condition and regulatory capital position.

The Group's borrowing costs, its access to the debt capital markets and its liquidity depend significantly on its credit ratings and, to a lesser extent, on the rating of the UK Government.

The credit ratings of RBSG, The Royal Bank of Scotland plc ("**RBS**" or "**Royal Bank**") and other Group members directly affect the cost of, access to and sources of their financing and liquidity. A number of UK and other European financial institutions, including RBSG, RBS and other Group members, have been downgraded multiple times in recent years in connection with rating methodology changes, a review of systemic support assumptions incorporated into bank ratings and the likelihood, in the case of UK banks, that the UK Government is more likely in the future to make greater use of its resolution tools that allow burden sharing with debt holders. In 2014 credit ratings of RBSG, RBS and other Group members were downgraded in connection with the Group's creation of RCR, coupled with concerns about execution risks, litigation risk and the potential for conduct related fines. Rating agencies have continued to evaluate the rating methodologies applicable to UK and European financial institutions and any change in such rating agencies' methodologies could materially adversely affect the credit ratings of Group companies. RBSG's long-term and short-term credit ratings were further downgraded by two notches in 2015 by Standard & Poor's Rating Services ("**S&P**") to reflect S&P's view that extraordinary government support would now be unlikely in the case of UK non-operating bank holding companies and is likely to become less predictable for bank operating companies in the UK under the newly enacted legislation implementing the bail-in provisions of the BRRD. On 17 March 2015, Moody's announced multiple rating reviews following the publication of its new bank rating methodology on 16 March 2015. The new methodology affects banking entities globally and reflects, among other things, Moody's lowered expectations about the likelihood of government support for European banks in light of the introduction of the BRRD. Moody's provided a preliminary indication of the outcome of its review which is to be completed later in 2015. Moody's preliminary indication contemplates that RBSG's long-term senior unsecured and issuer credit ratings would be downgraded by two notches to Ba1 and that the credit ratings of certain of the Group's subsidiaries may also be downgraded. If these downgrades occur, the credit ratings of RBSG and of certain of its subsidiaries would, therefore, be considered to be below investment grade by that credit agency.

Any further reductions in the long-term or short-term credit ratings of RBSG or of certain of its subsidiaries (particularly RBS) would increase borrowing costs, require the Group to replace funding lost due to the downgrade, which may include the loss of customer deposits, may limit the Group's access to capital and money markets and trigger additional collateral or other requirements in derivatives contracts and other secured funding arrangements or the need to amend such arrangements. At 31 December 2014, a simultaneous one notch long-term and associated short-term downgrade in the credit ratings of RBSG and RBS by the three main ratings agencies would have required the Group to post estimated additional collateral of £4.5 billion, without taking account of mitigating action by management.

Any downgrade in the UK Government's credit ratings could adversely affect the credit ratings of Group companies and may have the effects noted above. Credit ratings of RBSG, RBS, The Royal Bank of Scotland N.V. ("**RBS N.V.**") and Ulster Bank Limited are also important to the Group when competing in certain markets, such as over-the-counter derivatives. Any further reductions in RBSG's long-term or short-term credit ratings or those of its subsidiaries could adversely affect the Group's access to liquidity and capital markets, limit the range of counterparties willing to enter into transactions with the Group and its subsidiaries, trigger additional collateral or other requirements, adversely affect its competitive position and/or increase its funding costs all of which could have a material adverse impact on the Group's earnings, cash flow and financial condition.

The Group's ability to meet its obligations including its funding commitments depends on the Group's ability to access sources of liquidity and funding.

Liquidity risk is the risk that a bank will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of factors, including an over reliance on a particular source of wholesale funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide, including interbank markets, have experienced severe reductions in liquidity and term-funding during prolonged periods in recent years. Although credit markets continued to improve during 2014 and such markets remain accommodating in the early part of 2015 (in part as a result of measures taken by central banks around the world, including the ECB), and the Group's overall liquidity position remained strong, certain European banks, in particular in the peripheral countries of Spain, Portugal, Greece, Italy and Ireland, remained reliant on central banks as one of their principal sources of liquidity. Although the measures taken by Central Banks have had a positive impact, the risk of volatility returning to the global credit markets remains.

The market view of bank credit risk has changed radically as a result of the financial crisis and banks perceived by the market to be riskier have had to issue debt at significant spreads. Any uncertainty relating to the credit risk of financial institutions may lead to reductions in levels of interbank lending and may restrict the Group's access to traditional sources of funding or increase the costs of accessing such funding. The ability of the Group's regulator to bail-in senior and subordinated debt under the provisions of BRRD implemented in the UK since January 2015 may also increase investors' perception of risk and hence affect the availability and cost of funding for the Group.

Management of the Group's liquidity and funding focuses, among other things, on maintaining a resilient funding strategy for its assets in line with the Group's wider strategic plan. Although conditions have improved, there have been recent periods where corporate and financial institution counterparties have reduced their credit exposures to banks and other financial institutions, limiting the availability of these sources of funding. Under certain circumstances, the Group may need to seek funds from alternative sources potentially at higher costs than has previously been the case, and/or with higher collateral or may be required to consider disposals of other assets not previously identified for disposal to reduce its funding commitments. The Group has, at times, been required to rely on shorter-term and overnight funding with a consequent reduction in overall liquidity, and to increase its recourse to liquidity schemes provided by central banks. Such schemes require assets to be pledged as collateral. Changes in asset values or eligibility criteria can reduce available assets and consequently available liquidity, particularly during periods of stress when access to the schemes may be needed most.

The Group relies on customer deposits to meet a considerable portion of its funding and it has targeted maintaining a loan to deposit ratio of around 100 per cent. The level of deposits may fluctuate due to factors outside the Group's control, such as a loss of confidence, increasing competitive pressures for retail customer deposits or the repatriation of deposits by foreign wholesale or central bank depositors, which could result in a significant outflow of deposits within a short period of time. An inability to grow, or any material decrease in, the Group's deposits could, particularly if accompanied by one of the other factors described above, have a material adverse impact on the Group's ability to satisfy its liquidity needs.

The occurrence of any of the risks described above could have a material adverse impact on the Group's financial condition and results of operations.

The Group's businesses are subject to substantial regulation and oversight. Significant regulatory developments and increased scrutiny by the Group's key regulators has had and is likely to continue to increase compliance risks and could have a material adverse effect on how the Group conducts its business and on its results of operations and financial condition.

The Group is subject to extensive financial services laws, regulations, corporate governance requirements, administrative actions and policies in each jurisdiction in which it operates. Many of these have changed recently and are subject to further material changes. Among others, the adoption of rules relating to ring-fencing, prohibitions on proprietary trading, the entry into force of CRD IV and the BRRD and certain other measures in the UK, the EU and the US has considerably affected the regulatory landscape in which the Group operates and will operate in the future. Increasing regulatory focus in certain areas and ongoing and possible future changes in the financial services regulatory landscape (including requirements imposed by virtue of the Group's participation in government or regulator-led initiatives), have resulted in the Group facing greater regulation and scrutiny in the UK, the US and other countries in which it operates.

Although it is difficult to predict with certainty the effect that the recent regulatory changes, developments and heightened levels of public and regulatory scrutiny will have on the Group, the enactment of legislation and regulations in the UK and the EU, the other parts of Europe in which the Group operates and the US has resulted in increased capital, funding and liquidity requirements, changes in the competitive landscape, changes in other regulatory requirements and increased operating costs and has impacted, and will continue to impact, products offerings and business models. See also "*Implementation of the ring-fence in the UK which will begin in 2015 will result in material structural changes to the Group's business. These changes could have a material adverse effect on the Group.*". Such changes may also result in an increased number of regulatory investigations and proceedings and have increased the risks relating to the Group's ability to comply with the applicable body of rules and regulations in the manner and within the timeframes required. Any of these developments (including failures to comply with new rules and regulations) could have an impact on how the Group conducts its business, its authorisations and licences, the products and services it offers, its reputation, the value of its assets, and could have a material adverse effect on its business, funding costs and its results of operations and financial condition. See "*Implementation by the Group of the various initiatives and programmes which form part of the Group's Transformation Plan subjects the Group to increased and material execution risk.*".

Areas in which, and examples of where, governmental policies, regulatory and accounting changes and increased public and regulatory scrutiny could have an adverse impact (some of which could be material) on the Group include those set out above as well as the following:

- requirements to separate retail banking from investment banking (ring-fencing);
- restrictions on proprietary trading and similar activities within a commercial bank and/or a group which contains a commercial bank;
- the implementation of additional or conflicting capital, loss absorption or liquidity requirements, including those mandated under MREL or by the FSB's recommendations on TLAC;
- restructuring certain of the Group's non-retail banking activities in jurisdictions outside the UK in order to satisfy local capital, liquidity and other prudential requirements;
- the monetary, fiscal, interest rate and other policies of central banks and other governmental or regulatory bodies;
- the design and implementation of national or supra-national mandated recovery, resolution or insolvency regimes;
- additional rules and requirements adopted at the European level relating to the separation of certain trading activities from retail banking operations;
- further investigations, proceedings or fines either against the Group in isolation or together with other large financial institutions with respect to market conduct wrongdoing;
- the imposition of government imposed requirements and/or related fines and sanctions with respect to lending to the UK SME market and larger commercial and corporate entities and residential mortgage lending;
- additional rules and regulatory initiatives and review relating to customer protection, including the FCA's Treating Customers Fairly regime;
- requirements to operate in a way that prioritises objectives other than shareholder value creation;

- the imposition of restrictions on the Group's ability to compensate its senior management and other employees and increased responsibility and liability rules applicable to senior and key employees;
- regulations relating to, and enforcement of, anti-bribery, anti-money laundering, anti-terrorism or other similar sanctions regimes;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- other requirements or policies affecting the Group's profitability, such as the imposition of onerous compliance obligations, further restrictions on business growth, product offering, or pricing;
- changes to financial reporting standards (including accounting standards), corporate governance requirements, corporate structures and conduct of business rules;
- reviews and investigations relating to the retail banking sector in the UK, including with respect to SME banking and PCAs;
- the introduction of, and changes to, taxes, levies or fees applicable to the Group's operations (such as the imposition of a financial transaction tax or changes in tax rates or to the treatment of carry-forward tax losses that reduce the value of deferred tax assets and require increased payments of tax); and
- the regulation or endorsement of credit ratings used in the EU (whether issued by agencies in EU member states or in other countries, such as the US).

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory laws, rules or regulations by key regulators in different jurisdictions, or failure by the Group to comply with such laws, rules and regulations, may have a material adverse effect on the Group's business, financial condition and results of operations. In addition, uncertainty and lack of international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect the Group's ability to engage in effective business, capital and risk management planning.

The Group is subject to resolution procedures under resolution and recovery schemes which may result in various actions being taken in relation to the Group and any securities of the Group, including the write off, write-down or conversion of the Group's securities.

In the EU, the UK and the US regulators have or are in the process of implementing resolution regimes to ensure the timely and orderly resolution of financial institutions and limit the systemic risks resulting from the failure of global and complex financial groups. In the EU and the UK, the BRRD which came into force on 1 January 2015, sets out a harmonised legal framework governing the tools and powers available to national authorities to address the failure of banks and certain other financial institutions. These tools and powers include preparatory and preventive measures, early supervisory intervention powers and resolution tools. In July 2014, the PRA published a paper on the implementation of the BRRD in the UK and in December 2014 HM Treasury published final versions of the statutory instruments transposing the BRRD which came into effect in January 2015. The PRA published its final rules and requirements implementing the BRRD in January 2015. The EBA also published final draft regulatory technical standards in December 2014 on the content of resolution plans and final guidelines on measures to reduce or remove impediments to resolvability. The implementation of the BRRD in the UK may also continue to evolve over time to ensure continued consistency with the FSB recommendations on resolution regimes and resolution planning for GSIBs, in particular with respect to TLAC requirements.

As a result of its status as a GSIB and in accordance with the PRA's resolution and recovery schemes then in place in the UK, the Group was required to meet certain resolution planning requirements by the end of 2012 and 2013. The Group's US businesses and CFG made their required submissions to the Federal Reserve and the FDIC by their 1 July 2014 due dates. The US supervisory agencies subsequently announced that, beginning in 2015, banks would be required to submit their annual resolution plans by 31 December of each year instead of by 1 July. Similar to other major financial institutions, both the Group and its key subsidiaries remain engaged in a constructive dialogue on resolution and recovery planning with key national regulators and other authorities.

In addition to the preventive measures set out above, the UK resolution authority now has available a wide range of powers to deal with failing financial institutions. As a result of the implementation of BRRD in the UK in January 2015, the provisions of the Banking Act 2009 have been substantially amended to enable the relevant authorities to deal with and stabilise certain deposit-taking UK incorporated institutions that are failing, or are likely to fail. In addition to the existing stabilisation options available under the Banking Act 2009 being (i) the transfer of all or part of the business of the relevant entity and/or the securities of the relevant entity to a private sector purchaser, (ii) the transfer of all or part of the business of the relevant entity to a 'bridge bank' wholly owned by the Bank of England and (iii) temporary public ownership (nationalisation) of the relevant entity, the resolution entity will now be able to rely on an asset separation tool which will enable the Bank of England to use property transfer powers to transfer assets, rights and liabilities of a failing bank to an asset management vehicle. In addition, the new rules have transposed the BRRD requirement that the government stabilisation options may only be used once there has been a contribution to loss absorption and recapitalisation of at least 8 per cent. of the total liabilities of the institution under resolution.

Among the changes introduced by the Banking Reform Act 2013, the Banking Act 2009 was amended to insert a bail-in option as part of the powers available to the UK resolution authority. The bail-in option was introduced as an additional power available to the Bank of England to enable it to recapitalise a failed institution by allocating losses to its shareholders and unsecured creditors in a manner that seeks to respect the hierarchy of claims in liquidation. The BRRD also includes a "bail-in" tool, which gives the relevant supervisory authorities the power to write down or write off claims (including debt securities issued by the Group and its subsidiaries) of certain unsecured creditors of a failing institution and/or to convert certain debt claims to equity or to other securities of the failing institution or to alter the terms of an existing liability. The UK Government amended the provisions of the Banking Act 2009, as amended by the Banking Reform Act 2013, to ensure the consistency of these provisions with the bail-in provisions under the BRRD which came into effect on 1 January 2015, subject to certain transition provisions effective for debt instruments as of 19 February 2015 and with the exception of provisions relating to MREL and Article 55 of the BRRD which relates to liabilities within the scope of the bail-in powers but governed by the law of a third country. Such bail-in mechanism, pursuant to which losses would be imposed on shareholders and, as appropriate, creditors (including senior creditors) of the Group (through write-down or conversion into equity of liabilities including debt securities) would be used to recapitalise and restore the Group to solvency. The bail-in regime adopted under the BRRD (and implemented in the UK) also provides that shareholders and creditors should not be left worse off as a result of the exercise of the stabilisation powers than they would have been had the bank not been resolved, but instead placed into insolvency. The exercise of the bail-in option will be determined by the resolution authority which will have discretion to determine whether the Group has reached a point of non-viability. Because of this inherent uncertainty, it will be difficult to predict when, if at all, the exercise of the bail-in power may occur.

The methods for implementation of any resolution and recovery scheme remain the subject of debate, particularly with respect to banking group companies and for GSIBs with complex cross border activities. Such debate includes whether the bail-in tool may be exercised through a single point of entry at the holding company or at various levels of the corporate structure of a GSIB.

The potential impact of these resolution and recovery powers may include the total loss of value of securities issued by the Group and, in addition for debt holders, the possible conversion into equity securities, and under certain circumstances the inability of the Group to perform its obligations under its securities. The possible application of bail-in to the Group's or certain of its subsidiaries' debt securities and additional Tier 1 and Tier 2 capital securities may also make it more difficult to issue such securities in the capital markets and the cost of raising such funds may be higher than has historically been the case.

The Group's operations are highly dependent on its IT systems and is increasingly exposed to cyber security threats.

The Group's operations are dependent on the ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations where it does business. The proper functioning of the Group's payment systems, financial and sanctions controls, risk management, credit analysis and reporting, accounting, customer service and other IT systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group's operations. In June 2012, computer system failures prevented NatWest, RBS and Ulster Bank customers from accessing accounts in both the UK and Ireland. Ongoing issues relating to the failure continued for several months, requiring the Group to set aside a provision for compensation to customers who suffered losses as a result of the system failure. In addition, in November 2014, the Group reached a settlement with the FCA and the PRA in relation to this incident and agreed a penalty of £42 million with the FCA and £14 million with the PRA. Ulster Bank, one of the Group's subsidiaries, was also fined €3.5m by the Central Bank of Ireland in relation to the IT incident and IT governance failures which occurred in 2012. The vulnerabilities of the Group's IT systems are due to the complexity of the Group's IT infrastructure attributable in part to overlapping multiple legacy systems resulting from the Group's acquisitions and the consequential gaps in how the IT systems operate, and insufficient-investments in IT infrastructure in the past, creating challenges in recovering from system breakdowns. Critical system failure, any prolonged loss of service availability or any material breach of data security, particularly involving confidential customer data, could cause serious damage to the Group's ability to service its customers, could result in significant compensation costs, could breach regulations under which the Group operates and could cause long-term damage to the Group's reputation, business and brands. The Group is also currently implementing a significant IT investment programme which involves execution risks and may not be successful. See "*The Group is currently implementing a number of significant investment and rationalisation initiatives as part of the Group's IT and operational investment programme. Should such investment and rationalisation initiatives fail to achieve the expected results, it could have a material adverse impact on the Group's operations and its ability to retain or grow its customer business.*".

In addition, the Group is subject to cyber-security threats which have targeted financial institutions as well as governments and other institutions and have increased in recent years. Failure to protect the Group's operations from cyber-attacks could result in the loss of customer data or other sensitive information. During 2013, the Group experienced a number of IT failures following a series of deliberate attacks which temporarily prevented RBS, CFG and NatWest customers from accessing their accounts or making payments. The Bank of England, the FCA and HM Treasury have identified cyber security as a systemic risk to the UK financial sector and highlighted the need for financial institutions to improve resilience to cyber-attacks and the Group expects greater regulatory engagement on cyber security in the future. Although the Group has been implementing remedial actions to improve its resilience to the increasing intensity and sophistication of cyber-attacks, the Group expects to be the target of continued attacks in the future and there can be no assurance that the Group will be able to prevent all threats.

The Group's operations have inherent reputational risk.

Reputational risk, meaning the risk of brand damage and/or financial loss due to a failure to meet stakeholders' expectations of the Group's conduct and performance, is inherent in the Group's business. Stakeholders include customers, investors, rating agencies, employees, suppliers, government, politicians, regulators, special interest groups, consumer groups, media and the general public. Brand damage can be detrimental to the business of the Group in a number of ways, including its ability to build or sustain business relationships with customers, low staff morale, regulatory censure or reduced access to, or an increase in the cost of, funding. In particular, negative public opinion resulting from the actual or perceived manner in which the Group conducts its business activities, the Group's financial performance, ongoing investigations and proceedings and the settlement of any such investigations and proceedings, the level of direct and indirect government support or actual or perceived practices in the banking and financial industry may adversely affect the Group's ability to keep and attract customers and, in particular, corporate and retail depositors. Reputational risks may be increased as a result of the implementation of the Group's Transformation Plan. Modern technologies, in particular online social networks and other broadcast tools which facilitate communication with large audiences in short time frames and with minimal costs, may significantly enhance and accelerate the impact of damaging information and allegations. The Group cannot ensure that it will be successful in avoiding damage to its business from reputational risk, which could result in a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group may suffer losses due to employee misconduct.

The Group's businesses are exposed to risk from potential non-compliance with policies, regulatory rules, employee misconduct or negligence and fraud, which could result in regulatory sanctions and serious reputational or financial harm to the Group. In recent years, a number of multinational financial institutions, including the Group, have suffered material losses due to the actions of employees, including, for example, in connection with the LIBOR and foreign exchange investigations. It is not always possible to deter employee misconduct and the precautions the Group takes to prevent and detect this activity may not always be effective.

The Group's earnings and financial condition have been, and its future earnings and financial condition may continue to be, materially affected by depressed asset valuations resulting from poor market conditions.

In previous years, severe market events resulted in the Group recording large write-downs on its credit market exposures. Any deterioration in economic and financial market conditions or weak economic growth could lead to further impairment charges and write-downs. Moreover, market volatility and illiquidity (and the assumptions, judgments and estimates in relation to such matters that may change over time and may ultimately not turn out to be accurate) make it difficult to value certain of the Group's exposures. Valuations in future periods, reflecting, among other things, the then prevailing market conditions and changes in the credit ratings of certain of the Group's assets, may result in significant changes in the fair values of the Group's exposures, such as credit market exposures and the value ultimately realised by the Group may be materially different from the current or estimated fair value.

As part of the Group's previous restructuring and capital initiatives, including the 2013/2014 Strategic Plan, it has already materially reduced the size of its balance sheet mainly through the sale and run-off of non-core assets. The assets transferred to RCR (which included assets formerly part of the Group's Non-Core division together with additional assets identified as part of an HM Treasury review) became part of the Group's Capital Resolution Group ("**CRG**") as of 1 January 2014. In connection with the establishment of CRG, the Group indicated its aspiration to remove the vast majority, if not all of the assets comprising RCR within three years which resulted in increased impairments of £4.5 billion which were recognised in 2013. The value of the assets in RCR, excluding derivatives, was £14.9 billion at 31 December 2014 following significant reductions during 2014. Although the Group to date has successfully reduced the size of the RCR portfolio, the remaining assets in RCR may be difficult to sell and could be subject to further writedowns or, when sold, realised losses. The CRG also includes the Group's stake in the Williams & Glyn business as well as its remaining stake in CFG. In addition, as part of the restructuring of the Group's CIB business, the Group will be exiting or disposing of substantial parts of that business. The Group's interest in these businesses may be difficult to sell due to unfavourable market conditions for such assets or businesses. See also "*The Group's ability to achieve its capital targets will depend on the success of the Group's plans to further reduce the size of its business through the restructuring of its corporate and institutional banking business and make further divestments of certain of its portfolios and businesses including its remaining stake in Citizens Financial Group.*". Any of these factors could require the Group to recognise further significant write-downs, realise increased impairment charges or goodwill impairments, all of which may have a material adverse effect on its financial condition, results of operations and capital ratios.

The Group may be required to make further contributions to its pension schemes if the value of pension fund assets is not sufficient to cover potential obligations and to satisfy ring-fencing requirements.

The Group maintains a number of defined benefit pension schemes for certain former and current employees. Pension risk is the risk that the assets of the Group's various defined benefit pension schemes do not fully match the timing and amount of the schemes' liabilities which are long-term in nature, and as a result of which, the Group is required or chooses to make additional contributions to the schemes. Pension scheme liabilities vary with changes to long-term interest rates, inflation, pensionable salaries and the longevity of scheme members as well as changes in applicable legislation. The funded schemes hold assets to meet projected liabilities to the scheme members. Risk arises from the schemes because the value of the asset portfolios, together with any additional future contributions to the schemes, may be less than expected and because there may be greater than expected increases in the estimated value of the schemes' liabilities.

In these circumstances, the Group could be obliged, or may choose, to make additional contributions to the schemes. Given the economic and financial market difficulties that arose out of the financial crisis and the risk that such conditions may occur again over the near and medium term, the Group has experienced and may continue to experience increasing pension deficits or be required or elect to make further contributions to its pension schemes. Such deficits and contributions could be significant and have an adverse impact on the Group's results of operations or financial condition. In May 2014, the triennial funding valuation of The Royal Bank of Scotland Group Pension Fund was agreed which showed that the value of the liabilities exceeded the value of assets by £5.6 billion at 31 March 2013, a ratio of 82 per cent. To eliminate this deficit, the Group will pay annual contributions of £650 million from 2014 to 2016 and £450 million (indexed in line with inflation) from 2017 to 2023. These contributions are in addition to regular annual contributions of approximately £270 million in respect of the ongoing accrual of benefits as well as contributions to meet the expenses of running the scheme.

The Banking Reform Act 2013 requires banks to ring-fence specific activities (principally retail and small business deposits) from certain other activities. Ring-fencing will require changes to the structure of the Group's existing defined benefit pension schemes as ring-fenced banks may not be liable for debts to pension schemes that might arise as a result of the failure of another entity of the ring-fenced bank's group, which could affect assessments of the Group's schemes deficits. The draft Financial Services and Markets Act 2000 (Banking Reform Pensions) Regulations 2015 requires that ring-fence banks ensure that they cannot become liable for the pension schemes of the rest of their group, or anyone else after 1 January 2026. The Group is developing a strategy to meet the requirements of these regulations, which has been discussed with the PRA. The implementation of this strategy will require the agreement of pension scheme trustees. Discussions with the pension trustee will be influenced by the Group's overall ring-fence strategy and its pension funding and investment strategies. If agreement is not reached with the pension trustee, alternative options less favourable to the Group will need to be developed to meet the requirements of the pension regulations. The costs associated with the restructuring of the Group's existing defined benefit pension schemes could be material and could result in higher levels of additional contributions than those described above and currently agreed with the pension trustee.

The financial performance of the Group has been, and may continue to be, materially affected by counterparty credit quality and deterioration in credit quality could arise due to prevailing economic and market conditions and legal and regulatory developments.

The Group has exposure to many different industries and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and counterparties are inherent in a wide range of the Group's businesses. In particular, the Group has significant exposure to certain individual counterparties in weaker business sectors and geographic markets and also has concentrated country exposure in the UK, the US and across the rest of Europe (principally Germany, the Netherlands, Ireland and France) (at 31 December 2014 credit risk assets (excluding personal finance) in the UK were £180.8 billion, in North America £81.8 billion and in Western Europe (excluding the UK) £76.3 billion); and within certain business sectors, namely personal finance, financial institutions, commercial real estate, shipping and the oil and gas sector (at 31 December 2014 personal finance lending amounted to £180.8 billion, lending to financial institutions was £91.5 billion, commercial real estate lending was £43.3 billion, lending to the oil and gas sector was £10.7 billion and lending against ocean going vessels was £10.4 billion). As the Group implements its new strategy and withdraws from many geographic markets and materially scales down its activities in the United States, the Group's relative exposure to the UK will increase significantly as its business becomes more concentrated in the UK.

The credit quality of the Group's borrowers and counterparties is impacted by prevailing economic and market conditions and by the legal and regulatory landscape in their respective markets.

Credit quality has improved in certain of the Group's core markets, in particular the UK and Ireland, as these economies have improved. However, a further deterioration in economic and market conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality and also impact the Group's ability to enforce contractual security rights. In addition, the Group's credit risk is exacerbated when the collateral it holds cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to the Group, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced in recent years. This has been particularly the case with respect to large parts of the Group's commercial real estate portfolio. Any such losses could have an adverse effect on the Group's results of operations and financial condition.

Concerns about, or a default by, one financial institution could lead to significant liquidity problems and losses or defaults by other financial institutions, as the commercial and financial soundness of many financial institutions may be closely related as a result of credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty may lead to market-wide liquidity problems and losses for, or defaults by, the Group. This systemic risk may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the Group interacts on a daily basis, all of which could have a material adverse effect on the Group's access to liquidity or could result in losses which could have a material adverse effect on the Group's financial condition, results of operations and prospects.

In certain jurisdictions in which the Group does business, particularly Ireland, additional constraints have been imposed in recent years on the ability of certain financial institutions to complete foreclosure proceedings in a timely manner (or at all), including as a result of interventions by certain states and local and national governments. These constraints have lengthened the time to complete foreclosures, increased the backlog of repossessed properties and, in certain cases, have resulted in the invalidation of purported foreclosures.

The EU, the ECB, the International Monetary Fund and various national authorities have proposed and implemented certain measures intended to address systemic financial stresses in the Eurozone, including the creation of a European Banking Union which, through a Single Resolution Mechanism ("**SRM**") will apply the substantive rules of bank recovery and resolution set out in the BRRD. Current expectations are that the SRM will apply from 1 January 2016, subject to certain provisions which came into effect from 1 January 2015 relating to the cooperation between national resolution authorities and the financial stability board. The effectiveness of these and other actions proposed and implemented at both the EU and national level to address systemic stresses in the Eurozone is not assured.

The trends and risks affecting borrower and counterparty credit quality have caused, and in the future may cause, the Group to experience further and accelerated impairment charges, increased repurchase demands, higher costs, additional write-downs and losses for the Group and an inability to engage in routine funding transactions.

Changes in interest rates, foreign exchange rates, credit spreads, bond, equity and commodity prices, basis, volatility and correlation risks and other market factors have significantly affected and will continue to affect the Group's business and results of operations.

Some of the most significant market risks the Group faces are interest rate, foreign exchange, credit spread, bond, equity and commodity prices and basis, volatility and correlation risks. Changes in interest rate levels (or extended periods of low interest rates such as experienced over the past several years), yield curves (which remain depressed) and spreads may affect the interest rate margin realised between lending and borrowing costs, the effect of which may be heightened during periods of liquidity stress. Changes in currency rates, particularly in the sterling-US dollar and sterling-euro exchange rates, affect the value of assets, liabilities, income and expenses denominated in foreign currencies and the reported earnings of the Group's non-UK subsidiaries and may affect the Group's reported consolidated financial condition or its income from foreign exchange dealing. Such changes may result from the decisions of Central Banks in Europe and of the Federal Reserve in the US and lead to sharp and sudden variations in foreign exchange rates. For accounting purposes, the Group carries some of its issued debt, such as debt securities, at the current market price on its balance sheet. Factors affecting the current market price for such debt, such as the credit spreads of the Group, may result in a change to the fair value of such debt, which is recognised in the income statement as a profit or loss.

The performance and volatility of financial markets affects bond and equity prices, has caused, and may in the future cause, changes in the value of the Group's investment and trading portfolios. Financial markets experienced significant volatility towards the end of 2014 and this trend has continued in early 2015, resulting in further short term changes in the valuation of certain of the Group's assets. In addition, during the last quarter of 2014, oil prices fell significantly against their historical levels and other commodity prices also decreased. The Group is exposed to oil prices though its exposure to counterparties in the energy sector and oil producing countries. Further or sustained decreases in oil prices could negatively impact counterparties and the value of the Group's trading portfolios. As part of its on-going derivatives operations, the Group also faces significant basis, volatility and correlation risks, the occurrence of which are also impacted by the factors noted above.

While the Group has implemented risk management methods to mitigate and control these and other market risks to which it is exposed, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group's financial performance and business operations.

The value or effectiveness of any credit protection that the Group has purchased depends on the value of the underlying assets and the financial condition of the insurers and counterparties.

The Group has credit exposure arising from over-the-counter derivative contracts, mainly credit default swaps ("**CDSs**"), and other credit derivatives, each of which are carried at fair value. The fair value of these CDSs, as well as the Group's exposure to the risk of default by the underlying counterparties, depends on the valuation and the perceived credit risk of the instrument against which protection has been bought. Many market counterparties have been adversely affected by their exposure to residential mortgage linked and corporate credit products, whether synthetic or otherwise, and their actual and perceived creditworthiness may deteriorate rapidly. If the financial condition of these counterparties or their actual or perceived creditworthiness deteriorates, the Group may record further credit valuation adjustments on the credit protection bought from these counterparties under the CDSs. The Group also recognises any fluctuations in the fair value of other credit derivatives. Any such adjustments or fair value changes may have a material adverse impact on the Group's financial condition and results of operations.

In the UK and in other jurisdictions, the Group is responsible for contributing to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers.

In the UK, the Financial Services Compensation Scheme ("**FSCS**") was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable, or likely to be unable, to pay claims against it and may be required to make payments either in connection with the exercise of a stabilisation power or in exercise of the bank insolvency procedures under the Banking Act 2009. The FSCS is funded by levies on firms authorised by the FCA, including the Group. In the event that the FSCS raises funds from the authorised firms, raises those funds more frequently or significantly increases the levies to be paid by such firms, the associated costs to the Group may have an adverse impact on its results of operations and financial condition.

In addition, the BRRD requires Member States to establish financing arrangements for the purpose of ensuring the effective application by national resolution authorities of the resolution tools and powers, which will require national resolution funds to raise "ex ante" contributions on banks and investment firms in proportion to their liabilities and risk profiles as well as "ex post" funding contributions. Following the adoption of the European delegated regulation on "ex-ante" contributions, the UK Government confirmed that it would implement the "ex post" funding requirements through the UK bank levy of the Finance Act 2011.

To the extent that other jurisdictions where the Group operates have introduced or plan to introduce similar compensation, contributory or reimbursement schemes (such as in the US with the Federal Deposit Insurance Corporation), the Group may make further provisions and may incur additional costs and liabilities, which may have an adverse impact on its financial condition and results of operations.

The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgments and estimates that may change over time or may ultimately not turn out to be accurate.

Under International Financial Reporting Standards ("**IFRS**"), the Group recognises at fair value: (i) financial instruments classified as held-for-trading or designated as at fair value through profit or loss; (ii) financial assets classified as available-for-sale; and (iii) derivatives.

Generally, to establish the fair value of these instruments, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In such circumstances, the Group's internal valuation models require the Group to make assumptions, judgments and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain. These assumptions, judgments and estimates also need to be updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments has had and could continue to have a material adverse effect on the Group's earnings, financial condition and capital position.

The Group relies on valuation, capital and stress test models to conduct its business and anticipate capital and funding requirements. Failure of these models to provide accurate results or accurately reflect changes in the micro and macro economic environment in which the Group operates could have a material adverse effect on the Group's business, capital and results.

Given the complexity of the Group's business, strategy and capital requirements, the Group relies on analytical models to assess the value of its assets and its risk exposure and anticipate capital and funding requirements. The Group's valuation, capital and stress test models and the parameters and assumptions on which they are based, need to be constantly updated to ensure their accuracy. Failure of these models to accurately reflect changes in the environment in which the Group operates or the failure to properly input any such changes could have an adverse impact on the modelled results or could fail to accurately capture the risk profile of the Group's financial instruments. Some of the analytical models used by the Group are predictive in nature. The use of predictive models has inherent risks and may incorrectly forecast future behaviour, leading to flawed decision making and potential losses. The Group also uses valuation models that rely on market data inputs. If incorrect market data is input into a valuation model, it may result in incorrect valuations or valuations different to those which were predicted and used by the Group in its forecasts or decision making. Should such models prove to be incorrect or misleading, decisions made by the Group in reliance thereon could expose the Group to business, capital and funding risk.

The Group's results could be adversely affected in the event of goodwill impairment.

The Group capitalises goodwill, which is calculated as the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Acquired goodwill is recognised initially at cost and subsequently at cost less any accumulated impairment losses. As required by IFRS, the Group tests goodwill for impairment annually, or more frequently when events or circumstances indicate that it might be impaired. An impairment test involves comparing the recoverable amount (the higher of the value in use and fair value less cost to sell) of an individual cash generating unit with its carrying value. At 31 December 2014, the Group carried goodwill of £6.3 billion on its balance sheet. The value in use and fair value of the Group's cash generating units are affected by market conditions and the performance of the economies in which the Group operates. Where the Group is required to recognise a goodwill impairment, it is recorded in the Group's income statement, although it has no effect on the Group's regulatory capital position. Further impairments of the Group's goodwill could have an adverse effect on the Group's results and financial condition.

Any significant write-down of goodwill could have a material adverse effect on the Group's results of operations.

The recoverability of certain deferred tax assets recognised by the Group depends on the Group's ability to generate sufficient future taxable profits and may be affected by changes to tax legislation.

In accordance with IFRS, the Group has recognised deferred tax assets on losses available to relieve future profits from tax only to the extent that it is probable that they will be recovered. The deferred tax assets are quantified on the basis of current tax legislation and accounting standards and are subject to change in respect of the future rates of tax or the rules for computing taxable profits and offsetting allowable losses. Failure to generate sufficient future taxable profits or changes in tax legislation (including rates of tax) or accounting standards may reduce the recoverable amount of the recognised deferred tax assets. At 31 December 2014, the value of the Group's deferred tax assets was £1.5 billion. In December 2014 the UK Government announced a proposed restriction on the use of certain brought forward tax losses of banking companies to 50 per cent. of relevant profits from 1 April 2015 which may also affect the recoverable amount of recognised deferred tax assets. In addition, the implementation of the rules relating to ring-fencing and the resulting restructuring of the Group may further restrict the Group's ability to recognise tax losses within the Group as deferred tax assets.

DESCRIPTION OF THE ROYAL BANK OF SCOTLAND GROUP PLC

Overview

RBSG is a public limited company incorporated in Scotland with registration number SC045551 and was incorporated under Scots law on 25 March 1968. RBSG is the holding company of a large banking and financial services group. Headquartered in Edinburgh, the Group operates in the United Kingdom, the United States and internationally through its principal subsidiaries, RBS and NatWest. Both RBS and NatWest are major United Kingdom clearing banks. In the United States, the Group's subsidiary Citizens Financial Group, Inc. ("**Citizens**") is a large commercial banking organisation. The Group has a diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

Transfers of a substantial part of the business activities of The Royal Bank of Scotland N.V. to RBS

In 2007, RFS Holdings B.V. ("**RFS Holdings**"), which was jointly owned by the Group, the Dutch State (successor to Fortis) and Santander ("**Santander**") (together, the "**Consortium Members**") completed the acquisition of ABN AMRO Holding N.V.

On 1 April 2010, the businesses acquired by the Dutch State were transferred to ABN AMRO Group N.V., itself owned by the Dutch State. In connection with the transfer, ABN AMRO Holding N.V. was renamed RBS Holdings N.V. and its banking subsidiary was renamed The Royal Bank of Scotland N.V. ("**RBS N.V.**"). Certain assets of RBS N.V. continue to be shared by the Consortium Members. In October 2011, the Group completed the transfer of a substantial part of the UK activities of RBS N.V. to RBS. Substantially all of the Netherlands and EMEA businesses were transferred to RBS in September 2012. Russia, Korea and the North American businesses were transferred to RBS in 2013. During 2014 the Thailand business was transferred to RBS.

Assets, owners' equity and capital ratios

The Group had total assets of £1,051 billion and owners' equity of £57 billion as at 31 December 2014. The Group's capital ratios on the end-point CRR basis as at 31 December 2014 were a total capital ratio of 13.7 per cent., a CET1 capital ratio of 11.2 per cent. and a Tier 1 capital ratio of 11.2 per cent. The Group's capital ratios on the PRA transitional basis as at 31 December 2014 were a total capital ratio of 17.1 per cent., a CET1 capital ratio of 11.1 per cent. and a Tier 1 capital ratio of 13.2 per cent.

Principal subsidiaries

RBS and RFS Holdings B.V. are directly owned by RBSG, and all of the other subsidiary undertakings are owned directly, or indirectly through intermediate holding companies, by these companies. All of these companies are included in the Group's consolidated financial statements and have an accounting reference date of 31 December.

RBS is supervised by the PRA as a bank.

The principal subsidiary undertakings of RBSG are shown below. Their capital consists of ordinary shares, preference shares and other preferred securities, which are unlisted with the exception of the common stock of Citizens Financial Group and certain preference shares issued by NatWest and certain preferred securities issued by RBS Holdings N.V.

- The Royal Bank of Scotland plc

- National Westminster Bank Plc
- Citizens Financial Group, Inc.
- Coutts & Company
- RBS Securities Inc.
- Ulster Bank Limited
- RBS Holdings N.V.

The Group's businesses

On 27 February 2014, the Group announced a refreshed strategic direction. The reorganised bank will be a UK-focused retail and corporate bank with an international footprint to drive its corporate business. The previously reported operating divisions are now realigned into three franchises:

Personal & Business Banking (PBB) comprises two reportable segments, UK Personal & Business Banking, including Williams & Glyn (UK PBB) (as defined below) and Ulster Bank:

- **UK Personal & Business Banking ("UK PBB")** offers a comprehensive range of banking products and related financial services to the personal and small business market. It serves customers through a number of channels including: the RBS and NatWest network of branches and ATMs in the UK, telephony, online and mobile. UK PBB is committed to serving customers well, making banking easier and convenient whilst ensuring that the Group does business in an open, honest and sustainable manner.
- **Ulster Bank** is a leading retail and commercial bank in Northern Ireland and the Republic of Ireland. It provides a comprehensive range of financial services through both its Retail Banking division, which provides loan and deposit products through a network of branches and direct channels, and its Corporate Banking division, which provides services to businesses and corporate customers.

Commercial & Private Banking (CPB) comprises two reportable segments, Commercial Banking and Private Banking:

- **Commercial Banking** is a leading provider of banking, finance and risk management services to the commercial, mid-corporate and corporate sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, telephone and internet channels. The product range includes invoice finance through the RBSIF brand and asset finance through the Lombard brand.
- **Private Banking** provides banking and wealth management services in the UK through Coutts & Co and Adam & Company, offshore through RBS International and Isle of Man Bank and internationally through Coutts & Co Ltd.

Corporate & Institutional Banking (CIB) serves our corporate and institutional clients primarily in the UK and Western Europe, as well as those US and Asian multinationals with substantial trade and investment links in the region, with debt financing, risk management and trade services, focusing on core product capabilities that are of most relevance to our clients. CIB is a single reportable segment. On 26 February 2015 the Group announced that within the overall strategic shape outlined for CIB in 2014, RBSG is making further changes to improve its medium-term returns, building a stronger, safer and more sustainable business, focused mainly on UK and

Western European customers, both corporates and financial institutions, supported by trading and distribution platforms in the UK, US and Singapore.

In addition to the segments noted above, the Group will continue to manage and report CFG and RCR separately until disposal or wind-down.

Citizens Financial Group (CFG) provides financial services primarily through the Citizens and Charter One brands. CFG is engaged in retail and corporate banking activities through its branch network in 11 states in the United States and through non-branch offices in other states. It is intended that RBS will complete the disposal of CFG by 2016.

RBS Capital Resolution (RCR) became fully operational on 1 January 2014 with a pool of approximately £29 billion of assets with particularly high long-term capital intensity, credit risk and/or potentially volatile outcomes in stressed environments. RCR brings assets under common management and increases focus on managing these assets so as to release capital.

Services supports the customer-facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services. Services drives efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group's purchasing power and is the Group's centre of excellence for managing large-scale and complex change. For reporting purposes, Services costs are allocated to the divisions above. It is not deemed a reportable segment.

Central Functions comprises corporate functions, such as treasury, finance, risk management, compliance, legal, communications and human resources. Central functions manages RBS capital resources and RBS-wide regulatory projects and provides services to the reportable segments.

State Aid

On 14 December 2009, the EC formally approved the issuance of £25.5 billion of B Shares to HM Treasury, a contingent commitment (which has since been cancelled by RBSG) by HM Treasury to subscribe for up to an additional £8 billion of B Shares and the State Aid restructuring plan.

To comply with the EC State Aid requirements RBSG agreed a series of restructuring measures. These include the divestment of Direct Line Insurance Group plc (completed in 2014), the sale of 80.01 per cent. of RBS's Global Merchant Services business (completed in 2010) and the sale of substantially all of the RBS Sempra Commodities joint venture business (largely completed in 2010), as well as the divestment of the RBS branch-based business in England and Wales and the NatWest branches in Scotland, along with the direct SME customers across the UK ("**UK branch-based businesses**").

In October 2012, Santander UK plc withdrew from its agreed purchase of the UK branch-based businesses. In September 2013, RBSG reached an agreement with an investor consortium led by Corsair Capital and Centerbridge Partners for an investment in these businesses ahead of a stock market flotation. This includes 308 RBS branches in England and Wales and six NatWest branches in Scotland. The new bank will be called Williams & Glyn, the brand the Group used for its branches in England and Wales before 1985. It is intended that Williams & Glyn will be launched by the end of 2016.

In September 2014, RBSG completed a partial IPO of CFG resulting in 28.75 per cent. of CFG's shares being floated. Full disposal of CFG is expected by the end of 2016.

During 2014, RBSG completed the disposal of its shareholding in DLG. This followed earlier disposals of 34.7 per cent. of DLG shares in 2012 and 36.8 per cent. of DLG shares in 2013.

RBSG's major shareholder

As at 31 January 2015, the UK Government, through UKFI, held 62.3 per cent. of the issued ordinary share capital of RBSG.

Following the First Placing and Open Offer in December 2008, HM Treasury owned approximately 58 per cent. of the enlarged ordinary share capital of RBSG and £5 billion of non-cumulative sterling preference shares. In April 2009, RBSG issued new Ordinary Shares by way of the Second Placing and Open Offer, the proceeds from which were used in full to fund the redemption of the preference shares held by HM Treasury at 101 per cent. of their issue price together with the accrued dividend and the commissions payable to HM Treasury under the Second Placing and Open Offer Agreement. The Second Placing and Open Offer was underwritten by HM Treasury.

On 22 December 2009, RBSG issued £25.5 billion of B Shares to HM Treasury. This increased HM Treasury's economic interest in RBSG to approximately 84 per cent. which was reduced to approximately 79.1 per cent. following various capital actions. The B Shares are convertible, at the option of the holder at any time, into Ordinary Shares. HM Treasury's economic interest in RBSG would increase if RBSG elects to issue B Shares to HM Treasury to fund dividend payments under the terms of the B Shares. For further details of the issuance of the £25.5 billion of B shares and the series 1 dividend access share (the "**Dividend Access Share**"), see the section on page 418 of the 2014 Annual Report and Accounts of RBSG headed "B Shares and dividend access share" which is incorporated by reference herein.

The Dividend Access Share retirement agreement was approved at the General Meeting of RBSG's shareholders held on 25 June 2014. The first dividend payment on the Dividend Access Share of £320 million was made in the third quarter of 2014, with the balance of £1.18 billion to be paid by 31 December 2015. If the balance is not paid by 31 December 2015 interest will accrue on the balance outstanding at 5 per cent. per annum until 1 January 2021 and 10 per cent. thereafter. Among other benefits, the retirement of the Dividend Access Share will in future allow the Board to state more clearly a dividend policy to investors.

HM Treasury has agreed that it shall not exercise the rights of conversion in respect of the B Shares if and to the extent that, following any such conversion, it would hold more than 75 per cent. of the total issued Ordinary Shares. Furthermore, HM Treasury has agreed that it shall not be entitled to vote in respect of the B Shares or the Dividend Access Share held by it to the extent that votes cast on such shares, together with any other votes which HM Treasury is entitled to cast in respect of any other shares held by or on behalf of HM Treasury, would exceed 75 per cent. of the total votes eligible to be cast on a resolution proposed at a general meeting of RBSG.

Relationship with RBSG's major shareholder

The UK Government's shareholding in RBSG is currently held by the Solicitor for the Affairs of HM Treasury as nominee for HM Treasury and managed by UKFI, a company wholly-owned by HM Treasury. The relationship between HM Treasury and UKFI, and between UKFI and UK Government investee banks is set out in the UKFI Framework Document and UKFI Investment Mandate, agreed between HM Treasury and UKFI.

The UKFI Framework Document sets out UKFI's overarching objective, to "develop and execute an investment strategy for disposing of the investments in an orderly and active way through sale, redemption, buy-back or other means within the context of an overarching objective of protecting and creating value for the taxpayer as shareholder, paying due regard to the maintenance of financial stability and to acting in a way that promotes competition".

It states that UKFI will operate "on a commercial basis and at arm's length from Government" and will manage the United Kingdom financial institutions in which HM Treasury holds an interest "on a commercial basis and will not intervene in day-to-day management decisions of the Investee Companies". HM Treasury expects UKFI to act in the same way as any other engaged institutional shareholder would. The UKFI Investment Mandate states that it will "follow best institutional shareholder practice. This includes compliance with the Institutional Shareholders' Committee's Statement of Principles together with any developments to best institutional shareholder practice arising from recommendations or guidance contained in the Walker Review or elsewhere".

The Group agreed with HM Treasury that it would be at the leading edge of implementing the G-20 principles and that it would consult with UKFI in connection with the Group's remuneration policy. The Group also made a commitment to HM Treasury to comply with the United Kingdom's (PRA and FCA combined) Remuneration Code.

This included compliance with requirements imposed under the Capital Requirements Directive IV which limits the maximum ratio of variable to fixed remuneration for relevant individuals. The Directors' Remuneration Policy was approved by shareholders at the Annual General Meeting on 25 June 2014 and a copy is available at rbs.tm/complianceandrem.

Separate to the shareholding relationship, RBSG has a number of relationships with the UK Government arising out of the UK Government's provision of support.

Certain other considerations relating to RBSG's relationship with HM Treasury and UKFI are set out in the risk factors headed "*HM Treasury (or UK Financial Investments Limited ("UKFI") on its behalf) may be able to exercise a significant degree of influence over the Group and any proposed offer or sale of its interests may affect the price of securities issued by the Group.*" and "*The Group may be unable to attract or retain senior management (including members of the Board) and other skilled personnel of the appropriate qualification and competence. The Group may also suffer if it does not maintain good employee relations*.". Other than in relation to these areas, however, UKFI's governance documents state that the UK Government's intention is to allow the financial institutions in which it holds an interest to operate their business independently. No member of the Board represents or acts on the instructions of UKFI or HM Treasury. There is no further arrangement with UKFI in this regard, beyond usual shareholder rights, and no such arrangements with any other shareholder.

As a result of the UK Government's holding, the UK Government and UK Government-controlled bodies became related parties of the Group. In the normal course of business, the Group enters into transactions with many of these bodies on an arm's length basis.

The Group is not a party to any transaction with the UK Government or any UK Government-controlled body involving goods or services which is material to the Group, or any such transaction that is unusual in its nature or conditions. To the Group's knowledge, the Group is not a party to any transaction with the UK Government or any UK Government-controlled body involving goods or services which is material to the UK Government or any UK Government-controlled body. However, given the nature and extent of the UK Government-controlled bodies, the Group may not know whether a transaction is material for such a party.

Any outstanding loans made by the Group to or for the benefit of the UK Government or any UK Government-controlled body, were made on an arm's length basis and (i) such loans were made in the ordinary course of business, (ii) were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other persons, and (iii) did not involve more than the normal risk of collectability or present other unfavourable features. The Group notes, however, that with respect to outstanding loans made by the Group to or for the benefit of the UK Government or any UK Government-controlled body, there may not exist any comparable transactions with other persons.

In accordance with the United Kingdom Listing Rules, RBSG has entered into an agreement with HM Treasury (the "**Controlling Shareholder**") which is intended to ensure that the Controlling Shareholder complies with the independence provisions set out in the United Kingdom Listing Rules.

Litigation, Investigations and Reviews

RBSG and certain members of the Group are party to legal proceedings and the subject of investigation and other regulatory and governmental action in the United Kingdom, the EU, the United States and other jurisdictions.

The Group recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation. While the outcome of the legal proceedings, investigations and regulatory and governmental matters in which the Group is involved is inherently uncertain, the directors believe that, based on the information available to them, appropriate provisions have been made in respect of legal proceedings, investigations and regulatory and governmental matters as at 31 December 2014 (see Note 22 in the section entitled "Accruals, deferred income and other liabilities" on pages 410 to 411 of the 2014 Annual Report and Accounts of RBSG). The aggregate provisions for litigation and regulatory proceedings of £1,500 million recognised in 2014, included a provision of £720 million related to the foreign exchange related investigations, of which £320 million was taken in the last quarter of 2014. The future outflow of resources in respect of any matter may ultimately prove to be substantially greater than or less than the aggregate provision that the Group has recognised.

In many proceedings, it is not possible to determine whether any loss is probable or to estimate the amount of any loss. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and document production exercises and determination of important factual matters, and by addressing novel or unsettled legal questions relevant to the proceedings in question, before a liability can be reasonably estimated for any claim. The Group cannot predict if, how, or when such claims will be resolved or what the eventual settlement, damages, fine, penalty or other relief, if any, may be, particularly for claims that are at an early stage in their development or where claimants seek substantial or indeterminate damages.

There are also situations where the Group may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, or in order to take account of the risks inherent in defending claims or investigations even for those matters for which the Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. The future outflow of resources in respect of any matter may ultimately prove to be substantially greater than or less than the aggregate provision that the Group has recognised for that matter.

Other than those discussed below, no member of the Group is or has been involved in governmental, legal or regulatory proceedings (including those which are pending or threatened) that are expected to be material individually or in aggregate.

Other than as set out in the sections entitled "Litigation" and "Investigations and reviews" on pages 40 to 54, there are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which RBSG is aware) during the 12 months prior to the date of this Registration Document, which may have, or have had in the recent past, significant effects on the financial position or profitability of RBSG and/or the Group taken as a whole.

In relation to the subject matter of this section, RBSG will comply with its obligations as a company with securities admitted to the Official List of the United Kingdom Listing Authority or as a supervised firm regulated by the FCA and the PRA.

Litigation

Shareholder litigation (US)

The Group and certain of its subsidiaries, together with certain current and former officers and directors were named as defendants in a purported class action filed in the United States District Court for the Southern District of New York involving holders of American Depositary Receipts (the "**ADR Claims**").

A consolidated amended complaint asserting claims under Sections 10 and 20 of the US Securities Exchange Act of 1934 and Sections 11, 12 and 15 of the Securities Act was filed in November 2011 on behalf of all persons who purchased or otherwise acquired the Group's American Depositary Receipts from issuance through 20 January 2009. In September 2012, the Court dismissed the ADR Claims with prejudice. In August 2013, the Court denied the plaintiffs' motions for reconsideration and for leave to re-plead their case. The plaintiffs appealed the dismissal of this case to the Second Circuit Court of Appeals and that appeal was heard on 19 June 2014. A decision in respect of the appeal has not yet been issued.

Shareholder litigation (UK)

Between March and July 2013, claims were issued in the High Court of Justice of England and Wales by sets of current and former shareholders, against the Group (and in one of those claims, also against certain former individual officers and directors) alleging that untrue and misleading statements and/or improper omissions were made in connection with the rights issue announced by the Group on 22 April 2008 in breach of the FSMA. In July 2013 these and other similar threatened claims were consolidated by the Court via a Group Litigation Order. The Group's defence to the claims was filed on 13 December 2013. Since then, further High Court claims have been issued against the Group under the Group Litigation Order. At a case management conference in December 2014 the judge ordered that trial commence in December 2016.

Other securitisation and securities related litigation in the United States

Group companies have been named as defendants in their various roles as issuer, depositor and/or underwriter in a number of claims in the United States that relate to the securitisation and securities underwriting businesses. These cases include actions by individual purchasers of securities and purported class action suits. Together, the pending individual and class action cases involve the issuance of more than US$46 billion of mortgage-backed securities ("**MBS**") issued primarily from 2005 to 2007. In general, plaintiffs in these actions claim that certain disclosures made in connection with the relevant offerings contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the securities were issued. Group companies remain as defendants in more than 30 lawsuits brought by purchasers of MBS, including the purported class action identified below.

Among these MBS lawsuits are two cases filed in September 2011 by the US Federal Housing Finance Agency ("**FHFA**") as conservator for the Federal National Mortgage Association ("**Fannie Mae**") and the Federal Home Loan Mortgage Corporation ("**Freddie Mac**"). The primary FHFA lawsuit remains pending in the United States District Court for the District of Connecticut, and it relates to approximately US$32 billion of MBS for which Group entities acted as sponsor/depositor and/or lead underwriter or co-lead underwriter. Of these approximately US$9.5 billion were outstanding at 31 December 2014 with cumulative write downs to date of approximately US$1.09 billion (being the recognised loss of principal value suffered by security holders). In September 2013, the Court denied the defendants' motion to dismiss FHFA's amended complaint in this case. Discovery is ongoing and is scheduled to be substantially completed by the end of 2015.

The other remaining FHFA lawsuit that involves the Group (in which the primary defendant is Nomura Holding America Inc. and subsidiaries) names RBS Securities Inc. as a defendant by virtue of the fact that it was an underwriter of some of the securities at issue. Trial in this matter is scheduled to commence in March 2015 in the United States District Court for the Southern District of New York. Three other FHFA lawsuits (against JP Morgan, Morgan Stanley and Countrywide) in which RBS Securities Inc. was an underwriter defendant were settled without any contribution from RBS Securities Inc. On 19 June 2014, another FHFA lawsuit in which RBS Securities Inc. was an underwriter defendant (against Ally Financial Group) was settled by RBS Securities Inc. by payment of US$99.5 million.

Other MBS lawsuits against Group companies include three cases filed by the National Credit Union Administration Board (on behalf of US Central Federal Credit Union, Western Corporate Federal Credit Union, Southwest Corporate Federal Credit Union, and Members United Corporate Federal Credit Union), five cases filed by the Federal Home Loan Banks of Boston, Chicago, Seattle and San Francisco, and a case filed by the Commonwealth of Virginia on behalf of the Virginia Retirement System.

Group companies are also defendants in a purported MBS class action entitled New Jersey Carpenters Health Fund v. Novastar Mortgage Inc. et al., which remains pending in the United States District Court for the Southern District of New York. The status of the previously disclosed settlements in the other MBS class actions in which Group companies were defendants is as follows: In re IndyMac Mortgage-Backed Securities Litigation (the court indicated its intention to approve settlement at the final settlement hearing held on 3 February 2015), New Jersey Carpenters Vacation Fund et al. v. The Royal Bank of Scotland plc et al. (final court approval of the settlement granted in November 2014), and Luther v. Countrywide Financial Corp. et al. and related class action cases (final court approval of the settlement granted in December 2013). In the latter matter, several members of the settlement class are appealing the court-approved settlement to the United States Court of Appeals for the Ninth Circuit.

Certain other claims on behalf of public and private institutional investors have been threatened against the Group in connection with various mortgage-related offerings. The Group cannot predict whether any of these threatened claims will be pursued, but expects that several may. If such claims are asserted and are successful, the amounts involved may be material.

In many of the securitisation and securities related cases in the US, the Group has or will have contractual claims to indemnification from the issuers of the securities (where a Group company is underwriter) and/or the underlying mortgage originator (where a Group company is issuer). The amount and extent of any recovery on an indemnification claim, however, is uncertain and subject to a number of factors, including the ongoing creditworthiness of the indemnifying party a number of whom are or may be insolvent.

*London Interbank Offered Rate ("**LIBOR**")*

Certain members of the Group have been named as defendants in a number of class actions and individual claims filed in the US with respect to the setting of LIBOR and certain other benchmark interest rates. The complaints are substantially similar and allege that certain members of the Group and other panel banks individually and collectively violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law, as well as contracts, by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means.

Most of the USD LIBOR-related actions in which Group companies are defendants, including all purported class actions relating to USD LIBOR, have been transferred to a coordinated proceeding in the United States District Court for the Southern District of New York. In the coordinated proceeding, consolidated class action complaints were filed on behalf of (i) exchange-based purchaser plaintiffs, (ii) over-the-counter purchaser plaintiffs, and (iii) corporate debt purchaser plaintiffs. In orders dated 29 March 2013 and 23 June 2014, the Court dismissed plaintiffs' antitrust claims and claims under RICO (Racketeer Influenced and Corrupt Organizations Act), but declined to dismiss (a) certain Commodities Exchange Act claims on behalf of persons who transacted in Eurodollar futures contracts and options on futures contracts on the Chicago Mercantile Exchange (on the theory that defendants' alleged persistent suppression of USD LIBOR caused loss to plaintiffs), and (b) certain contract and unjust enrichment claims on behalf of over-the-counter purchaser plaintiffs who transacted directly with a defendant. Over 35 other USD LIBOR-related actions involving the Group, including purported class actions on behalf of lenders and mortgage borrowers, are subject to motions to dismiss that are being litigated. Discovery has been stayed in all cases in the coordinated proceeding pending further order from the Court. On 21 January 2015, the US Supreme Court held in Gelboim v. Bank of America Corp. that plaintiffs in the class action on behalf of corporate debt purchasers do not need to wait until there is a final judgment in the coordinated proceeding before they can appeal the dismissal of their antitrust claims to the United States Court of Appeals for the Second Circuit.

Certain members of the Group have also been named as defendants in class actions relating to (i) JPY LIBOR and Euroyen TIBOR (the "**Yen action**"), (ii) Euribor, and (iii) Swiss Franc LIBOR, all three of which are pending in the United States District Court for the Southern District of New York. On 28 March 2014, the Court in the Yen action dismissed the plaintiffs’ antitrust claims, but refused to dismiss their claims under the Commodity Exchange Act for price manipulation.

Details of LIBOR investigations and their outcomes affecting the Group are set out under “Investigations and reviews” on page 44.

ISDAFIX antitrust litigation

Beginning in September 2014, RBS and a number of other financial institutions were named as defendants in several purported class action complaints (now consolidated into one complaint) alleging manipulation of USD ISDAFIX rates, to the detriment of persons who entered into transactions that referenced those rates. The complaints were filed in the United States District Court for the Southern District of New York and contain claims for unjust enrichment and violations of the US antitrust laws and the Commodities Exchange Act. This matter is subject to pre-discovery motions to dismiss some or all of the claims against the defendants.

Credit default swap antitrust litigation

Certain members of the Group, as well as a number of other financial institutions, are defendants in a consolidated antitrust class action pending in the United States District Court for the Southern District of New York. The plaintiffs generally allege that defendants violated the US antitrust laws by restraining competition in the market for credit default swaps through various means and thereby causing inflated bid-ask spreads for credit default swaps. On 4 September 2014, the Court largely denied the defendants' motion to dismiss this matter.

FX antitrust litigation

Certain members of the Group, as well as a number of other financial institutions, are defendants in a consolidated antitrust class action on behalf of US-based plaintiffs that is pending in the United States District Court for the Southern District of New York. The plaintiffs in this action allege that the defendants violated the US antitrust laws by conspiring to manipulate the foreign exchange market by manipulating benchmark foreign exchange rates. On 28 January 2015, the court denied the defendants' motion to dismiss this action. On the same day, the court dismissed two similar class action complaints that had been filed on behalf of non-US plaintiffs in Norway and South Korea on the principal ground that such claims are barred by the Foreign Trade Antitrust Improvements Act. On 23 February 2015, an additional class action complaint was filed in the United States District Court for the Southern District of New York on behalf of investors that transacted in exchange-traded foreign exchange futures contracts and/or options on foreign exchange futures contracts. The complaint contains allegations that are substantially similar to those contained in the consolidated antitrust class action, and it asserts both antitrust claims and claims under the Commodities Exchange Act.

Madoff

In December 2010, Irving Picard, as trustee for the bankruptcy estates of Bernard L. Madoff and Bernard L. Madoff Investment Securities LLC., filed a clawback claim against RBS N.V. in the New York bankruptcy court. The trustee seeks to recover US$75.8 million in redemptions that RBS N.V. allegedly received from certain Madoff feeder funds and US$162.1 million that RBS N.V. allegedly received from its swap counterparties at a time when RBS N.V. allegedly 'knew or should have known of Madoff's possible fraud'. The trustee alleges that those transfers were preferences or fraudulent conveyances under the US bankruptcy code and New York law and he asserts the purported right to claw them back for the benefit of Madoff's estate. A further claim, for US$21.8 million, was filed in October 2011. This matter is subject to pre-discovery motions to dismiss the claims against RBS N.V.

Thornburg adversary proceeding

RBS Securities Inc. and certain other Group companies, as well as several other financial institutions, are defendants in an adversary proceeding filed in the US bankruptcy court in Maryland by the trustee for TMST, Inc. (formerly known as Thornburg Mortgage, Inc.). The trustee seeks recovery of transfers made under certain restructuring agreements as, among other things, avoidable fraudulent and preferential conveyances and transfers. On 25 September 2014, the Court largely denied the defendants' motion to dismiss this matter and as a result, discovery has commenced.

CPDO Litigation

CPDO claims have been served on RBS N.V. in England, the Netherlands and Australia relating to the sale of a type of structured financial product known as a constant proportion debt obligation ("**CPDO**"). In November 2012, the Federal Court of Australia issued a judgment against RBS N.V. and others in one such case holding that RBS N.V. and others committed certain wrongful acts in connection with the rating and sale of the CPDO. In March 2013, RBS N.V. was ordered to pay A$19.7 million. RBS N.V. appealed this decision and the appeal court found against RBS N.V. in May 2014. The decision is not being further appealed. RBS N.V. made the required payments totalling A$19.7 million in March and April 2013. The judgment may potentially have significance to the other claims served and to any future similar claims.

Interest rate hedging products

The Group is dealing with a large number of active litigation claims in the UK in relation to the sale of interest rate hedging products. In general claimants allege that the relevant interest rate hedge products were mis-sold to them, with some also alleging the Group made misrepresentations in relation to LIBOR. Claims have been brought by customers who are being considered under the FCA redress programme, as well as customers who are outside of the scope of that programme. The Group is encouraging those customers that are eligible to seek redress under the FCA redress programme to participate in that programme. The Group remains exposed to potential claims from customers who were either ineligible to be considered for redress or who are dissatisfied with their redress offers.

Weiss v. National Westminster Bank PLC

NatWest is defending a lawsuit filed by a number of United States nationals (or their estates, survivors or heirs) who were victims of terrorist attacks in Israel. The plaintiffs allege that NatWest is liable for damages arising from those attacks pursuant to the US Antiterrorism Act because NatWest previously maintained bank accounts and transferred funds for the Palestine Relief & Development Fund, an organisation which plaintiffs allege solicited funds for Hamas, the alleged perpetrator of the attacks. On 28 March 2013, the trial court (the United States District Court for the Eastern District of New York) granted summary judgment in favour of NatWest on the issue of scienter, but on 22 September 2014, that summary judgment ruling was vacated by the United States Court of Appeals for the Second Circuit. The appeals court returned the case to the trial court for consideration of NatWest's other asserted grounds for summary judgment and, if necessary, for trial.

Freeman v. HSBC Holdings PLC

On 10 November 2014, RBS N.V. and certain other financial institutions (HSBC, Barclays, Standard Chartered, Credit Suisse, and Bank Saderat) were named as defendants in a complaint filed by a number of United States nationals (or their estates, survivors, or heirs), most of whom are or were United States military personnel, who were killed or injured in more than 70 attacks in Iraq between 2004 and 2011. The attacks were allegedly perpetrated by Hezbollah and certain Iraqi terror cells allegedly funded by the Islamic Republic of Iran. According to the complaint, RBS N.V. and the other defendants are liable for damages arising from the attacks because they allegedly conspired with Iran and certain Iranian banks to assist Iran in transferring money to Hezbollah and the Iraqi terror cells, in violation of the US Antiterrorism Act, by agreeing to engage in "stripping" of transactions initiated by the Iranian banks so that the Iranian nexus to the transactions would not be detected. The defendants will move to dismiss the complaint.

Investigations and reviews

The Group's businesses and financial condition can be affected by the fiscal or other policies and actions of various governmental and regulatory authorities in the United Kingdom, the EU, the United States and elsewhere. The Group has engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the United Kingdom, the EU, the United States and elsewhere, on an ongoing and regular basis regarding operational, systems and control evaluations and issues including those related to compliance with applicable laws and regulations, including consumer protection, competition, anti-bribery, anti-money laundering and sanctions regimes. It is possible that any matters discussed or identified may result in investigatory or other action being taken by governmental and regulatory authorities, increased costs being incurred by the Group, remediation of systems and controls, public or private censure, restriction of the Group's business activities or fines. Any of the events or circumstances mentioned below could have a material adverse effect on the Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it.

The Group is co-operating fully with the investigations and reviews described below.

LIBOR and other trading rates

In February 2013, the Group announced settlements with the Financial Services Authority ("**FSA**") (now the FCA) in the United Kingdom, the CFTC and the United States Department of Justice ("**DOJ**") in relation to investigations into submissions, communications and procedures around the setting of LIBOR. The Group agreed to pay penalties of £87.5 million, US$325 million and US$150 million to these authorities respectively to resolve the investigations. As part of the agreement with the DOJ, RBS entered into a Deferred Prosecution Agreement in relation to one count of wire fraud relating to Swiss Franc LIBOR and one count for an antitrust violation relating to Yen LIBOR. In addition, on 12 April 2013, RBS Securities Japan Limited entered a plea of guilty to one count of wire fraud relating to Yen LIBOR and on 6 January 2014, the US District Court for the District of Connecticut entered a final judgment in relation to the conviction of RBS Securities Japan Limited pursuant to the plea agreement.

In February 2014, the Group paid settlement penalties of approximately EUR 260 million and EUR 131 million to resolve investigations by the EC into Yen LIBOR competition infringements and EURIBOR competition infringements respectively.

In July 2014, the Group entered into an Enforceable Undertaking with the Australian Securities and Investments Commission ("**ASIC**") in relation to potential misconduct involving the Australian Bank Bill Swap Rate. The Group undertakes in the Enforceable Undertaking to (i) comply with its existing undertakings arising out of the February 2013 settlement with the United States Commodity Futures Trading Commission as they relate to Australian Benchmark Interest Rates, (ii) implement remedial measures with respect to its trading in Australian reference bank bills and (iii) appoint an independent compliance expert to review and report on the Group's implementation of such remedial measures. The remediation measures include ensuring appropriate records retention, training, communications surveillance and trading reviews are in place. As part of the Enforceable Undertaking, the Group also agreed to make a voluntary contribution of A$1.6 million to fund independent financial literacy projects in Australia.

On 21 October 2014, the EC announced its findings that the Group and one other financial institution had participated in a bilateral cartel aimed at influencing the Swiss franc LIBOR benchmark interest rate between March 2008 and July 2009. The Group agreed to settle the case with the EC and received full immunity from fines for revealing the existence of the cartel to the EC and co-operating closely with the EC's ongoing investigation. Also on 21 October 2014, the EC announced its findings that the Group and three other financial institutions had participated in a related cartel on bid-ask spreads of Swiss franc interest rate derivatives in the European Economic Area ("**EEA**"). Again, the Group received full immunity from fines for revealing the existence of the cartel to the EC and co-operating closely with the EC's ongoing investigation.

The Group is co-operating with investigations and new and ongoing requests for information by various other governmental and regulatory authorities, including in the UK, US and Asia, into its submissions, communications and procedures relating to a number of trading rates, including LIBOR and other interest rate settings, and non-deliverable forwards. The Group is providing information and documents to the CFTC and the DOJ as part of an investigation into the setting of USD, EUR and GBP ISDAFIX and related trading activities. The Group is also under investigation by competition authorities in a number of jurisdictions stemming from the actions of certain individuals in the setting of LIBOR and other trading rates, as well as interest rate-related trading.

At this stage, the Group cannot estimate reliably what effect, if any, the outcome of these investigations may have on the Group.

Foreign exchange related investigations

In November 2014, RBS reached a settlement with the FCA in the United Kingdom and the CFTC in relation to investigations into failings in the bank's Foreign Exchange businesses within its CIB segment. RBS agreed to pay penalties of £217 million to the FCA and $290 million to the CFTC to resolve the investigations. Payment of the fines was made on 19 November 2014.

As previously disclosed, the Group remains in discussions with other governmental and regulatory authorities on similar issues relating to failings in the Bank's Foreign Exchange business within its CIB segment, including settlement discussions regarding the criminal investigation being conducted by the DOJ and certain other financial regulatory authorities. The timing and amounts of any further settlements and related litigation risks and consequences remain uncertain and could be material.

On 21 July 2014, the Serious Fraud Office announced that it was launching a criminal investigation into allegations of fraudulent conduct in the foreign exchange market, apparently involving multiple financial institutions.

Technology incident in June 2012

In June 2012, the Group was affected by a technology incident, as a result of which the processing of certain customer accounts and payments were subject to considerable delay. The Group agreed to reimburse customers for any loss suffered as a result of the incident and the Group made a provision of £175 million in 2012.

In April 2013, the FCA announced that it had commenced an enforcement investigation into the incident. This was a joint investigation conducted by the FCA together with the PRA. Enforcement proceedings were then commenced. On 20 November 2014, the Group announced that it had reached agreement with the FCA and the PRA over failings in relation to the incident. The Group agreed a penalty of £42 million with the FCA and £14 million with the PRA. Separately the Central Bank of Ireland initiated an investigation and issued enforcement proceedings against Ulster Bank Ireland Limited ("**UBIL**"), a Group company. On 12 November 2014, the Central Bank of Ireland announced that it had fined UBIL EUR 3.5 million in relation to its investigation.

Interest rate hedging products

In June 2012, following an industry wide review, the FSA announced that the Group and other UK banks had agreed to a redress exercise and past business review in relation to the sale of interest rate hedging products to some small and medium sized businesses who were classified as retail clients or private customers under FSA rules. In January 2013 the FSA issued a report outlining the principles to which it wished the Group and other UK banks to adhere in conducting the review and redress exercise. This exercise is being scrutinised by an independent reviewer, who is reviewing and approving all redress outcomes, and the FCA is overseeing this. The Group has reached agreement with the independent reviewer in relation to redress outcomes for in scope customers. The Group and the independent reviewer are now focusing on customer responses to review outcomes, securing acceptance of offers and assessing ancillary issues such as consequential loss claims. The FCA has announced that the review and redress exercise will be closed to new entrants on 31 March 2015.

The Central Bank of Ireland also requested UBIL, along with a number of Irish banks, to undertake a similar exercise and past business review in relation to the sale of interest rate hedging products to retail designated small and medium sized businesses in the Republic of Ireland. The Group also agreed to undertake a similar exercise and past business review in respect of relevant customers of RBS International. The review of the sale of interest rate hedging products to eligible RBS International customers is complete, and the review of the sale of interest rate hedging products to eligible Republic of Ireland customers is expected to be completed during Q1 2015.

The Group has made provisions in relation to the above redress exercises totalling £1.4 billion to date for these matters, including £0.2 billion in 2014, of which £1 billion had been utilised as at 31 December 2014.

FSA mystery shopping review

In February 2013, the FSA announced the results of a mystery shopping review it undertook into the investment advice offered by banks and building societies to retail clients. As a result of that review the FSA announced that firms involved were cooperative and agreed to take immediate action. The Group was one of the firms involved.

The action required included a review of the training provided to advisers, considering whether changes are necessary to advice processes and controls for new business, and undertaking a past business review to identify any historic poor advice (and where breaches of regulatory requirements are identified, to put this right for customers).

Subsequent to the FSA announcing the results of its mystery shopping review, the FCA has required the Group to carry out a past business review and customer contact exercise on a sample of historic customers that received investment advice on certain lump sum products through the UK Financial Planning channel of the Personal & Business Banking segment of the Group, which includes RBS and NatWest, during the period from March 2012 until December 2012. This review is being conducted under Section 166 of the FSMA, under which a skilled person has been appointed to carry out the exercise. Redress is currently being offered to certain customers in this sample group. In addition, the Group has agreed with the FCA that it will carry out a remediation exercise, for a specific customer segment who were sold a particular structured product, in response to concerns raised by the FCA with regard to (i) the target market for the product and (ii) how the product may have been described to customers by certain advisers. A pilot customer communications exercise to certain cohorts of customers was undertaken between November 2014 and January 2015 with a further communication exercise to the remaining cohorts due to be completed by mid 2015.

Card Protection Plan Limited

In August 2013, the FCA announced that Card Protection Plan Limited and 13 banks and credit card issuers, including the Group, had agreed to a compensation scheme in relation to the sale of card and/or identity protection insurance to certain retail customers. The closing date before which any claims under the compensation scheme must have been submitted has now passed and only exceptional cases will be dealt with prior to a final closure date for the scheme of 28 February 2015. The Group has made appropriate provisions based on its estimate of ultimate exposure.

Packaged accounts

As a result of an uplift in packaged account complaints, the Group has proactively put in place dedicated resource to investigate and resolve complaints on an individual basis.

FCA review of Global Restructuring Group treatment of SMEs

In November 2013, a report by Lawrence Tomlinson, entrepreneur in residence at the UK Government's Department for Business Innovation and Skills, was published ("**Tomlinson**

Report”). The Tomlinson Report was critical of the Group’s Global Restructuring Group’s treatment of SMEs. The Tomlinson Report was passed to the PRA and FCA. Shortly thereafter, the FCA announced that an independent skilled person would be appointed under Section 166 of the FSMA to review the allegations in the Tomlinson Report. On 17 January 2014, Promontory Financial Group and Mazars were appointed as the skilled person. The Group is fully cooperating with the FCA in its investigation.

Separately, in November 2013 the Group instructed the law firm Clifford Chance LLP to conduct an independent review of the principal allegation made in the Tomlinson Report: the Group’s Global Restructuring Group was alleged to be culpable of systematic and institutional behaviour in artificially distressing otherwise viable businesses and through that putting businesses into insolvency. Clifford Chance LLP published its report on 17 April 2014 and concluded that there was no evidence to support the principal allegation.

A separate independent review of the principal allegation, led by Mason Hayes & Curran, Solicitors, was conducted in the Republic of Ireland. The report was published in December 2014 and found no evidence to support the principal allegation.

Multilateral interchange fees

On 11 September 2014, the Court of Justice upheld earlier decisions by the EU Commission and the General Court that MasterCard’s multilateral interchange fee (“**MIF**”) arrangements for cross border payment card transactions with MasterCard and Maestro branded consumer credit and debit cards in the EEA are in breach of competition law.

In April 2013, the EC announced it was opening a new investigation into interchange fees payable in respect of payments made in the EEA by MasterCard cardholders from non-EEA countries.

In May 2013, the EC announced it had reached an agreement with Visa regarding immediate cross border credit card MIF rates. This agreement has now been market tested and was made legally binding on 26 February 2014. The agreement is to last for four years.

In addition, the EC has proposed a draft regulation on interchange fees for card payments. The draft regulation is subject to a consultation process, prior to being finalised and enacted. It is currently expected that the regulation will be enacted during the first half of 2015. The current draft regulation proposes the capping of both cross-border and domestic MIF rates for debit and credit consumer cards. The draft regulation also sets out other proposals for reform including to the Honour All Cards Rule so merchants will be required to accept all cards with the same level of MIF but not cards with different MIF levels.

In the UK, the Office of Fair Trading (the “**OFT**”) had previously opened investigations into domestic interchange fees applicable in respect of Visa and MasterCard consumer and commercial credit and debit card transactions. On 4 November 2014, the successor body to the OFT, the CMA, announced that it would not proceed with its investigations. The CMA took this decision primarily based on the expected implementation of the draft EC regulation on interchange fees for card payments, coupled with some commitments made by Visa and MasterCard around its implementation in the UK. Whilst not currently proceeding, the CMA’s investigations do formally remain open and CMA has noted that, if the EC regulation on interchange fees did not address its concerns, it would then look again at continuing with its investigations.

The outcomes of these ongoing investigations, proceedings and proposed regulation are not yet known, but they may have a material adverse effect on the structure and operation of four party card payment schemes in general and, therefore, on the Group’s business in this sector.

Payment Protection Insurance

Since 2011, the Group has been implementing a policy statement agreed with the FCA for the handling of complaints about the mis-selling of Payment Protection Insurance ("**PPI**"). The Group has made provisions totalling £3.7 billion to date for this matter, including £0.7 billion in 2014, of which £2.9 billion has been utilised as at 31 December 2014.

Retail banking – EC

Since initiating an inquiry into retail banking in the EU in 2005, the EC continues to keep retail banking under review. In late 2010 the EC launched an initiative pressing for greater transparency of bank fees and is currently proposing to legislate for increased harmonisation of terminology across Member States. The Group cannot predict the outcome of these actions at this stage.

UK personal current accounts/retail banking

Following the OFT's publication of a market study report into the Personal Current Account ("**PCA**") market in July 2008, the OFT launched a follow up review of the PCA market in July 2012. This review was intended to consider whether certain initiatives agreed by the OFT with banks in light of the July 2008 report, primarily around transparency, unarranged overdrafts and customers in financial difficulty, had been successful and whether the market should be referred to the Competition Commission (the "**CC**") for a fuller market investigation.

The OFT's PCA report following this July 2012 launch was published in January 2013. The OFT acknowledged some specific improvements in the market since its last review but concluded that further changes were required to tackle ongoing concerns, including a lack of switching, the ability of consumers to compare products and the complexity of overdraft charges. The OFT decided not to refer the market to the CC but said that it expected to return to the question of a referral to the CC in 2015, or earlier. The OFT also announced that it would be carrying out behavioural economic research on the way consumers make decisions and engage with retail banking services, and would study the operation of payment systems as well as the SME banking market.

On 11 March 2014, the successor body to the OFT and CC, the CMA, announced that in addition to its pending SME review (see below), it would be undertaking an update of the OFT's 2013 PCA review. On 18 July 2014 the CMA published its preliminary findings in respect of both the PCA and SME market studies. The CMA provisionally decided to make a market investigation reference ("**MIR**") for both the PCA and SME market studies. The provisional decision on both PCAs and SMEs was then subject to a consultation period until 17 September 2014. Following this period of consultation, on 6 November 2014, the CMA made its final decision to proceed with a MIR. The MIR will be a wide-ranging 18-24 month Phase 2 inquiry but at this stage it is not possible to estimate potential impacts on the Group.

SME banking market study

The OFT announced its market study on competition in banking for SMEs in England and Wales, Scotland and Northern Ireland on 19 June 2013. Following a consultation on the scope of the market study, the OFT published an update paper on 27 September 2013 setting out its proposed scope. On 11 March 2014, the OFT set out some competition concerns on SME banking and also announced that its successor body, the CMA, would continue the review. As discussed above, the CMA has decided to make a MIR for the SME market study in addition to the PCA study. As regards SMEs, the CMA concluded that it would be more appropriate to make a MIR than accept a set of undertakings in lieu put forward by the Group, Barclays, HSBC and Lloyds. Alongside the MIR, the CMA will also be reviewing the previous undertakings given following the CC's investigation into SME banking in 2002 and whether these undertakings need to be varied. At this stage it is not possible to estimate potential impacts on the Group.

FCA Wholesale Sector Competition Review

On 9 July 2014, the FCA launched a review of competition in the wholesale sector to identify any areas which may merit further investigation through an in-depth market study.

The initial review was an exploratory exercise and focused primarily on competition in wholesale securities and investment markets, and related activities such as corporate banking. It commenced with a three month consultation exercise, including a call for inputs from stakeholders. Following this consultation period, the FCA published its feedback statement on 19 February 2015. The FCA now intends to undertake a market study into investment and corporate banking (to launch in Spring 2015) and potentially into asset management (to launch late 2015 if undertaken).

*Credit default swaps ("**CDS**") investigation*

The Group is a party to the EC's antitrust investigation into the CDS information market. The Group has received and responded to a Statement of Objections from the EC and continues to co-operate fully with the EC's ongoing investigation. In general terms, the EC has raised concerns that a number of banks, Markit and ISDA may have jointly prevented exchanges from entering the CDS market. At this stage, the Group cannot estimate reliably what effect the outcome of the investigation may have on the Group, which may be material.

Securitisation and collateralised debt obligation business

In the United States, the Group is involved in reviews, investigations and proceedings (both formal and informal) by federal and state governmental law enforcement and other agencies and self-regulatory organisations, including the DOJ and various other members of the RMBS Working Group of the Financial Fraud Enforcement Task Force relating to, among other things, issuance, underwriting and trading in mortgage-backed securities, collateralised debt obligations ("**CDOs**"), and synthetic products. In connection with these inquiries, Group companies have received requests for information and subpoenas seeking information about, among other things, the structuring of CDOs, financing to loan originators, purchase of whole loans, sponsorship and underwriting of securitisations, due diligence, representations and warranties, communications with ratings agencies, disclosure to investors, document deficiencies, trading activities and practices and repurchase requests.

In November 2013, the Group announced that it had settled with the US Securities and Exchange Commission ("**SEC**") over its investigation of RBS Securities Inc. relating to due diligence conducted in connection with a 2007 offering of residential mortgage-backed securities and corresponding disclosures. Pursuant to the settlement, RBS Securities Inc., without admitting or denying the SEC's allegations, consented to the entry of a final judgment ordering certain relief, including an injunction and the payment of approximately US$153 million in disgorgement, penalties, and interest. The settlement was subsequently approved by the United States District Court for the District of Connecticut. The Group co-operated fully with the SEC throughout the investigation.

In 2007, the New York State Attorney General issued subpoenas to a wide array of participants in the securitisation and securities industry, focusing on the information underwriters obtained from the independent firms hired to perform due diligence on mortgages. The Group completed its production of documents requested by the New York State Attorney General in 2008, principally producing documents related to loans that were pooled into one securitisation transaction. In May 2011, the New York State Attorney General requested additional information about the Group's mortgage securitisation business and, following the formation of the RMBS Working Group, has focused on the same or similar issues as the other state and federal RMBS Working Group investigations described above. The investigation is ongoing and the Group continues to respond to requests for information.

US mortgages - loan repurchase matters

The Group's CIB business in North America has been a purchaser of non-agency US residential mortgages in the secondary market, and an issuer and underwriter of non-agency residential mortgage-backed securities ("**RMBS**"). CIB did not originate or service any US residential mortgages and it was not a significant seller of mortgage loans to government sponsored enterprises ("**GSEs**") (e.g. Fannie Mae and the Freddie Mac).

In issuing RMBS, CIB generally assigned certain representations and warranties regarding the characteristics of the underlying loans made by the originator of the residential mortgages; however, in some circumstances, CIB made such representations and warranties itself. Where CIB has given those or other representations and warranties (whether relating to underlying loans or otherwise), CIB may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of such representations and warranties. In certain instances where it is required to repurchase loans or related securities, CIB may be able to assert claims against third parties who provided representations or warranties to CIB when selling loans to it, although the ability to recover against such parties is uncertain. Between the start of 2009 and 31 December 2014, CIB received approximately US$741 million in repurchase demands in respect of loans made primarily from 2005 to 2008 and related securities sold where obligations in respect of contractual representations or warranties were undertaken by CIB. However, repurchase demands presented to CIB are subject to challenge and rebuttal by CIB.

Citizens Financial Group, Inc. ("**Citizens**") has not been an issuer or underwriter of non-agency RMBS. However, Citizens is an originator and servicer of residential mortgages, and it routinely sells such mortgage loans in the secondary market and to GSEs. In the context of such sales, Citizens makes certain representations and warranties regarding the characteristics of the underlying loans and, as a result, may be contractually required to repurchase such loans or indemnify certain parties against losses for certain breaches of the representations and warranties concerning the underlying loans. Between the start of 2009 and 31 December 2014, Citizens received US$257 million in repurchase demands and indemnification payment requests in respect of loans originated primarily since 2003. However, repurchase demands presented to Citizens are subject to challenge and rebuttal by Citizens.

Although there has in recent times been disruption in the ability of certain financial institutions operating in the United States to complete foreclosure proceedings in respect of US mortgage loans in a timely manner or at all (including as a result of interventions by certain states and local governments), to date, Citizens has not been materially impacted by such disruptions and the Group has not ceased making foreclosures.

The Group cannot currently estimate what the ultimate exposure may be with respect to repurchase demands. Furthermore, the Group is unable to estimate the extent to which the matters described above will impact it, and future developments may have an adverse impact on the Group's net assets, operating results or cash flows in any particular period.

Citizens consent orders

The activities of Citizens' two US bank subsidiaries - Citizens Bank, N.A. and Citizens Bank of Pennsylvania - are subject to extensive US laws and regulations concerning unfair or deceptive acts or practices in connection with customer products. Certain of the bank subsidiaries' practices with respect to overdraft protection and other consumer products have not met applicable standards. The bank subsidiaries have implemented and are continuing to implement changes to improve and bring their practices into compliance with regulatory guidance. In April 2013, the bank subsidiaries consented to the issuance of orders by their respective primary federal banking regulators, the Office of the Comptroller of the Currency ("**OCC**") and the Federal Deposit Insurance Corporation (the "**FDIC**") ("**Consent Orders**"). In the Consent Orders (which are publicly available and will remain in effect until terminated by the regulators), the bank subsidiaries neither admitted nor denied the regulators' findings that they had engaged in deceptive marketing and implementation of the bank's overdraft protection programme, checking rewards programmes, and stop-payment process for pre-authorised recurring electronic fund transfers.

In connection with the Consent Orders, the bank subsidiaries paid a total of US$10 million in civil monetary penalties. The Consent Orders also require the bank subsidiaries to develop plans to provide restitution to affected customers (the amount of which is anticipated to be approximately US$8 million), to cease and desist any operations in violation of Section 5 of the Federal Trade Commission Act, and to submit to the regulators periodic written progress reports regarding compliance with the Consent Orders.

In addition, Citizens Bank, N.A. agreed to take certain remedial actions to improve its compliance risk management systems and to create a comprehensive action plan designed to achieve compliance with the relevant Consent Order. Restitution plans have been prepared and submitted for approval, and Citizens Bank, N.A. has submitted for approval and is in the process of implementing its action plan for compliance with the Consent Order, as well as updated policies, procedures and programmes related to its compliance risk management systems. In addition to the above, the bank subsidiaries could face further formal administrative enforcement actions from their federal supervisory agencies, including the assessment of civil monetary penalties and restitution, relating to issues identified by Citizens arising from other consumer products and related practices and policies, and they could face potential civil litigation.

Governance and risk management consent order

In July 2011, the Group agreed with the Board of Governors of the Federal Reserve System, the New York State Banking Department, the Connecticut Department of Banking, and the Illinois Department of Financial and Professional Regulation to enter into a consent Cease and Desist Order (the "**Governance Order**") to address deficiencies related to governance, risk management and compliance systems and controls in RBS and RBS N.V. branches. In the Governance Order, the Group agreed to create the following written plans or programmes:

- a plan to strengthen board and senior management oversight of the corporate governance, management, risk management, and operations of the Group's US operations on an enterprise-wide and business line basis;
- an enterprise-wide risk management programme for the Group's US operations;
- a plan to oversee compliance by the Group's US operations with all applicable US laws, rules, regulations, and supervisory guidance;
- a Bank Secrecy Act/anti-money laundering compliance programme for the RBS and RBS N.V. branches in the US (the "**US Branches**") on a consolidated basis;
- a plan to improve the US Branches' compliance with all applicable provisions of the Bank Secrecy Act and its rules and regulations as well as the requirements of Regulation K of the Federal Reserve;

- a customer due diligence programme designed to reasonably ensure the identification and timely, accurate and complete reporting by the US Branches of all known or suspected violations of law or suspicious transactions to law enforcement and supervisory authorities, as required by applicable suspicious activity reporting laws and regulations; and
- a plan designed to enhance the US Branches' compliance with OFAC requirements.

The Governance Order (which is publicly available) identified specific items to be addressed, considered and included in each proposed plan or programme. The Group also agreed in the Governance Order to adopt and implement the plans and programmes after approval by the regulators, to fully comply with the plans and programmes thereafter, and to submit to the regulators periodic written progress reports regarding compliance with the Governance Order. The Group has created, submitted, and adopted plans and/or programmes to address each of the areas identified above. In connection with the Group's efforts to implement these plans and programmes, it has, among other things, made investments in technology, hired and trained additional personnel, and revised compliance, risk management, and other policies and procedures for the Group's US operations. The Group continues to test the effectiveness of the remediation efforts undertaken by the Group to ensure they are sustainable and meet regulators' expectations. Furthermore, the Group continues to work closely with the regulators in its efforts to fulfil its obligations under the Governance Order, which will remain in effect until terminated by the regulators.

The Group may be subject to formal and informal supervisory actions and may be required by its US banking supervisors to take further actions and implement additional remedial measures with respect to these and additional matters. The Group's activities in the United States may be subject to significant limitations and/or conditions.

US dollar processing consent order

In December 2013 the Group and RBS agreed a settlement with the Board of Governors of the Federal Reserve System (the "**Fed**"), the New York State Department of Financial Services ("**DFS**"), and the Office of Foreign Assets Control ("**OFAC**") with respect to RBS's historical compliance with US economic sanction regulations outside the US.

As part of the settlement, the Group and RBS entered into a consent Cease and Desist Order with the Fed ("**US Dollar Processing Order**"), which remains in effect until terminated by the Fed. The US Dollar Processing Order (which is publicly available) indicated, among other things, that the Group and RBS lacked adequate risk management and legal review policies and procedures to ensure that activities conducted outside the United States comply with applicable OFAC regulations. The Group agreed to create an OFAC compliance programme to ensure compliance with OFAC regulations by the Group's global business lines outside of the United States, and to adopt, implement, and comply with the programme. Prior to and in connection with the US Dollar Processing Order, the Group has made investments in technology, hired and trained personnel, and revised compliance, risk management, and other policies and procedures. The Group also agreed in the US Dollar Processing Order (as part of the OFAC compliance programme) to hire an independent consultant to conduct an annual OFAC compliance review of compliance policies and their implementation and an appropriate risk-focused sampling of US dollar payments.

US/Swiss tax programme

In August 2013, the DOJ announced a programme for Swiss banks (the "**Programme**"), to settle the long-running dispute between the US tax authorities and Switzerland regarding the role of Swiss banks in concealing the assets of US tax payers in offshore accounts. The Programme provides Swiss banks with an opportunity to obtain resolution, through non-prosecution agreements or non-target letters, concerning their status in connection with the DOJ's investigations.

Coutts & Co Ltd, a member of the Group incorporated in Switzerland, notified the DOJ that it intended to participate in the Programme based on the possibility that some of its clients may not have declared their assets in compliance with US tax laws. The Programme required a detailed review of all US related accounts. The results of Coutts & Co Ltd's review were presented to the DOJ in June 2014. Coutts & Co Ltd has now completed the collection of evidence of the tax status of all US related account holders, including those US account holders participating in an offshore voluntary disclosure programme. The results of the review were presented by Coutts & Co Ltd to the DOJ on 5 November 2014. Coutts & Co Ltd continues to cooperate with the DOJ pursuant to the terms of the Programme. Coutts & Co Ltd expects to reach resolution with the DOJ in 2015, under the terms of the Programme. Provision has been made for the estimated liability arising from this programme/review.

German prosecutor investigation into Coutts & Co Ltd

A prosecuting authority in Germany is undertaking an investigation into Coutts & Co Ltd in Switzerland, and current and former employees, for alleged aiding and abetting of tax evasion by certain Coutts & Co Ltd clients. Coutts & Co Ltd is cooperating with the authority.

Review of suitability of advice provided by Coutts & Co

In 2013 the FCA conducted a thematic review of the advice processes across the UK wealth management industry. As a result of this review, Coutts & Co, a member of the Group incorporated in England and Wales, decided to undertake a past business review into the suitability of investment advice provided to its clients. This review is ongoing. Coutts & Co is in the process of contacting clients and redress is being offered in appropriate cases. Provision has been made for the estimated liability arising from this programme/review.

Enterprise Finance Guarantee Scheme

The Enterprise Finance Guarantee ("**EFG**") is a government lending initiative for small businesses with viable business proposals that lack security for conventional lending. The Group has identified a number of instances where it has not properly explained to customers how borrower and guarantor liabilities work under the EFG scheme and will now undertake a review of affected and potentially affected customers to determine whether affected customers should be offered redress. From 2009 to the end of 2014, the Group provided over £940 million of lending under the EFG scheme.

DIRECTORS AND CORPORATE GOVERNANCE

The directors and the secretary of RBSG, their functions within the Group and their principal activities outside the Group (if any) of significance to the Group are:

Name	*Functions within the Group*	*Principal outside activity (if any) of significance to the Group*
Chairman		
Philip Hampton[I]	Chairman	Formerly the chairman of J. Sainsbury plc, group finance director of Lloyds TSB Group plc, BT Group plc, BG Group plc, British Gas plc and British Steel plc and an executive director of Lazards. Former non-executive director of RMC Group plc and Belgacom SA. He is the former chairman of UK Financial Investments Limited. Currently a non-executive director, senior independent director, chairman of the remuneration committee and member of the audit committee of Anglo American plc. He is a non-executive director, chairman of the Nominations Committee and chairman designate of GlaxoSmithKline plc.
Executive Directors		
Ross McEwan	Chief Executive	Formerly group executive for Retail Banking Services and an executive general manager at Commonwealth Bank of Australia. He was previously managing director of First NZ Capital Securities and prior to that was chief executive of National Mutual Life Association of Australasia Ltd / AXA New Zealand Ltd.
Ewen Stevenson	Chief Financial Officer	Previously at Credit Suisse for 25 years where he was latterly co-

[I] On 26 February 2015 it was announced that Philip Hampton would resign on 31 August 2015 and Sir Howard Davies would join the Board at the end of June 2015 and assume the role of Chairman from 1 September 2015.

Name	*Functions within the Group*	*Principal outside activity (if any) of significance to the Group*
		Head of the EMEA Investment Banking Division and Co-Head of the Global Financial Institutions Group. Ewen has over 20 years' experience advising the banking sector while at Credit Suisse.
Non-Executive Directors		
Sandy Crombie	Senior Independent Director	Member and vice-chairman of the Board of Governors of the Royal Conservatoire of Scotland and President of the Cockburn Association. Former director of the Association of British Insurers and previous Chairman of Creative Scotland. Formerly group chief executive of Standard Life plc.
Alison Davis	—	Currently serves as non-executive director and member of the audit and compensation committees of Unisys Corporation. Currently non-executive director, chair of the compensation committee and member of the audit committee of Diamond Foods Inc. Currently non-executive director and director of the audit committee of Fiserv Inc. and non-executive director of Ooma Inc. Former director of City National Bank and First Data Corporation. Previously chaired the board of LECG Corporation. Former chief financial officer of Barclays Global Investors (now Blackrock) and managing partner of Belvedere Capital.
Morten Friis	—	Currently a director of the Harvard Business School Club of Toronto and the Canadian Institute for Advanced Research. Held various roles at Royal Bank of Canada and its subsidiaries including Associate Director at

Name	*Functions within the Group*	*Principal outside activity (if any) of significance to the Group*
		Orion Royal Bank, Vice President, Business Banking and Vice President, Financial Institutions. In 1997, he was appointed as Senior Vice President, Group Risk Management and served as the Chief Credit Officer then Chief Risk Officer from 2004 to 2014. Formerly a director of RBC Bank (USA), RBC Dexia Investor Services Trust, RBC Life Insurance Company and Westbury Life Insurance Company.
Robert Gillespie	—	Currently an independent board director at Ashurst LLP and chairman of the Council at the University of Durham, Chairman of Somerset House Trust and the Boat Race Company Limited. Director of Social Finance Limited. Formerly Director General of the UK Panel on Takeovers and Mergers from 2010 to 2013, as a secondment from Evercore Partners. Former vice chairman of UBS Investment Bank, after holding a number of senior management roles in UBS. He is a non-executive director of Citizens Financial Group, Inc.
Penny Hughes	—	Currently a non-executive director, chair of the corporate compliance and responsibility committee and member of the audit, nomination and remuneration committees of Wm Morrisons Supermarkets PLC, and a non-executive director of SuperGroup Plc. Former non-executive director of Cable & Wireless Worldwide PLC, The Gap Inc, Vodafone Group PLC, Reuters Group PLC, Home Retail

Name	*Functions within the Group*	*Principal outside activity (if any) of significance to the Group*
		Group plc and Skandinaviska Enskilda Banken AB. Former President of Coca-Cola Great Britain and Ireland.
Brendan Nelson	—	Currently a board member of the Financial Reporting Review Panel and a non-executive director and chairman of the audit committee of BP plc. Former President of the Institute of Chartered Accountants of Scotland. Formerly held various positions within KPMG, including global chairman, financial services.
Baroness Noakes	—	Deputy Chairman of Ofcom. Former Non-executive director of Severn Trent plc, Carpetright plc, the Court of the Bank of England, Hanson, ICI, John Laing and SThree. Former partner at KPMG where she previously headed KPMG's European and International Government practices. In 2000, she was appointed to the House of Lords and served on the Conservative front bench in various roles, including as Shadow Treasury Minister between 2003 and 2010. Past President of the Institute of Chartered Accountants for England and Wales.
Chief Governance Officer and Board Counsel		
Aileen Taylor	Company Secretary	—

There are no potential conflicts of interest between any duties to RBSG of the directors of RBSG and their private interests and/or other duties.

The business address for all the directors and the secretary of RBSG is:

The Royal Bank of Scotland Group plc
RBS Gogarburn
PO Box 1000
Edinburgh EH12 1HQ
United Kingdom

Group Audit Committee

Meetings and visits

A total of seven scheduled meetings of the Group Audit Committee were held in 2014, including meetings held immediately before consideration of the annual and interim financial statements and the quarterly interim management statements by the Board. The Group Audit Committee also held six ad hoc meetings. Group Audit Committee meetings are attended by relevant executive directors, the internal and external auditor and Finance, Legal and Risk Management executives. Other executives, subject matter experts and external advisers are also invited to attend, as required, to present and advise on reports commissioned by the Group Audit Committee. At least twice a year the Group Audit Committee meets privately with the external auditor. The Group Audit Committee also meets privately with Internal Audit management.

During 2014 members of the Group Audit Committee, in conjunction with members of the Board Risk Committee, took part in an annual programme of visits to businesses and control functions in order to gain a closer understanding of the risks and control issues they face. This value adding programme included visits to Commercial & Private Banking; Corporate & Institutional Banking; Technology Services; Finance; Risk Management and Conduct & Regulatory Affairs (twice); and Internal Audit (twice).

Membership of the Group Audit Committee

The Group Audit Committee comprises four independent non-executive directors. The Chairman and members of the Group Audit Committee, together with their attendance at scheduled meetings, are shown below.

	Attended/Scheduled
Brendan Nelson (Chairman)	7/7
Sandy Crombie [I]	4/4
Morten Friis [II]	4/4
Baroness Noakes	7/7
Former Members	
Tony Di Iorio [III]	3/3
Philip Scott [IV]	5/6

[I] Became a member of the Group Audit Committee on 1 April 2014

[II] Became a member of the Group Audit Committee on 10 April 2014

[III] Stepped down from the Board on 26 March 2014

[IV] Stepped down from the Board on 31 October 2014

Brendan Nelson, Morten Friis and Baroness Noakes are also members of the Board Risk Committee. Philip Scott was also a member of the Board Risk Committee until he stood down from the Board. Sandy Crombie is Chairman of the Group Performance and Remuneration Committee. This common membership helps facilitate effective governance across all finance and risk issues; ensures that compensation decisions reflect relevant finance and risk considerations; and ensures that agendas are aligned and overlap of responsibilities is avoided where possible.

The members of the Group Audit Committee are selected with a view to the expertise and experience of the Group Audit Committee as a whole and with proper regard for the key issues and challenges facing the Group.

The Board is satisfied that all Group Audit Committee members have recent and relevant financial experience and that each member of the Group Audit Committee is independent as defined in the SEC rules under the US Securities Exchange Act of 1934 (the "**Exchange Act**") and related guidance. The Board has further determined that Brendan Nelson, Group Audit Committee Chairman, and Baroness Noakes are both 'financial experts' for the purposes of compliance with the Exchange Act rules and the requirements of the New York Stock Exchange. Philip Scott was also deemed to be a 'financial expert' for the same purposes, throughout his tenure as a Group Audit Committee member.

Performance evaluation

An evaluation of the Group Audit Committee's operation was conducted internally in 2014. Overall the review concluded that the Group Audit Committee continued to operate effectively. The Group Audit Committee has considered and discussed the outcomes of the evaluation and is satisfied with the way in which they have been conducted, the conclusions and the recommendations to be taken forward. The evaluation praised the well-run manner of the Group Audit Committee and the positive dynamic between members. The allocation of business to the Group Audit Committee was considered to be appropriate, although it was acknowledged it was a heavy agenda. Recommendations for improvements focused on the quality and volume of papers provided to the Group Audit Committee. This will be addressed via a bank-wide programme to refresh the paper format and guidelines for submission to senior Committees and Boards.

The outcomes of the evaluation have been reported to the Board and the Group Audit Committee will track progress during 2015.

In addition, the PRA undertook a review of the effectiveness of the Board and its senior committees throughout 2014, including the Group Audit Committee. The outcomes of this evaluation will be reported to the Board in due course and recommendations will be progressed as appropriate.

The role and responsibilities of the Group Audit Committee

The Group Audit Committee's primary responsibilities are set out in its terms of reference which are reviewed annually by the Group Audit Committee and approved by the Board. These are available on the Group's website www.rbs.com.

Financial reporting and policy

The Group Audit Committee focused on a number of salient judgments and reporting issues in the preparation of the 2014 accounts. In particular, the Group Audit Committee considered:

- The evidence (including in relation to RBSG's capital, liquidity and funding position) to support the directors' going concern conclusion;

- The adequacy of loan impairment provisions, focusing particularly on the judgments and methodology applied to provisions in RCR, given the exit strategy for the business and sensitivity to market conditions. The Group Audit Committee was satisfied that the overall loan impairment provisions and underlying assumptions and methodologies were reasonable and applied consistently;

- Valuation methodologies and assumptions for financial instruments carried at fair value including the Group's credit market exposures and own liabilities assessed at fair value;

- The appropriateness of the carrying value of goodwill and other intangible assets. Particular consideration was given to the classification of CFG in light of the Initial Public Offering (IPO) and planned disposal. Following discussion it was agreed that CFG should be re-classified as a disposal group and as a discontinued operation;

- The judgments that had been made by management in assessing the recoverability of deferred tax assets, bearing in mind the Group's simplification agenda and the potential impact of ICB and ring-fencing; and

- Valuation of the Group's main defined benefit pension scheme. The Group Audit Committee considered the assumptions that had been set in valuing the fund and the sensitivities of those assumptions. Particular consideration was given to the potential impacts of ring-fencing.

The methodology and assumptions underlying the level of provision held and/or the appropriateness of required disclosure in relation to:

- redress, specifically in relation to PPI and Interest Rate Hedging Products; and

- ongoing regulatory and litigation actions; including foreign exchange trading; retail mortgage backed securities litigation in the US; and UK shareholder actions.

Following review, the Group Audit Committee was satisfied that overall the level of provision held is appropriate and that disclosure is balanced and transparent for:

- the assessment by management of the adequacy and effectiveness of internal controls over financial reporting which had identified weaknesses in the bank's privileged user access controls within Technology Services. The Group Audit Committee monitored remediation progress and received regular reports on actions undertaken by the business to address the weaknesses. The Group Audit Committee has received assurances that the majority of significant items have been closed and that the issue did not lead to the identification of any errors in the financial statements; and

- the quality and transparency of disclosures contained within the external financial statements.

As part of its overall assessment of the Annual Report and Accounts, the Group Audit Committee assisted the Board in determining that the Annual Report and Accounts taken as a whole was fair, balanced and understandable, providing the information necessary for shareholders to assess the company's performance, business model and strategy. A comprehensive review process supports both the Group Audit Committee and ultimately the Board in reaching their conclusion:

- The production of the Annual Report and Accounts is co-ordinated centrally by the Chief Accountant with guidance on requirements being provided to individual contributors;

- The Annual Report and Accounts is reviewed by the Executive Disclosure Committee prior to consideration by the Group Audit Committee; and
- A management certification process requires members of the Executive Committee and other senior executives to provide confirmation following their review of the Annual Report and Accounts that they consider them to be fair, balanced and understandable.

This process is also undertaken in respect of the half year and quarterly results announcements. In addition, the external auditor considers the Board's statement as part of its audit requirements.

Systems of internal control

Remediation of known control issues has remained a focus of the Group Audit Committee during 2014. As noted in the letter from the Group Audit Committee Chairman, on behalf of the Board the Group Audit Committee has continued to oversee the Control Remediation Programmes within the Markets division ("**MCRP**") and has challenged management on the prioritisation of issues, delivery of remediation, quality assurance and contingency plans. The Group Audit Committee received reports from Risk Management and Internal Audit and commissioned independent assurance that (i) the remediation programmes were progressing in accordance with plan, (ii) issues were being remediated to industry standard and (iii) internal reporting accurately reflected progress. It is anticipated that MCRP will conclude, with delivery of all necessary actions completed, during the first part of 2015.

Notwithstanding the progress achieved in MCRP, the Group Audit Committee remained concerned about the lack of improvement to the Markets control environment rating, regarding regulatory concerns around the lack of cultural shift and in light of the foreign exchange trading issues. The Group Audit Committee invited management to report on improvements to the business and to provide assurances that the business was addressing the risks in an appropriate and sound manner. A larger project will begin in 2015 which will encompass specific remediation issues and wider cultural change. This will be closely monitored by the Board Risk Committee and Group Audit Committee in 2015.

Key to the success of the remediation programme will be an effective three lines of defence model. In conjunction with the Board Risk Committee, this has been a primary area of focus for the Group Audit Committee during 2014. The Group Audit Committee supported management's proposals to transition the policy to be more principles-based. The governance of the model has been simplified and streamlined. However, further work is required to ensure the revised model is fully embedded and operating effectively in practice. As such, the Group Audit Committee has requested a clear articulation of end-state and a plan to reach that goal which will be closely monitored during 2015. In addition, the Group Audit Committee has agreed that each business will report on progress at Group Audit Committee visits in 2015.

Regular updates on the Group's credit quality assurance testing were received by the Group Audit Committee. These reports highlighted certain weaknesses within the wealth credit business and the Group Audit Committee requested that management report on action being taken to address these issues. Root causes of the weaknesses have been identified and remediation programmes have been established to address the underlying issues. The Group Audit Committee will review closely plans and progress during 2015.

Bi-annual reports were also noted in relation to the bank's notifiable event process and alerts on each major event are received by the Chairman of the Group Audit Committee and the Chairman of the Board Risk Committee.

The Finance and Risk System Transformation (FiRST) was kept under the review of the Group Audit Committee in 2014. A strategic review of the programme's aims, progress and deliverables was undertaken by management in light of the new Group model. A proposal was presented to the Group Audit Committee under which the programme scope will now be more streamlined with a narrower set of priorities, which should enable delivery. External independent assurances on the suitability of the revised plan were provided. Progress will be monitored closely by the Group Audit Committee in 2015.

During 2014 the Group Audit Committee has received reports on the ongoing work of the Sensitive Investigations Unit. It was also updated on the whistleblowing arrangements the Group has in place for employees to raise concerns and received reports on incidents reported and investigated. This is an important tool for employees to raise issues and to identify improper behaviours. The Group Audit Committee considered the enhancements made to the process during the year and also discussed the output of an Internal Audit review.

In line with the Group Audit Committee's terms of reference, consideration was given to management's processes for identifying and responding to the risk of fraud.

As discussed in the report of the Board Risk Committee, the effectiveness of the Divisional Risk and Group Audit Committees was considered in 2013. In response to management feedback, consideration was given to alternative mechanisms that could more effectively provide a line of sight into business risk and audit issues. A revised construct of standardised Business Risk Committees, chaired by business Chief Executives, was created and implemented in 2014, with responsibility for the consideration of all risk issues. These Committees also consider finance and audit issues on a quarterly basis and provide reports to the Board Risk Committee and Group Audit Committee. A review of effectiveness of the Committees will be undertaken in 2015.

The Group Audit Committee has considered RBSG's compliance with the requirements of the Sarbanes-Oxley Act of 2002, and is satisfied in this respect.

Internal audit

The Group Audit Committee received regular reports and opinions from Internal Audit throughout 2014. The audit universe was refreshed during the year to remain aligned with the evolving shape of the bank as the Transformation Programme progressed. This will continue in 2015. Audit officers are working closely with the businesses to ensure the work undertaken is appropriate in both the short and longer term.

The Group Audit Committee received regular updates on the progress of implementation of Internal Audit's strategic plan. It also considered and approved Internal Audit's annual plan for 2014 and monitored progress against it during the year. Consideration was also given to resourcing levels and the impact of the Transformation Programme and other changes taking place across the Group. During two visits to Internal Audit in 2014, the Group Audit Committee reviewed external co-sourcing arrangements and recruitment strategies aimed at ensuring any capability gaps were appropriately addressed. Significant progress has been made and the benefits are being observed across the function. Overall the Group Audit Committee is satisfied that the function is appropriately resourced.

The reporting arrangements for the Chief Audit Executive have remained unchanged in 2014; the role continues to report to the Chairman of the Group Audit Committee, with a secondary reporting line to the Chief Executive for administrative purposes. The Chief Audit Executive exercises his right of attendance at Executive Committee meetings, and Internal Audit officers regularly attend relevant business-level meetings as appropriate.

The annual review of the effectiveness of Internal Audit was undertaken externally in 2014. Following a competitive tender process, Ernst & Young LLP was appointed to perform this. Their report concluded that Internal Audit had operated effectively during the year. Certain recommendations were made to enhance particular practices within the function. These will be implemented during 2015, with progress tracked by the Group Audit Committee.

Oversight of the Group's Relationship with its Regulators

As set out in the terms of reference, the Group Audit Committee has a responsibility to monitor the relationship with the FCA and the PRA and other relevant regulatory bodies.

Regular reports were received by the Group Audit Committee on the status of ongoing regulatory investigations. Any significant developments in the relationship with the regulators were noted by the Group Audit Committee. The Group Audit Committee members met, individually and together with other Board members, with the PRA and the FCA during the year as part of their regular interaction with the regulator.

The Group Audit Committee also tracked progress in relation to mandatory and remedial projects and challenged the management of individual business areas and functions on the ability to meet regulatory expectations, responsibilities and the level of resource required to do so.

External audit

During 2014, the external auditor provided the Group Audit Committee with reports summarising its main observations and conclusions arising from the year end audit, half year review and work in connection with the first and third quarter financial results and any recommendations for enhancements to the Group's reporting and controls. The external auditor also presented for approval to the Group Audit Committee its audit plan and audit fee proposal and engagement letter, as well as confirmation of its independence and a comprehensive report of all non-audit fees.

The Group Audit Committee undertakes an annual evaluation to assess the independence and objectivity of the external auditor and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The evaluation sought the views of Group Audit Committee members and attendees and other key members of management. In assessing the effectiveness of the external auditor, the Group Audit Committee had regard to (i) the experience of the audit engagement team, (ii) the scope of the audit work planned and executed, (iii) standards of communication and reporting, (iv) quality of insights on the internal control environment and (v) independence.

The Group Audit Committee is responsible for making recommendations to the Board in relation to the appointment, re-appointment and removal of the external auditors. In order to make a recommendation to the Board, the Group Audit Committee considers and discusses the performance of the external auditor, taking account of the outcomes of the annual evaluation carried out. The Board submits the Group Audit Committee's recommendations to shareholders for their approval at the Annual General Meeting.

The Group Audit Committee approves the terms of engagement of the external auditor and also fixes their remuneration as authorised by shareholders at the Annual General Meeting.

A competitive tender was undertaken in 2014 to select an auditor for the audit of the Group in 2016 (and future periods). Following this, and due consideration by the Group Audit Committee and the Board, Ernst & Young LLP was chosen. A transition period will take place in 2015, during which

Ernst & Young LLP will reach a point of independence from the Group and will begin to shadow the audit process to ensure it is well informed to commence as the external auditor in 2016.

Audit and non-audit services

The Group Audit Committee has adopted a policy on the engagement of the external auditor to supply audit and non-audit services, which takes into account relevant legislation regarding the provision of such services by an external audit firm. The Group Audit Committee reviews the policy annually and prospectively approves the provision of audit services and certain non-audit services by the external auditor.

For all other permitted non-audit services, Group Audit Committee approval must be sought in advance, on a case-by-case basis. A competitive tender process is required for all proposed non-audit services engagements where the fees are expected to exceed £100,000. Engagements below £100,000 may be approved by the Chairman of the Group Audit Committee; as an additional governance control all engagements have to be approved by the Financial Controller and Supply Chain Services. Where the engagement is tax related, approval must also be obtained from the Director of RBSG Tax. Ad hoc approvals of non-audit services are ratified by the Group Audit Committee each quarter. During 2014, the external auditor was approved to undertake certain significant engagements which are explained more fully below:

- Assurance testing in relation to the Group's 2013 Sustainability Report. The external auditor was selected given its significant experience in specialist sustainability reporting. An improved fee was also negotiated;
- Provision of a compliance report required to comply with an amendment by the SEC to certain broker-dealer annual reporting requirements. Standard industry practice is for the external auditor to be appointed to perform this work; and
- Provision of advice and assistance to RCR in formulating deleveraging strategies and transaction preparation. Data gathering, due diligence and information assessment was also undertaken. Following a review of all advisers in this area, Deloitte was selected in recognition of the team's position as one of the leaders in the European loan portfolio sale market, particularly in the relevant geographies.

Further details of the non-audit services that are prohibited and permitted under the policy can be found on the website www.rbs.com.

Board Risk Committee

Meetings and Visits

The Board Risk Committee held nine scheduled meetings and four ad hoc meetings in 2014. The ad hoc meetings were required to consider (i) the Clifford Chance LLP report into the allegations set out in the Tomlinson Report, (ii) the EBA stress test results, (iii) risk performance of businesses and individuals and (iv) accountability matters relating to the manipulation of the foreign exchange market.

In addition to the members, Board Risk Committee meetings are also attended by relevant executive directors, including representatives from Risk Management, Conduct and Regulatory Affairs ("**C&RA**"), Finance and Internal Audit. External advice is also sought by the Board Risk Committee, where appropriate. A standing invite has been issued to the lead partner of the external auditor to attend all meetings from January 2015 onwards.

During 2014, in conjunction with members of the Group Audit Committee, members of the Board Risk Committee took part in an annual programme of visits to businesses and control functions in order to gain a deeper understanding of the risks and issues they face. This value adding programme included visits to Commercial & Private Banking; Corporate & Institutional Banking; Technology Services; and Finance. In addition, the Board Risk Committee made two visits to Risk and C&RA; and Internal Audit. In addition, an in-depth session on risk reporting was undertaken by the Board Risk Committee in 2014.

Membership

The Board Risk Committee comprises at least three independent non-executive directors. The Chairman and members of the Board Risk Committee, together with their attendance at meetings, are shown below.

	Attended/Scheduled
Baroness Noakes (Chairman)	9/9
Morten Friis	6/6
Robert Gillespie	5/6
Penny Hughes	6/6
Brendan Nelson	9/9
Former members:	
Sandy Crombie	3/3
Tony Di Iorio[I]	3/3
Philip Scott	8/8

Baroness Noakes, Morten Friis and Brendan Nelson are also members of the Group Audit Committee. Philip Scott was a member of the Group Audit Committee until he stood down from the Group Board on 31 October 2014. Robert Gillespie is also a member of the Group Performance and Remuneration Committee and the Sustainable Banking Committee, and Penny Hughes chairs the Sustainable Banking Committee. This common membership across Committees ensures effective governance across all risk, finance, reputational and remuneration issues and that agendas are aligned and overlap of responsibilities is avoided where possible.

Performance evaluation

The annual review of the effectiveness of the Board and its senior Committees, including the Board Risk Committee, was conducted internally in 2014. The Board Risk Committee has considered and discussed the outcomes of this evaluation and accepts the findings. Overall the review concluded that the Board Risk Committee continued to operate effectively. The composition of the Board Risk Committee was considered to be well-balanced, with the skills and perspectives required to respond to the challenges faced. The quality of debate at Board Risk Committee meetings was also noted to be of a high standard. Some areas where further enhancements to Board Risk Committee performance could be made were identified, these included: the development of a specific technical training programme to complement the members' knowledge; review of the

[I] Retired from the Group Board on 26 March 2014 thresholds for reporting and escalation of issues to ensure that the Board Risk Committee focuses on the key issues; and continued improvements to reporting to the Board Risk Committee so that there are more focused and higher quality papers which clearly articulate the key issues for debate.

The outcomes of the evaluation have been reported to the Board. The conclusions and the recommendations to help improve the Board Risk Committee's effectiveness will be taken forward and progress will be tracked during 2015.

The role and responsibilities of the Board Risk Committee

The Board Risk Committee's primary responsibilities are set out in its terms of reference which are reviewed annually by the Board Risk Committee and approved by the Board. These are available on www.rbs.com.

Risk strategy and policy

In February 2014, the Group announced its refreshed strategic direction to become a smaller UK centric bank with a focus on placing customers at the fore. A transformation programme was established to implement the required changes, with both short term and longer term objectives. During 2014, the Board Risk Committee, on behalf of the Board, dedicated significant time to regularly reviewing the execution risks and issues arising from the implementation of such fundamental change across the organisation. The Board Risk Committee has received regular progress updates from the project team. Risk Management has been fully involved in the transformation programme and has provided an independent opinion to the Board Risk Committee at each meeting on the risks in the programme. In addition, the Board Risk Committee receives independent opinions from HR and Internal Audit. On a rolling basis, the Board Risk Committee has held focus sessions on the key workstreams under the programme which are aligned to the priority areas of Reshaping the Bank, Cost, Customer, Control and IT execution. In 2014, the Board Risk Committee received reports on the customer workstream, the control transformation programme and technology. The Board Risk Committee also commissioned a detailed review of the people risks facing the organisation. Detailed 2015 to 2017 plans were presented to the Board in December 2014 and the Board Risk Committee will continue to rigorously monitor the risks and issues arising as plans progress.

The Board Risk Committee also considered the risks in specific strategic objectives of the bank, in particular it:

- reviewed the progress on the strategic initiative to dispose of the Williams & Glyn business. It considered (i) the technical complexities inherent in the programme, (ii) risks associated with the disposal, (iii) regulatory requirements, (iv) scope, (v) viability and (vi) threats to delivery. Risk is engaged in the programme and has provided the Board Risk Committee with opinions on key risks and execution. The Board Risk Committee will continue to oversee delivery throughout 2015, being particularly mindful of the challenging timescales;
- considered the potential impacts on the Group's mortgage book in the event of a sharp fall in property prices in the short to medium term, should concerns over rising London house prices crystallise;
- received regular reports on the threats to the Group and its customers' businesses posed by economic or political events across a number of countries including Thailand, Russia and Ukraine; and

- reviewed the Group’s Resolution Plan and recommended it to the Board for approval prior to submission to the PRA.

The Board Risk Committee considered operation of the Group’s Policy Framework and considered management’s plans to improve the accessibility, clarity and ease of implementation of the Group’s policies.

Risk Profile

Reporting

A key priority for the Board Risk Committee in 2014 was the need to improve and streamline the quality of risk reporting. Following a focus session on Risk Reporting, good progress has been made in this respect and a revised format risk report, including a “top risks” section, was launched in October. Risk reporting is now more strategic and forward-looking and current and future risk positions are reported relative to risk appetite and limits.

Throughout 2014 the Board Risk Committee received reports on key risk issues and risk metrics at each meeting and the Chief Risk Officer provided a verbal update on the key risks to the Group. The Chief Conduct and Regulatory Affairs Officer also provided a verbal update on current matters pertinent to the Board Risk Committee at each meeting. This has been a useful means of ensuring the Board Risk Committee receives the latest information on current and emerging risk and conduct matters. Reports are made to the Board Risk Committee at each meeting on the most recent discussions at the Executive Risk Forum – the management-level risk committee which reports to the Board Risk Committee.

Conduct and Remediation

The Board Risk Committee carefully considered various conduct issues and remediation programmes in 2014. A primary concern was the investigation of misconduct within the foreign exchange trading business. The Board Risk Committee received regular reports as the investigation evolved and was kept abreast of interactions with regulators. In November 2014, the Group reached a settlement with the FCA and the CFTC in relation to failings in the foreign exchange business. The Group fully cooperated with the regulatory investigations and accepted the findings. The Board Risk Committee has exercised close oversight of the internal investigation into the conduct of current and former employees who had involvement in the foreign exchange area. The Group has announced action taken to date and will provide a further update when the accountability review is complete, which is expected to be in the first quarter. The Group remains in discussion with other governmental and regulatory authorities on these issues, including the DOJ, and the Board Risk Committee will continue to give this appropriate focus in 2015.

The allegations of misconduct within the Group’s restructuring business, which were set out in the Tomlinson Report, were also given detailed consideration at the Board Risk Committee. In response to the report, the Group commissioned Clifford Chance LLP to undertake an independent review into the most serious allegations. The Board Risk Committee played a key role in monitoring developments and overseeing the publication of the report, in April 2014. It welcomed the finding that there was no evidence of the serious and damaging allegation that the Group had set out to deliberately defraud its business customers. The Board Risk Committee will continue to monitor the separate, external investigation into GRG, which was commissioned by the FCA under Section 166 of the FSMA. The results of this are anticipated during the first part of 2015, and will be reviewed in detail by the Board Risk Committee.

Following the IT incident in June 2012, a significant amount of work has been undertaken to strengthen the resilience of the Group’s technology systems and this continued to be an area of focus for the Board Risk Committee in 2014. It received quarterly reports on the work being undertaken to enhance resilience and to address the findings of the Section 166 regulatory review. Reports have included independent assurance from PricewaterhouseCoopers LLP that the work undertaken by the business has been appropriate, sustainable and addresses the key areas requiring remediation. In order to further inform the Board Risk Committee's considerations around technology resilience a 'deep dive' session was held for all Board members in May 2014. As well as considering the immediate concerns around improving resilience, this session also offered an opportunity to review longer term priorities for the function. The Board Risk Committee is satisfied with the progress of the IT resilience remediation programme and it is anticipated that the work will be complete in early 2015. At this point the Board Risk Committee will determine appropriate methods of future oversight of the risks associated with IT resilience.

A key part of ensuring the correct behaviours are instilled across the Group is articulating and embedding an appropriate risk culture within the Group that is set and cascaded from the top. This needs to be clearly aligned to the Group's existing culture programme. The Risk and Conduct & Regulatory Affairs functions have started the process of researching and developing an appropriate risk culture programme for the Group, and have kept the Board Risk Committee appraised of progress. Lessons have been gained from liaison with peers and benchmarking. The Board Risk Committee will review management's plan to embed risk culture across the Group and the proposed measures to assess and validate its effectiveness during 2015. This topic is of keen regulatory interest and will remain a priority for the Board Risk Committee in 2015 and beyond.

In 2014, the Board Risk Committee also received reports on other conduct and regulatory issues, including:

- quarterly updates from the oversight committee established to monitor the status of current open investigations in the former Markets Division. This work has been complemented by that of the Markets Controls Remediation Programme ("**MCRP**") which has been monitored by the Group Audit Committee. In 2015, MCRP will be succeeded by the Markets Standards Programme. The Markets Standards programme will be similar in scale to MCRP, with a greater focus on conduct and culture in addition to controls. It will incorporate remediation of the foreign exchange trading issues;
- the Group's progress in improving its end to end customer complaints management process, in particular its strategic aims to reduce complaint volumes and to resolve issues at the first point of contact or within forty-eight hours of receipt. The Board Risk Committee will receive further updates on progress next year;
- reports on Anti-Money Laundering remediation at each of its meetings in the first half of 2014, ahead of the regulatory attestation in June 2014. Reporting has now returned to exception based reporting pending further regulatory review;
- initial reports on trade and transaction reporting compliance and collateral management issues within the Corporate & Institutional Banking business. The Board Risk Committee will receive more detailed reports on required action and remediation in early 2015;
- the status of key litigation cases, in particular the US residential mortgage-backed securities litigation claims; and
- the remediation of known regulatory issues in the Group's Americas region.

Capital Management

The Board Risk Committee reviewed the capital and liquidity position of the bank regularly. It reviewed and recommended that the Board approve the Individual Liquidity Adequacy Assessment (ILAA) and the Internal Capital Adequacy Assessment Process (ICAAP). An assurance opinion was provided by Internal Audit on the adequacy of the processes supporting the preparation of the submissions.

In response to increased regulatory expectations, the Board Risk Committee has dedicated considerable effort in 2014 to the oversight of stress testing. It has been actively engaged in discussions on underlying assumptions and scenario selection for the EBA and Bank of England 'UK Variant' stress-test exercises and recommended the stress test results submissions to the Board. The Board Risk Committee reviewed the output of stress testing exercises and has been involved in consideration of their announcement to the market. The Board Risk Committee also made appropriate recommendations to the Board on reverse stress testing thresholds.

Focus on stress testing and reliance upon the outputs is set to increase in 2015 and beyond. It is therefore essential that the business is resourced to meet expectations and that individuals possess the correct skills and are supported by the correct processes and tools. The Board Risk Committee will carefully review stress testing capability enhancement plans to ensure that these are fit for purpose and meet regulatory expectations for 2015.

Market, Credit and Operational Risk

The Board Risk Committee conducted its regular review of the market risks managed by the Group. The appetite for market risk and related limits were also reviewed in the context of the reduction in the size of the Corporate & Institutional Banking business, in line with the bank's strategy. The Board Risk Committee reviewed key market risk issues and hot topics including BIPRU and GENPRU remediation and compliance with CRD IV requirements. Plans to enhance the management of exposures across Credit and Market Risk were considered.

A detailed overview of the Credit Risk portfolio was also provided to the Board Risk Committee, including a report on activities to address current and emerging risks, and an update on the credit risk appetite frameworks. Steps taken to de-risk certain portfolios, including commercial real estate, and to improve overall asset quality were considered.

Working closely with the Group Audit Committee, the Board Risk Committee reviewed the updated three lines of defence design principles (across front line management, risk and internal audit). In the second half of 2014, implementation has been focussed on publication and dissemination of the principles, and application in both organisational structures and individual role profiles. During 2015, the focus will be on driving these principles deeper into the organisation, supported by the planned activity on risk culture outlined above. Effective operation of the three lines of defence model is critical to the success of the bank's transformation and the Board Risk Committee will carefully consider plans in early next year and monitor delivery against agreed objectives.

An effective first line of defence with a clear understanding and ownership, is fundamental to the success of the Operational Risk Management Framework ("**ORMF**"). The way in which the Group currently manages Operational Risk is inconsistent across the bank and a programme of work has been established to address identified weaknesses in capabilities. During 2014, Group Risk has defined an enterprise wide approach to risk management covering all risk discipline and has aligned its end state vision of what a good ORMF should look like to this approach. The Board Risk Committee has received reports on progress and will consider detailed plans in the first quarter of 2015.

Thereafter, the Board Risk Committee will monitor progress as the programme is delivered over the following two years.

The Board Risk Committee also received reports on:

- the Group's long dated derivatives business and noted the risk and control framework (including limits and collateral requirements) which supported it;
- the New Product Risk Assessment process including enhancements made to the end to end product life cycle;
- the status of the Group's compliance with the Single European Payments Area ("**SEPA**") Directive;
- regular reports on improvements in information security, corporate security, records management and cyber risk; and
- enhancements to data quality across the organisation. The opinion of Internal Audit was considered in this respect also. Further status updates will be provided during 2015.

In December 2014, the Board Risk Committee supervised the responses provided by the Group to the PRA and FCA as part of their Dear Chairman II Exercise on IT resilience. In particular, it reviewed the detailed responses to the FCA questionnaires, and for the more technical PRA questionnaires, the Board Risk Committee reviewed the processes used to prepare the responses. In each case the Board Risk Committee received assurance reports from Risk and from Internal Audit and on this basis recommended to the Board that it approve the submissions to the regulators.

The Board Risk Committee received bi-annual reports on cyber threats and responses, covering the threat landscape together with key issues and progress on the bank's improvements plans in this area. The bank is re-baselining its appetite and approach to cyber risk and is moving to a model of strong detection and response in addition to mitigation. The banking sector will continue to be a prime target for attackers and the Board Risk Committee will keep cyber risk under close review during 2015.

The Board Risk Committee reviewed the Group's 2014 Annual Risk and Control Report and was satisfied that the Group had operated its risk management framework in accordance with the requirements of the UK Corporate Governance Code.

Risk appetite, framework and limits

The Board Risk Committee reviewed the risk appetite framework of the Group during 2014, particularly in light of internal restructuring, market positioning and changes to regulations. This included a review of capital adequacy, earnings volatility and stakeholder confidence. This review is being finalised and a formal risk appetite which reflects the new organisational structure will be approved in the first quarter of 2015. This review will also focus on how the detailed risk appetite processes within the individual businesses fit within the enterprise wide appetite set by the Board.

Risk and C&RA operating model

During the course of two separate visits, the Board Risk Committee reviewed the Risk Management and C&RA operating model to ensure that both functions had the appropriate structures and resources in place to deliver their strategic plans. The bench-strength of the functions was reviewed and consideration was given to succession planning, resource and budget.

The Board Risk Committee considered in detail the impact of the Group's transformation programme on the holistic risk management operating model. This included (i) resourcing levels and quality, (ii) changes to risk management's technology support infrastructure, (iii) the impact on the Group's overall control environment and (iv) alignment with other major change and investment programmes.

Last year, the Board Risk Committee reviewed the operation of the Divisional Risk and Group Audit Committees. In response to management feedback, consideration was given to alternative mechanisms that could more effectively provide a line of sight into business risk and audit issues. In early 2014, the Board Risk Committee agreed that standardised Business Risk Committees, chaired by business Chief Executives, should be responsible for the consideration of all risk issues and escalation to the business ExCo and ERF. These Committees also consider finance and audit issues on a quarterly basis and provide reports to the Board Risk Committee and Group Audit Committee. While the Committees are in their infancy, it is anticipated that these changes will improve the risk governance at a business level and facilitate the escalation of issues as appropriate. A review of effectiveness will be undertaken in 2015.

Risk architecture

The Board Risk Committee considered model risk management across the organisation and this will remain a key area of focus of the Board Risk Committee into 2015 and beyond.

The Board Risk Committee reviewed the preparations under way to ensure compliance with the new Basel Principles on Effective Risk Data Aggregation and Reporting, which were due to come into effect from January 2016. Detailed plans will be reviewed and the Board Risk Committee will receive reports on delivery through 2015.

Accountability and Remuneration

The Board Risk Committee recognises clear link between conduct, culture and performance management. As part of its work the Board Risk Committee has continued to work closely with the Group Performance and Remuneration Committee to consider the risk aspects of Executive Committee members' objectives, performance and remuneration arrangements. The committee makes recommendations as appropriate to the Group Performance and Remuneration Committee.

The Board Risk Committee also considered the risk performance of businesses in light of known risk and control issues and under advice from Risk, C&RA and internal audit functions. It has also reviewed specific accountability cases and made recommendations regarding appropriate adjustments to performance related reward to the Group Performance and Remuneration Committee.

SUMMARY CONSOLIDATED FINANCIAL INFORMATION RELATING TO THE ROYAL BANK OF SCOTLAND GROUP PLC

Financial information prepared in accordance with IFRS

The following tables summarise certain financial information of RBSG for its financial years ended 31 December 2014 and 31 December 2013 and have been extracted without adjustment from the audited consolidated financial statements of RBSG for the financial year ended 31 December 2014, which were prepared in accordance with IFRS.

RBSG Share Capital

The amount of RBSG's issued share capital as at 31 December 2014 was £6,878 million, as derived from the audited consolidated financial statements of RBSG for the financial year ended 31 December 2014.

	Allotted, called up and fully paid		
	1 January 2014 £m (unaudited)	*Issued during the year £m (unaudited)*	*31 December 2014 £m (audited)*
Ordinary shares of £1	6,203	163	6,366
B shares of £0.01	510	-	510
Dividend access share of £0.01	-	-	-
Non-cumulative preference shares of US$0.01	1	-	1
Non-cumulative convertible preference shares of US$0.01	-	-	-
Non-cumulative preference shares of €0.01	-	-	-
Non-cumulative convertible preference shares of £0.01	-	-	-
Non-cumulative preference shares of £1	-	-	-
Cumulative preference shares of £1	1	-	1
Total share capital	6,715	163	6,878

Under IFRS, certain preference shares included in the table above are classified as debt and are included in subordinated liabilities in the balance sheet.

Number of shares – thousands	*Allotted, called up and fully paid* *31 December 2014* *Number of shares* *(audited)*
Ordinary shares of £1	6,365,896
B shares of £0.01	51,000,000
Dividend access share of £0.01[1]	-
Non-cumulative preference shares of US$0.01	209,609
Non-cumulative convertible preference shares of US$0.01	65
Non-cumulative preference shares of €0.01	2,044
Non-cumulative convertible preference shares of £0.01	15
Non-cumulative preference shares of £1	14
Cumulative preference shares of £1	900

Note:

(1) One dividend access share in issue.

Under IFRS, certain preference shares included in the table above are classified as debt and are included in subordinated liabilities in the balance sheet.

The information contained in the tables above has not changed materially since 31 December 2014.

Selected financial information of RBSG for the years ended 31 December 2014 and 2013

	Year ended 31 December 2014 £m (audited)	*Year ended 31 December 2013[*] £m (audited)*
Operating profit/(loss) before tax	2,643	(8,849)
Tax charge	(1,909)	(186)
Profit/(loss) from continuing operations	734	(9,035)
(Loss)/profit from discontinued operations, net of tax	(3,445)	558
Loss for the year	(2,711)	(8,477)

	Year ended 31 December 2014 £m (audited)	*Year ended 31 December 2013 £m (audited)*
Called-up share capital	6,877	6,714
Reserves	50,369	52,028
Owners' equity	57,246	58,742
Non-controlling interests	2,946	473
Subordinated liabilities	22,905	24,012
Capital resources	83,097	83,227

	31 December 2014 £m (audited)	*31 December 2013 £m (audited)*
Deposits by customers and banks	452,304	534,859
Loans and advances to customers and banks	421,973	494,793
Total assets	1,050,763	1,027,878

[*] Prior period has been re-presented accordingly to reflect Citizens Financial Group being included in discontinued operations.

	End-point CRR basis [1]		PRA transitional basis [1]	
	31 December 2014 per cent. (unaudited) %	*31 December 2013 [2] per cent. (unaudited) %*	*31 December 2014 per cent. (unaudited) %*	*31 December 2013 [2] per cent. (unaudited) %*
Risk asset ratios				
CET1 ratio	11.2	8.6	11.1	8.6
Tier 1 ratio	11.2	8.6	13.2	10.3
Total capital ratio	13.7	10.6	17.1	13.6

Notes:

(1) Capital Requirements Regulation (CRR) as implemented by the Prudential Regulation Authority in the UK, with effect from 1 January 2014. All regulatory adjustments and deductions to CET1 capital have been applied in full for the end-point CRR basis with the exception of unrealised gains on AFS securities which has been included from 2015 for the PRA transitional basis.

(2) Estimated.

GENERAL INFORMATION

RBSG's Objects and Purposes

Article 161 of RBSG's articles of association, adopted by RBSG on 28 April 2010 and amended by special resolution on 19 April 2011 and 30 May 2012, provides that nothing in the RBSG articles of association shall constitute a restriction on the objects of RBSG to do (or omit to do) any act and, in accordance with Section 31(1) of the Companies Act 2006, RBSG's objects are unrestricted.

Documents Available for Inspection

From the date hereof and throughout the life of the Registration Document, copies of the following documents will, when available, be available during usual business hours on a weekday (Saturdays, Sundays and public holidays excepted) for inspection at the registered office of RBSG:

(i) the constitutional documents of the Issuer;

(ii) all future consolidated financial statements of the Issuer;

(iii) this Registration Document; and

(iv) the documents incorporated by reference herein.

No Significant Change and No Material Adverse Change

There has been no significant change in the trading or financial position of the Group taken as a whole since 31 December 2014 (the end of the last financial period for which the latest audited financial information has been published).

There has been no material adverse change in the prospects of the Group taken as a whole since 31 December 2014 (the last date to which the latest audited published financial information of the Group was prepared).

Auditors and Financial Statements

The consolidated financial statements of RBSG for the years ended 31 December 2014 and 2013 have been audited by Deloitte LLP, Chartered Accountants (authorised and regulated by the Financial Conduct Authority for designated investment business), whose address is 2 New Street Square, London EC4A 3BZ. Deloitte LLP is affiliated to the Institute of Chartered Accountants of England and Wales (the "**ICAEW**") and all partners of Deloitte LLP have a practising certificate with the ICAEW.

The financial information contained in this Registration Document in relation to the Issuer does not constitute the Issuer's statutory accounts within the meaning of Section 434 of the Companies Act 2006. Statutory accounts for the years ended 31 December 2014 and 31 December 2013 to which the financial information in this Registration Document relates have been, or (in the case of the year ended 31 December 2014) will be, delivered to the Registrar of Companies in Scotland.

Deloitte LLP has reported on such statutory accounts and such reports in respect of the years ended 31 December 2013 and 31 December 2014 were unqualified and did not contain a statement under Section 498(2) or (3) of the Companies Act 2006.

RBSG does not produce unconsolidated financial statements.

Material Contracts

RBSG and its subsidiaries are party to various contracts in the ordinary course of business. Material contracts are set out on page 471 (under the heading "B Share Acquisition and Contingent Capital Agreement"), page 472 (under the heading "DAS Retirement Agreement"), page 472 (under the heading “State Aid Commitment Deed”), page 472 (under the heading “State Aid Costs Reimbursement Deed”), page 472 (under the heading “Sale of RBS England & Wales and NatWest Scotland branch based business”), page 472 (under the heading “Separation and Shareholder Agreement (SSA) with Citizens Financial Group, Inc.”) and page 473 (under the heading “HMT and UKFI Relationship Deed”) of the 2014 Annual Report and Accounts of RBSG.

FORWARD-LOOKING STATEMENTS

Certain sections in, or incorporated by reference in, this Registration Document contain 'forward-looking statements', such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'believes', 'should', 'intend', 'plan', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'will', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on those expressions.

In particular, this Registration Document includes forward-looking statements relating, but not limited to: the Group's transformation plan (which includes the 2013/2014 Strategic Plan), as well as restructuring, capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios, liquidity, risk-weighted assets, risk-weighted assets equivalents, Pillar 2A, maximum distributable amount, TLAC, MREL, return on equity, profitability, cost : income ratios, loan : deposit ratios, funding and risk profile; litigation, government and regulatory investigations including investigations relating to the setting of interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the US; the Group's future financial performance; the level and extent of future impairments and write-downs; and the Group's exposure to political risks, credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates, targets and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could adversely affect the Group's results and the accuracy of forward-looking statements in this document include, but are not limited to: the significant risks for the Group presented by the execution of the transformation plan; the Group's ability to successfully implement the various initiatives that are comprised in the transformation plan, particularly the balance sheet reduction programme including the divestment of Williams & Glyn and its remaining stake in CFG, the proposed restructuring of its CIB business and the significant restructuring undertaken by the Group as a result of the implementation of the ring fence; whether the Group will emerge from implementing the transformation plan as a viable, competitive, customer-focused and profitable bank; the Group's ability to achieve its capital targets which depend on the Group's success in reducing the size of its business; the cost and complexity of the implementation of the ring-fence and the extent to which it will have a material adverse effect on the Group; the risk of failure to realise the benefit of the Group's substantial investments in its information technology and operational infrastructure and systems, the significant changes, complexity and costs relating to the implementation of the transformation plan, the risks of lower revenues resulting from lower customer retention and revenue generation as the Group refocuses on the UK as well as increasing competition; the Group's ability to attract and retain qualified personnel; uncertainties regarding the outcomes of legal, regulatory and governmental actions and investigations that the Group is subject to and any resulting material adverse effect on the Group of unfavourable outcomes; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which the Group operates; uncertainty relating to how policies of the new government elected in the May 2015 UK election may impact the Group including a possible referendum on the UK's membership of the EU; operational risks that are inherent in the Group's business and that could increase as the Group implements its transformation plan; the potential negative impact on the Group's business of actual or perceived global economic and financial market conditions and other global risks; how the Group will be increasingly impacted by UK developments as its operations become gradually more focused on the UK; uncertainties regarding Group exposure to any weakening of economies within the EU and renewed threat of default by certain counties in the Eurozone; the risks resulting from the Group implementing the State Aid restructuring plan including with respect to the disposal of certain assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by the Group; the impact of unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; changes in the credit ratings of the Group; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; regulatory or legal changes (including those requiring any restructuring of the Group's operations); changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes; impairments of goodwill; the high dependence of the Group's operations on its information technology systems and its increasing exposure to cyber security threats; the reputational risks inherent in the Group's operations; the risk that the Group may suffer losses due to employee misconduct; pension fund shortfalls; the recoverability of deferred tax assets by the Group; HM Treasury exercising influence over the operations of the Group; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in, or incorporated by reference in, this Registration Document speak only as of the date of this Registration Document, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

For a further discussion of certain risks faced by the Group, see "Risk Factors" on pages 3 to 33.

DOCUMENTS INCORPORATED BY REFERENCE

The following documents, which have been (1) previously published and (2) approved by the FCA or filed with it, shall be deemed to be incorporated in, and form part of, this Registration Document:

(a) the following sections of the 2014 Annual Report and Accounts of RBSG, which were published via the Regulatory News Service of the London Stock Exchange plc (the "**RNS**") on 31 March 2015 (the "**2014 Annual Report and Accounts of RBSG**"):

(i) Independent auditor's report on pages 336 to 341;

(ii) Consolidated income statement on page 342;

(iii) Consolidated statement of comprehensive income on page 343;

(iv) Consolidated balance sheet as at 31 December 2014 on page 344;

(v) Consolidated statement of changes in equity on pages 345 to 347;

(vi) Consolidated cash flow statement on page 348;

(vii) Accounting policies on pages 349 to 360;

(viii) Notes on the consolidated accounts on pages 361 to 449;

(ix) Parent company financial statements and notes on pages 450 to 458;

(x) 2014 Performance on pages 2 to 4;

(xi) Business model and strategy on pages 12 to 20;

(xii) Governance at a glance on pages 34 to 35;

(xiii) Chairman's statement on pages 6 to 7;

(xiv) Chief Executive's review on pages 8 to 11;

(xv) Risk overview on pages 36 to 37;

(xvi) Letter from the Chairman on pages 43 to 44;

(xvii) Our governance structure on page 45;

(xviii) Business review on pages 23 to 33;

(xix) Capital and Risk Management on pages 168 to 334;

(xx) Corporate governance on pages 50 to 54;

(xxi) Directors' remuneration report on pages 73 to 89;

(xxii) Other Remuneration Disclosures on pages 90 to 93;

(xxiii) Compliance report on pages 94 to 95;

(xxiv) Report of the Directors on pages 96 to 101;

(xxv) Statement of directors' responsibilities on page 102;

(xxvi) Financial Summary on pages 460 to 469;

(xxvii) Exchange rates on page 469;

(xxviii) Supervision on page 470;

(xxix) Description of property and equipment on page 470;

(xxx) Major shareholders on page 471;

(xxxi) Material contracts on pages 471 to 473;

(xxxii) Abbreviations and acronyms on page 504; and

(xxxiii) Glossary of terms on pages 505 to 511;

(b) the following sections of the 2013 Annual Report and Accounts of RBSG, which were published via the RNS on 25 April 2014 (the "**2013 Annual Report and Accounts of RBSG**"):

(i) Independent auditor's report on pages 366 to 369;

(ii) Consolidated income statement on page 370;

(iii) Consolidated statement of comprehensive income on page 371;

(iv) Consolidated balance sheet as at 31 December 2013 on page 372;

(v) Consolidated statement of changes in equity on pages 373 to 375;

(vi) Consolidated cash flow statement on page 376;

(vii) Accounting policies on pages 377 to 390;

(viii) Notes on the consolidated accounts on pages 391 to 496;

(ix) Parent company financial statements and notes on pages 497 to 507;

(x) 2013 Financial Results on pages 2 to 5;

(xi) Our business model and strategy on pages 8 to 10;

(xii) RBS at a glance on pages 11 to 19;

(xiii) Chairman's statement on pages 22 to 23;

(xiv) Chief Executive's review on pages 24 to 27;

(xv) Economic and monetary environment on page 28;

(xvi) Letter from the Chairman on pages 36 to 37;

(xvii) Our governance structure on page 38;

(xviii) Business review on pages 100 to 173;

(xix) Risk and Balance Sheet Management on pages 174 to 364;

(xx) Corporate governance on pages 45 to 49;

(xxi) Directors' remuneration report on pages 66 to 86;

(xxii) Other Remuneration Disclosures on pages 87 to 90;

(xxiii) Compliance report on pages 91 to 92;

(xxiv) Report of the Directors on pages 93 to 98;

(xxv) Statement of directors' responsibilities on page 99;

(xxvi) Financial Summary on pages 509 to 519;

(xxvii) Exchange rates on page 519;

(xxviii) Supervision on page 520;

(xxix) Description of property and equipment on page 520;

(xxx) Major shareholders on page 521;

(xxxi) Material contracts on pages 521 to 522;

(xxxii) Abbreviations and acronyms on page 548; and

(xxxiii) Glossary of terms on pages 549 to 556.

Any information or other documents themselves incorporated by reference, either expressly or implicitly, in the documents incorporated by reference in this Registration Document shall not form part of this Registration Document, except where such information or other documents are specifically incorporated by reference into this Registration Document.

It should be noted that, except as set forth above, no other portion of any of the above documents is incorporated by reference into this Registration Document. In addition, where sections of any of the above documents which are incorporated by reference into this Registration Document cross-reference other sections of the same document, such cross-referenced information shall not form part of this Registration Document, unless otherwise incorporated by reference herein. Those parts of the documents incorporated by reference which are not specifically incorporated by reference in this Registration Document are either not relevant for prospective investors in the securities issued by RBSG or the relevant information is included elsewhere in this Registration Document.

The Issuer will provide, without charge, to each person to whom a copy of this Registration Document has been delivered, upon the oral or written request of such person, a copy of any or all of the information which is incorporated herein by reference. Written or oral requests for such information should be directed to the Issuer at its principal office set out on the last page of this Registration Document.

A copy of any or all of the information which is incorporated by reference in the Prospectus can be obtained from the website of RBSG at http://www.rbs.com and from the London Stock Exchange plc's website at http://www.londonstockexchange.com/exchange/news/market-news/market-news-home.html.

THE ISSUER

Registered Office

The Royal Bank of Scotland Group plc
36 St Andrew Square
Edinburgh EH2 2YB

Tel: +44 (0) 131 556 8555

Principal Office

The Royal Bank of Scotland Group plc
RBS Gogarburn
PO Box 1000
Edinburgh EH12 1HQ

Tel: +44 (0) 131 626 0000

INDEPENDENT PUBLIC ACCOUNTANTS

To the Issuer

Deloitte LLP
Chartered Accountants
2 New Street Square
London EC4A 3BZ