Dated 12 March 2013

THE ROYAL BANK OF SCOTLAND GROUP PLC

REGISTRATION DOCUMENT

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INTRODUCTION

This document constitutes a registration document ("**Registration Document**") for the purposes of Article 5.3 of Directive 2003/71/EC (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 to the public 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 Services Authority (the "**FSA**") in its capacity as competent authority under 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 "A-"; senior notes issued by RBSG with a maturity of less than one year "A-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. 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 "Baa1"; 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, an "A" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it is strong and an "A-2" rating means that the ability of the Issuer to meet its financial commitment on the relevant notes issued by it is satisfactory. 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 "1" indicates that the obligation ranks in the higher end of its generic rating category. 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 — 22 June 2012" published by Standard & Poor's (available at www.standardandpoors.com), (ii) the publication entitled "Rating Symbols and Definitions — January 2013" published by Moody's (available at www.moodys.com) and (iii) the publication entitled "Definitions of Ratings and Other Forms of Opinion — February 2013" 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 rating 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 and is registered under Regulation (EC) No 1060/2009 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.

Macro-economic and geopolitical risks

The Group's businesses and performance can be negatively affected by actual or perceived global economic and financial market conditions

The Group's businesses and performance are affected by local and global economic conditions, perceptions of those conditions and future economic prospects. The outlook for the global economy over the near to medium-term remains challenging and many forecasts predict at best only stagnant or modest levels of gross domestic product ("**GDP**") growth across a number of the Group's key markets over that period, including, in particular, the UK, Ireland and the US. Stagnant or weak GDP growth is also expected in the European Monetary Union ("**EMU**") where a relatively robust German economy has been offset by austerity measures in many EMU countries, initiated in response to increased sovereign debt risk, which have resulted in weak economic and GDP growth, particularly in Spain, Italy and France.

The Group's businesses and performance are also affected by financial market conditions. Although capital and credit markets around the world were more stable during 2012, they remained volatile and subject to intermittent and prolonged disruptions. In particular, increasingly during the second and third quarters of 2012, continuing risk of sovereign default relating to certain EU member states had a negative impact on capital and credit markets.

These challenging economic and market conditions create a difficult operating environment for the Group's businesses, which is characterised by:

- downward pressure on asset prices and on credit availability and upward pressure on funding costs, and such conditions continue to impact asset recovery rates and the credit quality of the Group's businesses, customers and counterparties, including sovereigns;

- alone or in combination with regulatory changes or actions of market participants, reduced activity levels, additional write-downs and impairment charges and lower profitability, and may restrict the ability of the Group to access funding and liquidity; and
- central bank actions to engender economic growth which have resulted in a prolonged period of low interest rates constraining, through margin compression and low returns on assets, the interest income earned on the Group's interest earning assets.

In particular, should the scope and severity of the adverse economic conditions currently experienced by a number of EU member states and elsewhere worsen or economic recovery remain stagnant for an extended period, particularly in the Group's key markets, the risks faced by the Group would be exacerbated. Developments relating to the current economic conditions and unfavourable financial environment, including those discussed above, could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group has significant exposure to the continuing economic crisis in Europe

In Europe, countries such as Ireland, Italy, Greece, Portugal and Spain have been particularly affected by the recent macroeconomic and financial conditions. Although the risk of sovereign default reduced in 2012 due to actions of the European Central Bank ("**ECB**") and the EU, the risk of default remains. This default risk raises concerns, particularly about the contagion effect such a default would have on other EU economies, including the UK economy, as well as the ongoing viability of the euro currency and the EMU. As a result, yields on the sovereign debt of many EU member states have remained volatile. The EU, the ECB, the International Monetary Fund and various national authorities have implemented measures intended to address systemic stresses in the Eurozone. The effectiveness of these actions is not assured and the possibility remains that the contagion effect spreads to the UK, that the euro could be abandoned as a currency by one or more countries that have already adopted its use, or in an extreme scenario, that the abandonment of the euro could result in the dissolution of the EMU. This would lead to the re-introduction of individual currencies in one or more EMU member states.

The effects on the UK, European and global economies of the potential dissolution of the EMU, exit of one or more EU member states from the EMU and the 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 mismatch.

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

In particular, the Group has significant exposure to customers and counterparties in the Eurozone (at 31 December 2012 principally Germany (£48 billion), The Netherlands (£26 billion), Ireland

(£40 billion), France (£19 billion) and Spain (£12 billion)) which includes sovereign debt exposures that have been, and may in the future be, affected by restructuring of their terms, principal, interest and maturity. The Group's Eurozone sovereign debt exposures resulted in the Group recognising an impairment loss of £1,099 million in 2011 in respect of its holding of Greek government bonds. Similar write downs may occur in future periods. At 31 December 2012, the Group's Eurozone sovereign debt exposure amounted to £678 million including aggregate exposure of £51 million to Greece, Ireland, Italy, Spain and Portugal.

The Group operates in markets that are highly competitive and its business and results of operations may be adversely affected

The competitive landscape for banks and other financial institutions in the UK, the US and throughout the rest of Europe is subject to rapid change and 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 competitive landscape in the UK will be particularly influenced by the recommendations on competition included in the final report of the Independent Commission on Banking ("**ICB**"), and the UK Government's implementation of the recommendations. In order to compete effectively, certain financial institutions may seek to consolidate their businesses or assets with other parties. This consolidation, in combination with the introduction of new entrants into the markets in which the Group operates is likely to increase competitive pressures on the Group.

In addition, certain competitors may have access to lower cost funding and/or be able to attract deposits on more favourable terms than the Group and may have stronger and more efficient operations. Furthermore, the Group's competitors may be better able to attract and retain clients and key employees, which may have a negative impact on the Group's relative performance and future prospects. In addition, future disposals and restructurings by the Group and the compensation structure and restrictions imposed on the Group may also have an impact on its ability to compete effectively. These and other changes to the competitive landscape could adversely affect the Group's business, margins, profitability, financial condition and prospects.

The Group is subject to political risks

The Group and The Royal Bank of Scotland plc ("**RBS**"), its principal operating subsidiary, are both headquartered and incorporated in Scotland. The Scottish Government intends to hold a referendum in 2014 on the issue of Scottish independence from the UK. Although the outcome of such referendum is uncertain, Scottish independence could affect Scotland's status in the EU and significantly impact the fiscal, monetary and regulatory landscape to which the Group is subject. In addition, in January 2013, the UK Government announced the possibility of a referendum on the UK's membership of the EU, which would only take place some time after 2015. Although the effect of either Scottish independence or any referendum on the UK's EU membership, if either were to occur, is not possible to predict fully, it could have a material adverse effect on the Group's business, financial condition, results of operations and prospects.

The Group and its UK bank subsidiaries may face the risk of full nationalisation

Under the Banking Act 2009, substantial powers have been granted to HM Treasury, the Bank of England and the FSA (together, the "**Authorities**") as part of a special resolution regime. These powers enable the Authorities to deal with and stabilise certain deposit-taking UK incorporated institutions that are failing, or are likely to fail, to satisfy the threshold conditions (within the meaning of section 41 of the FSMA, which are the conditions that a relevant entity must satisfy in order to obtain its authorisation to perform regulated activities). The special resolution regime consists of three stabilisation options: (i) 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) 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. If HM Treasury decides to take the Group into temporary public ownership pursuant to the powers granted under the Banking Act, it may take various actions in relation to any securities without the consent of holders of the securities.

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 65.3 per cent. of the issued ordinary share capital of the Group. On 22 December 2009, the Group 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 the Group from the Official List of the UK 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 the ordinary shares that it owns 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 its current intentions change, HM Treasury's position as a majority shareholder (and UKFI's position as manager of this shareholding) means that HM Treasury or UKFI may be able to exercise a significant degree of influence over, among other things, the election of directors. 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 is subject to other global risks

By virtue of the Group's global presence, the Group is exposed to risks arising out of geopolitical events, such as the existence of trade barriers, the implementation of 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 response to them by governments could also adversely affect levels of economic activity and have an adverse effect upon the Group's business, financial condition and results of operations.

Market and credit related risks

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

Severe market events have resulted in the Group recording large write-downs on its credit market exposures in recent years; particularly early in the financial crisis (£10.1 billion in 2008 and £6.2 billion in 2009). Any deterioration in economic and financial market conditions or continuing weak economic growth could lead to further impairment charges and write-downs. Moreover, market volatility and illiquidity (and the assumptions, judgements 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, 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, even in respect of exposures, such as credit market exposures, for which the Group has previously recorded write-downs. In addition, the value ultimately realised by the Group may be materially different from the current or estimated fair value. As part of the Group's strategy it has materially reduced the size of its balance sheet mainly through the sale and run-off of non-core assets. The Group's assets that remain in its Non-Core division may be more difficult to sell and could be subject to further write-downs or, if sold, realised losses. Any of these factors could require the Group to recognise additional significant write-downs or realise increased impairment charges, which may have a material adverse effect on its financial condition, results of operations and capital ratios. In addition, steep falls in perceived or actual asset values have been accompanied by a severe reduction in market liquidity, as exemplified by losses arising out of asset-backed collateralised debt obligations, residential mortgage-backed securities and the leveraged loan market. In dislocated markets, hedging and other risk management strategies may not be as effective as they are in normal market conditions due in part to the decreasing credit quality of hedge counterparties.

The financial performance of the Group has been, and continues to be, materially affected by deteriorations in borrower and counterparty credit quality and further deteriorations 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 weakened 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 2012 credit risk assets in the UK were £316 billion, in North America £101 billion and in Western Europe (excluding the UK) £147 billion); and within certain business sectors, namely personal finance, financial institutions and commercial real estate (at 31 December 2012 residential and personal lending amounted to £182 billion, lending to financial institutions was £114 billion and commercial real estate lending was £63 billion). The Group expects its exposure to the UK to increase proportionately as its business becomes more concentrated in the UK, with exposures generally being reduced in other parts of its business as it implements its strategy.

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.

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, there has been disruption during recent years in 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 governments. This disruption has lengthened the time to complete foreclosures, increased the backlog of repossessed properties and, in certain cases, has resulted in the invalidation of purported foreclosures.

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.

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.

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), 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. For accounting purposes, the Group values some of its issued debt, such as debt securities, at the current market price. 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 of financial markets affects bond, equity and commodity prices, which has caused, and may in the future cause, changes in the value of the Group's investment and trading portfolios. As part of its ongoing 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, particularly in the current environment, 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.

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. The FSCS is funded by levies on firms authorised by the FSA, 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. At 31 December 2012, the Group had accrued £119 million for its share of estimated FSCS levies for the 2012/2013 and 2013/2014 FSCS years.

In addition, 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 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

The Group maintains a number of defined benefit pension schemes for past and a number of current employees. Pension risk is the risk that the assets of the Group's various defined benefit pension schemes which are long-term in nature do not fully match the timing and amount of the schemes' liabilities, 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 schemes' assets comprise investment portfolios that are held to meet projected liabilities to the scheme members. Risk arises from the schemes because the value of these asset portfolios, returns from them and 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, and during recent periods, the Group has voluntarily made such contributions to the schemes. Given the recent economic and financial market difficulties and the prospect that they may continue over the near and medium term, the Group may experience increasing pension deficits or be required or elect to make further contributions to its pension schemes and such deficits and contributions could be significant and have an adverse impact on the Group's results of operations or financial condition. The most recent funding valuation at 31 March 2010 was agreed during 2011. It showed the value of liabilities exceeded the value of assets by £3.5 billion at 31 March 2010, a ratio of assets to liabilities of 84 per cent..

In order to eliminate this deficit, the Group will pay additional contributions each year over the period 2011 until 2018. Contributions started at £375 million per annum in 2011, will increase to £400 million per annum in 2013 and from 2016 onwards will be further increased in line with price inflation. These contributions are in addition to the regular annual contributions of around £250 million for future accrual of benefits.

Funding, liquidity and capital related risks

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 generally improved during 2012 (in part as a result of measures taken by the ECB), and the Group's overall liquidity position remained strong, certain European banks, in particular from the peripheral countries of Spain, Portugal, Greece, Italy and Ireland remained reliant on central banks as one of their principal sources of liquidity and central banks increased their support to banks with the ECB providing significant short and long-term liquidity in the last few months of 2011 and in 2012. Although these efforts had a positive impact, global credit markets remain volatile.

The market perception of bank credit risk has changed significantly as a result of the financial crisis and banks that are deemed by the market to be riskier have had to issue debt at a premium. Any uncertainty regarding the perception of credit risk across financial institutions may lead to reductions in levels of interbank lending and associated term maturities and may restrict the Group's access to traditional sources of liquidity or increase the costs of accessing such liquidity.

The Group's liquidity management focuses, among other things, on maintaining a diverse and appropriate funding strategy for its assets in line with the Group's wider strategic plan. 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 the pledging of assets as collateral and changes to asset valuations or eligibility criteria can negatively impact the available assets and reduce available liquidity access particularly during periods of stress when such lines may be needed most. 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. Increased competition for funding during 2013 due to the significant levels of refinancing expected to be required by financial institutions, may also reduce the level of funding available from these sources. Under certain circumstances, the Group may need to seek funds from alternative sources potentially at higher costs than has previously been the case or may be required to consider disposals of other assets not previously identified for disposal to reduce its funding commitments.

The Group relies increasingly on customer deposits to meet a considerable portion of its funding and it is actively seeking to increase the proportion of its funding represented by customer deposits. The level of deposits may fluctuate due to certain factors outside the Group's control, such as a loss of confidence, increasing competitive pressures for retail customer deposits or the encouraged or mandated 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. There is currently heavy competition among UK banks for retail customer deposits, which has increased the cost of procuring new deposits and impacted the Group's ability to grow its deposit base and such competition is expected to continue. 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 materially 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 business performance could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity 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 US and other jurisdictions in which it undertakes regulated activities to maintain adequate capital resources. The maintenance of adequate capital is also necessary for the Group's financial flexibility in the face of continuing turbulence and uncertainty in the global economy and specifically in its core UK, US and European markets.

The Basel Committee on Banking Supervision's package of reforms to the regulatory capital framework includes a material increase to the minimum Core Tier 1 (common equity) requirement and the total Tier 1 capital requirement, a capital conservation buffer and a countercyclical buffer. In addition, a leverage ratio is to be introduced, together with a liquidity coverage ratio and a net stable funding ratio. Further measures may include bail-in debt which may impact existing as well as future issues of debt and expose them to the risk of conversion into equity and/or write-down of principal amount. Such measures would be in addition to proposals for the write-off of Tier 1 and Tier 2 debt (and its possible conversion into ordinary shares) if a bank becomes non-viable.

The Basel Committee has proposed that global systemically important financial institutions ("**GSIFIs**") be subject to an additional common equity Tier 1 capital requirement, depending on a bank's systemic importance. The Group has been identified by the Financial Stability Board as a GSIFI. As a result the Group was required to meet resolution planning requirements by the end of 2012 as well as have additional loss absorption capacity. In addition, GSIFIs will be subjected to more intensive and effective supervision. The additional capital requirements are to be applied to GSIFIs identified in 2014 (the Financial Stability Board will update its list every three years) and phased in beginning in 2016.

The Basel III rules are due to be phased in between 1 January 2013 and 2019 but have not yet been approved by the EU and their incorporation into European and national law has, accordingly, not yet taken place. On 20 July 2011, the European Commission published a legislative package of proposals to implement the changes with a new Directive and Regulation (collectively known as CRD IV). The final form of CRD IV is still under negotiation and the start date for its implementation is still not known with full implementation still planned by 1 January 2019. The current proposals would allow the UK to implement more stringent prudential requirements than envisaged under Basel III.

The ICB recommendations and the UK Government's response supporting such recommendations include proposals to increase capital and loss absorbency to levels that exceed the proposals under Basel III/CRD IV. These requirements, as well as the other recommendations of the ICB, are expected to be phased in between 2015 and 2019. The US Federal Reserve has also proposed changes in how it will regulate the US operations of foreign banking operations such as the Group that may affect the capital requirements of the Group's operations in the US. As the implementation of the ICB recommendations are the subject of draft legislation not yet adopted and the Federal Reserve's recent proposals are in a comment period, the Group cannot predict the impact such rules will have on the Group's overall capital requirements or how they will affect the Group's compliance with applicable capital and loss absorbency requirements.

To the extent the Group has estimated the indicative impact that Basel III reforms may have on its risk-weighted assets and capital ratios, such estimates are preliminary and subject to uncertainties and may change. In particular, the estimates assume mitigating actions will be taken by the Group (such as deleveraging of legacy positions and securitisations, including Non-Core, as well as other actions being taken to de-risk market and counterparty exposures), which may not occur as anticipated, in a timely manner, or at all.

The Basel Committee changes and other future changes to capital adequacy and liquidity requirements in the UK, the US and in other jurisdictions in which the Group operates, including any application of increasingly stringent stress case scenarios by the regulators in the UK, the US and other jurisdictions in which the Group undertakes regulated activities, may require the Group to raise additional Tier 1 (including Core Tier 1) and Tier 2 capital by way of further issuances of securities, and will result in existing Tier 1 and Tier 2 securities issued by the Group ceasing to count towards the Group's regulatory capital, either at the same level as present or at all. The requirement to raise additional Core Tier 1 capital, 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 Tier 1 and Tier 2 capital, it may be required to reduce further the amount of its risk-weighted 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.

Pursuant to the acquisition and contingent capital agreement entered into between RBS and HM Treasury on 29 November 2009, the Group will be subject to restrictions on payments on its hybrid capital instruments should its Core Tier 1 ratio fall below 6 per cent. or if it would fall below 6 per cent. as a result of such payment. At 31 December 2012, the Group's Tier 1 and Core Tier 1 capital ratios were 12.4 per cent. and 10.3 per cent., respectively, calculated in accordance with FSA requirements. Any change that limits the Group's ability to manage effectively its balance sheet and capital resources going forward (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 assets or the inability to syndicate loans as a result of market conditions, a growth in unfunded pension exposures or otherwise) or to access funding sources, could have a material adverse impact on its 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 and the UK Government's credit ratings

The credit ratings of RBSG, RBS and other Group members have been subject to change and may change in the future, which could impact their cost of, access to and sources of financing and liquidity. A number of UK and other European financial institutions, including RBSG, RBS and other Group members, were downgraded during the course of 2011 and 2012 in connection with 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 to allow burden sharing with bondholders, and in connection with a general review of rating agencies' methodologies. Rating agencies continue 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. Any further reductions in the long-term or short-term credit ratings of RBSG or one of its principal subsidiaries (particularly RBS) would increase its borrowing costs, require the Group to replace funding lost due to the downgrade, which may include the loss of customer deposits, and may also limit the Group's access to capital and money markets and trigger additional collateral requirements in derivatives contracts and other secured funding arrangements. At 31 December 2012, 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 £9 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. In December 2012, Standard & Poor's placed the UK's AAA credit rating on credit watch, with negative outlook and, in February 2013, Moody's downgraded the UK's credit rating one notch to Aa1. Credit ratings of RBSG, RBS, RBS N.V., Ulster Bank Limited and RBS Citizens Financial Group, Inc. are also important to the Group when competing in certain markets, such as over-the-counter derivatives. As a result, any further reductions in the Group's long-term or short-term credit ratings or those of its principal subsidiaries could adversely affect the Group's access to liquidity and its competitive position, increase its funding costs and have a material adverse impact on the Group's earnings, cash flow and financial condition.

If the Group is unable to issue the Contingent B Shares to HM Treasury, it may have a material adverse impact on the Group's capital position, liquidity, operating results and future prospects

In the event that the Group's Core Tier 1 capital ratio declines to below 5 per cent., until December 2014 HM Treasury is committed to subscribe for up to an additional £8 billion of Contingent B Shares if certain conditions are met. If such conditions are not met and are not waived by HM Treasury, and the Group is unable to issue the Contingent B Shares, the Group will be required to find alternative methods for achieving the requisite capital ratios. There can be no assurance that any of these alternative methods will be available or would be successful in increasing the Group's capital ratios to the desired or requisite levels. If the Group is unable to issue the Contingent B Shares, the Group's capital position, liquidity, operating results and future prospects will suffer, its credit ratings may drop, its ability to lend and access funding will be further limited and its cost of funding may increase.

The regulatory capital treatment of certain deferred tax assets recognised by the Group depends on there being no adverse changes to regulatory requirements

There is currently no restriction in respect of deferred tax assets recognised by the Group for regulatory purposes. Changes in regulatory capital rules may restrict the amount of deferred tax assets that can be recognised and such changes could lead to a reduction in the Group's Core Tier 1 capital ratio. In particular, on 16 December 2010, the Basel Committee published the Basel III rules setting out certain changes to capital requirements which include provisions limiting the ability of certain deferred tax assets to be recognised when calculating the common equity component of Tier 1 capital. CRD IV which will implement Basel III in the EU includes similar limitations. The implementation of the Basel III restrictions on recognition of deferred tax assets within the common equity component of Tier 1 are subject to a phased-in deduction starting on 1 January 2014, to be fully effective by 1 January 2018.

Risks to implementation of Group strategy

The Group's ability to implement its strategic plan depends on the success of the Group's refocus on its core strengths and its balance sheet reduction programme

As a result of the global economic and financial crisis that began in 2008 and the changed global economic outlook, the Group is engaged in a financial and core business restructuring which is focused on achieving appropriate risk-adjusted returns under these changed circumstances, reducing reliance on wholesale funding and lowering exposure to capital-intensive businesses. A key part of this restructuring is the programme announced in February 2009 to run-down and sell the Group's non-core assets and businesses and the continued review of the Group's portfolio to identify further disposals of certain non-core assets and businesses. Assets identified for this purpose and allocated to the Group's Non-Core division totalled £258 billion, excluding derivatives, at 31 December 2008. At 31 December 2012, this total had reduced to £57.4 billion (31 December 2011 - £93.7 billion), excluding derivatives, as further progress was made in business disposals and portfolio sales during the course of 2012. This balance sheet reduction programme continues alongside the disposals under the State Aid restructuring plan approved by the European Commission. As part of its core business restructuring, during 2012 the Group implemented changes to its wholesale banking operations, including the reorganisation of its wholesale businesses and the exit and downsizing of selected existing activities (including cash equities, corporate banking, equity capital markets, and mergers and acquisitions).

Because the ability to dispose of assets and the price achieved for such disposals will be dependent on prevailing economic and market conditions, which remain challenging, there is no assurance that the Group will be able to sell or run-down (as applicable) those remaining businesses it is seeking to 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 of assets 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. There is consequently a risk that the Group may fail to complete such disposals by any agreed longstop date.

The Group may be liable for any deterioration in businesses or portfolios being sold between the announcement of the disposal and its completion, which period may be lengthy and 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 could have a material adverse effect on the Group's business, results of operations, financial condition, capital ratios and liquidity.

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

The Group was required to obtain State Aid approval for the aid given to the Group by HM Treasury as part of the placing and open offer undertaken by the Group in December 2008, the issuance to HM Treasury of £25.5 billion of B shares in the capital of the Group which are, subject to certain terms and conditions, convertible into ordinary shares in the share capital of the Group and a contingent commitment by HM Treasury to subscribe for up to an additional £8 billion of B Shares if certain conditions are met in addition to the Group's participation in the Asset Protection Scheme ("**APS**") (which has now been terminated). In that context, as part of the terms of the State Aid approval, the Group, together with HM Treasury, agreed the terms of a restructuring plan.

The Group is subject to a variety of risks as a result of implementing the State Aid restructuring plan, including required asset disposals. In particular, the Group agreed to undertake a series of measures to be implemented over a four year period from December 2009, including the disposal of a number of businesses now completed (or substantially completed) as well as the disposal of all or a controlling portion of Direct Line Group ("**DLG**", formerly known as RBS Insurance) (with disposal of its entire interest in DLG required by 31 December 2014), and the RBS branch-based business in England and Wales and the National Westminster Bank Plc ("**NatWest**") branches in Scotland, along with the direct and other small and medium-size enterprise (SME) customers and certain mid-corporate customers across the UK. While the initial sale of 34.7 per cent. of DLG through an IPO was completed in October 2012, in respect of the RBS and NatWest branch-based business, the sale process continues to progress following the withdrawal of its original buyer in October 2012.

There is no assurance that the price that the Group receives or has received for any assets sold pursuant to the State Aid restructuring plan will be or has been at a level the Group considers adequate or which it could obtain in circumstances in which the Group was not required to sell such assets in order to implement the State Aid restructuring plan or if such sale were not subject to the restrictions contained in the terms thereof. Further, if the Group fails to complete any of the required disposals within the agreed timeframes for such disposals, under the terms of the State Aid approval, a divestiture trustee may be empowered to conduct the disposals, with the mandate to complete the disposal at no minimum price.

Furthermore, if the Group is unable to comply with the terms of the State Aid approval, it could constitute a misuse of aid. In circumstances where the European Commission doubts that the Group is complying with the terms of the State Aid approval, it may open a formal investigation. At the conclusion of any such investigation, if the European Commission decided that there had been misuse of aid, it could issue a decision requiring HM Treasury to recover the misused aid, which could have a material adverse impact on the Group.

In implementing the State Aid restructuring plan, the Group has lost, and will continue to lose, existing customers, deposits and other assets (both directly through sale and potentially through the impact on the rest of the Group's business arising from implementing the State Aid restructuring plan) and the potential for realising additional associated revenues and margins that it otherwise might have achieved in the absence of such disposals.

The disposal of Global Merchant Services and RBS Sempra Commodities reduced the Group's assets by approximately £13.0 billion and £2.4 billion, respectively (based on total assets immediately prior to disposal). The quantum of assets and deposits that would be included in a divestment of the RBS branch-based business in England and Wales and the NatWest branches in Scotland is not certain. However, at 31 December 2012, this business included approximately £18.8 billion of assets, £21.5 billion of deposits and 2 million customers.

The implementation of the State Aid restructuring plan may also result in disruption to the retained business and give rise to significant strain on management, employee, operational and financial resources, impacting customers and employees and giving rise to separation costs which could be substantial.

The implementation of the State Aid restructuring plan may result in the emergence of one or more new viable competitors or a material strengthening of one or more of the Group's existing competitors in the Group's markets. The effect of this on the Group's future competitive position, revenues and margins is uncertain and there could be an adverse effect on the Group's operations and financial condition and its business generally.

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.

Macro-prudential, regulatory and legal risks

Each of the Group's businesses is subject to substantial regulation and oversight. Significant regulatory developments and changes in the approach of the Group's key regulators 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. All of these are subject to change, particularly in the current regulatory and market environment, where there have been unprecedented levels of government intervention (including nationalisations and injections of government capital), changes to the regulations governing financial institutions and reviews of the industry, in the UK, in many other European countries, the US and at the EU level.

As a result of the environment in which the Group operates, 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), the Group is facing greater regulation and scrutiny in the UK, the US and other countries in which it operates (including in relation to compliance with anti-bribery, anti-money laundering, anti-terrorism and other similar sanctions regimes).

Although it is difficult to predict with certainty the effect that recent regulatory 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 (such as the bank levy in the UK, the EU Recovery and Resolution Directive (the "**RRD**") or the Dodd-Frank Wall Street Reform and Consumer Protection Act in the US) is likely to result in increased capital and liquidity requirements and changes in regulatory requirements relating to the calculation of capital and liquidity metrics or other prudential rules relating to capital adequacy frameworks, and may result in an increased number of regulatory investigations and proceedings. Any of these developments could have an adverse impact on how the Group conducts its business, applicable authorisations and licences, the products and services it offers, its reputation, the value of its assets, its funding costs and its results of operations and financial condition.

Areas in which, and examples of where, governmental policies, regulatory 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:

- the transfer in the UK of regulatory and supervisory powers from the FSA to the Financial Conduct Authority for conduct of business supervision and the Prudential Regulatory Authority for capital and liquidity supervision in 2013;
- the monetary, fiscal, interest rate and other policies of central banks and other governmental or regulatory bodies;
- requirements to separate retail banking from investment banking;
- restrictions on proprietary trading and similar activities within a commercial bank and/or a group which contains a commercial bank;
- 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 design and potential implementation of government mandated recovery, resolution or insolvency regimes;
- the imposition of government imposed requirements with respect to lending to the UK SME market and larger commercial and corporate entities and residential mortgage lending;
- requirements to operate in a way that prioritises objectives other than shareholder value creation;
- changes to financial reporting standards (including accounting standards), corporate governance requirements, corporate structures and conduct of business rules;
- the imposition of restrictions on the Group's ability to compensate its senior management and other 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, capital, liquidity or pricing;
- the introduction of, and changes to, taxes, levies or fees applicable to the Group's operations (such as the imposition of financial activities taxes and changes in tax rates that reduce the value of deferred tax assets); 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 may adversely affect 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 current and proposed resolution and recovery schemes which may result in various actions being taken in relation to any securities of the Group, including the write off, write-down or conversion of the Groups' securities

As a result of its status as a GSIFI and in accordance with current and proposed resolution and recovery schemes, the Group was required to meet certain resolution planning requirements by the end of 2012 and is required to meet others in 2013 contemplating its possible failure. The Group made the required submissions in 2012 to the FSA and its US business will make its required submissions in 2013. 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 powers provided by the Banking Act 2009, further resolution powers are expected to be provided as part of the RRD and the reforms implementing the recommendations of the ICB. Such resolution powers are expected to include a bail-in mechanism, pursuant to which losses would be imposed on shareholders and, as appropriate, creditors of the Group (through write-down or conversion into equity of liabilities including debt securities) in order to recapitalise and restore the Group to solvency as well as other options, including those as set forth in the Banking Act 2009. The implementation of any resolution and recovery scheme is the subject of significant debate, particularly for GSIFIs with complex cross border activities. Such debate includes whether resolution and recovery powers may be exercised through a single point of entry at the holding company or at various levels of the corporate structure of a GSIFI.

The potential impacts 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 Group is subject to a number of regulatory initiatives which may adversely affect its business. The Independent Commission on Banking's final report on competition and possible structural reforms in the UK banking industry has been adopted by the UK Government which intends to implement the recommendations substantially as proposed. In addition other proposals to ring fence certain business activities and the US Federal Reserve's proposal for applying US capital, liquidity and enhanced prudential standards to certain of the Group's US operations together with the UK reforms could require structural changes to the Group's business. Any of these changes could have a material adverse effect on the Group

The UK Government published a White Paper on Banking Reform in September 2012, outlining proposed structural reforms in the UK banking industry. The measures proposed were drawn in large part from the recommendations of the ICB, which was appointed by the UK Government in June 2010. The ICB published its final report to the Cabinet Committee on Banking Reform on 12 September 2011, which set out the ICB's views on possible reforms to improve stability and competition in UK banking. The final report made a number of recommendations, including in relation to (i) promotion of competition, (ii) increased loss absorbency (including bail-in, i.e., the ability to write down debt or convert it into an issuer's ordinary shares in certain circumstances) and (iii) the implementation of a ring-fence of retail banking operations.

The measures in relation to the promotion of competition are already largely in train, including the development of an industry mechanism to make it easier for customers to switch their personal current accounts to a different provider, which is due to be completed by September 2013.

Bail-in mechanisms continue to be discussed by the EU and the Group continues to participate in the debate around such mechanisms, which could affect the rights of creditors, including holders of senior and subordinated bonds, and shareholders in the event of the implementation of a resolution scheme or an insolvency and could thereby materially affect the price of such securities.

The UK Government published in October 2012 a draft bill intended to enable the implementation of these reforms. This draft bill is subject to pre-legislative scrutiny by the UK Parliamentary Commission on Standards in Banking ("**PCBS**"), which may recommend changes to the bill. The UK Government published its response to the PCBS in February 2013 and agreed to amend the bill to include provisions giving the regulator the power to enforce full separation between retail and wholesale banking in a specified group. The Government is expected to introduce the bill, which will provide primary enabling legislation in the short term. This is with a view to completing the legislative framework by May 2015, requiring compliance as soon as practicable thereafter and setting a final deadline for full implementation of 2019.

The impact of any final legislation on the Group is impossible to estimate with any precision at this stage. The introduction of bail-in mechanisms may affect the Group's cost of borrowing, its ability to access professional markets' funding and its funding and liquidity metrics. It is also likely that ring-fencing certain of the Group's operations would require significant restructuring with the possible transfer of large numbers of customers between legal entities. It is possible that such ring-fencing, by itself, or taken together with the impact of other proposals contained in this legislation and other EU legislation that will apply to the Group could have a material adverse effect on the Group's structure and on the viability of certain businesses, in addition to the Group's results of operations, financial conditions and prospects.

It is also possible that the UK's implementation of a ring-fence may conflict with any EU legislation to implement the recommendations of the High-level Expert Group on Reforming the Structure of the EU Banking Sector, whose report, published in October 2012, proposed, *inter alia*, ring-fencing the trading and market-making activities of major European banks. This could affect the Group's position relative to some competitors. However, it is not yet clear whether the EU will implement ring-fencing proposals and whether they will apply to UK banks, in addition to the UK's own ring-fencing measures.

Under the US Federal Reserve's proposal to change how it regulates the US operations of large foreign banking groups, foreign banking organisations with total global consolidated assets of $50 billion or more ("**Large FBOs**") would have to create a separately capitalised top-tier US intermediate holding company ("**IHC**") that would hold all US bank and non-bank subsidiaries. The IHC would be subject to US capital, liquidity and other enhanced prudential standards on a consolidated basis. Among other things, an IHC would be subject to the same US risk based and leverage capital standards that apply to a US bank holding company. The adoption of such a regime would likely result in the Group being subject to multiple capital regimes where the US has departed from the international Basel Capital Framework as adopted in the UK and Europe. The imposition of US capital, liquidity and other enhanced prudential standards on an IHC of a Large FBO that is subject to home country capital standards on a group-wide consolidated basis would likely give rise to challenging organisational and compliance issues. The foregoing is only one example of issues that the Group might confront if its US operations were to be subject to these proposals. Under the current proposals the Group's US operations would be subject to these heightened requirements.

If any of the proposals described above are adopted, major changes to the Group's corporate structure, its business activities conducted in the UK and the US and potentially other jurisdictions where the Group operates, as well as changes to the Group's business model, might be required. The changes are likely to include ring-fencing certain 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 these proposed new rules and regulations. The proposals, if adopted, are expected to take an extended period of time to put into place, would be costly to implement and may lack harmonisation, all of the effects of which could have a material adverse effect on the Group's structure, results of operations, financial condition and prospects.

The Group is subject to a number of legal and regulatory actions and investigations. Unfavourable outcomes in such actions and investigations could have a material adverse effect on the Group's operating results or 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 investigation and other regulatory risk. As a result, the Group 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, LIBOR related litigation and investigations, securitisation and securities related litigation and anti-money laundering, sanctions, mis-selling and compliance related investigations, in addition to a number of other matters. In respect of the LIBOR investigations, the Group reached a settlement on 6 February 2013 with the FSA, the Commodity Futures Trading Association and the US Department of Justice. In addition to this settlement, the Group continues to cooperate with these and other governmental and regulatory authorities, including in the US and Asia, into its submissions, communications and procedures relating to the setting of LIBOR and other trading rates, and the probable outcome is that it will incur additional financial penalties. Legal 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. Adverse regulatory 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 or results of operations.

The Group may be required to increase provisions in relation to ongoing legal proceedings, investigations and regulatory matters. In 2012, provisions were required to cover costs of redress in respect of past sales of interest rate hedging products to the Group's small and medium sized businesses, having regard to the FSA report issued in January 2013 outlining the principles to which it wishes the Group and other UK banks to adhere in conducting the review and redress exercise. Additional provisions were required in 2012 to cover increased costs associated with Payment Protection Insurance sales practices. Provision was also required in respect of the redress paid to customers following the June 2012 technology incident which resulted in delays in the processing of certain customer accounts and payments. Significant increases in provisions may harm the Group's reputation and may have an adverse effect on the Group's financial condition and results of operations.

The Group, like many other financial institutions, has come under greater regulatory scrutiny in recent years and expects that environment to continue for the foreseeable future, particularly as it relates to compliance with new and existing corporate governance, employee compensation, conduct of business, anti-money laundering and anti-terrorism laws and regulations, as well as the provisions of applicable sanctions programmes.

Financial reporting related risks

The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements 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, judgements and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain. These assumptions, judgements and estimates will 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 and financial condition.

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 2012, the Group carried goodwill of £11.3 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. 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

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 allowable losses. Failure to generate sufficient future taxable profits or changes in tax legislation or accounting standards may reduce the recoverable amount of the recognised deferred tax assets. In April 2011, the UK Government commenced a staged reduction in the rate of UK corporation tax from 28 per cent. to 23 per cent. over a four-year period. Further rate reductions were announced in 2012 which will lead to a corporation tax rate of 21 per cent. by April 2014. Such changes in the applicable tax rates will reduce the recoverable amount of the recognised deferred tax assets.

Operational risks

Operational risks are inherent in the Group's businesses

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 authorisation, 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. Although the Group has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures, to identify and rectify weaknesses in existing procedures and to train staff, 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 could have a material adverse effect on the Group's business, financial condition and results of operation. 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 FSA.

The Group's operations are highly dependent on its information technology systems

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 information technology systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group's operations. 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 clients, could result in significant compensation costs, could breach regulations under which the Group operates and could cause long-term damage to the Group's business and brand.

For example, failure to protect the Group's operations from cyber attacks could result in the loss of customer data or other sensitive information. The threats are increasingly sophisticated and there can be no assurance that the Group will be able to prevent all threats. In addition, in June 2012, a computer system failure prevented 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 to other related costs.

The Group may suffer losses due to employee misconduct

The Group's businesses are exposed to risk from potential non-compliance with policies, 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 have suffered material losses due to the actions of "rogue traders" or other employees. 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 operations have inherent reputational risk

Reputational risk, meaning the risk to earnings and capital from negative public opinion, is inherent in the Group's business. Negative public opinion can result from the actual or perceived manner in which the Group conducts its business activities, from the Group's financial performance, from the level of direct and indirect government support or from actual or perceived practices in the banking and financial industry. 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. Negative public opinion may adversely affect the Group's ability to keep and attract customers and, in particular, corporate and retail depositors. The Group cannot ensure that it will be successful in avoiding damage to its business from reputational risk, which may result in a material adverse effect on the Group's financial condition, results of operations and prospects.

The Group could fail to attract or retain senior management, which may include members of the Board, or other key employees, and it may suffer if it does not maintain good employee relations

The Group's ability to implement its strategy and its future success depends on its ability to attract, retain and remunerate highly skilled and qualified personnel, including its senior management, which include directors and other key employees, competitively with its peers. This cannot be guaranteed, particularly in light of heightened regulatory oversight of banks and heightened scrutiny of, and (in some cases) restrictions placed upon, management and employee compensation arrangements, in particular those in receipt of Government support (such as the Group).

In addition to the effects of such measures on the Group's ability to retain senior management and other key employees, the marketplace for skilled personnel is more competitive, which means the cost of hiring, training and retaining skilled personnel may continue to increase. The failure to attract or retain a sufficient number of appropriately skilled personnel could place the Group at a significant competitive disadvantage and prevent the Group from successfully implementing its strategy, which could have a material adverse effect on the Group's 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.

The Group continues to be exposed to its insurance business which is subject to inherent risks involving claims

Future claims in the insurance business may be higher than expected as a result of changing trends in claims experience resulting from catastrophic weather conditions, demographic developments, changes in the nature and seriousness of claims made, changes in mortality, changes in the legal and compensatory landscape and other causes outside the Group's control. Because the Group will continue to consolidate DLG's results with its own for as long as required under accounting rules, any adverse impact on DLG due to these trends or insufficient or improper risk management by DLG could have an adverse effect on the Group's financial condition and results of operations.

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 global banking and financial services group. Headquartered in Edinburgh, the Group operates in the United Kingdom, the United States and internationally through its principal subsidiaries, The Royal Bank of Scotland plc ("**RBS**") and National Westminster Bank Plc ("**NatWest**"). Both RBS and NatWest are major United Kingdom clearing banks. In the United States, the Group's subsidiary RBS Citizens Financial Group, Inc. ("**RBS Citizens**") is a large commercial banking organisation. Globally, 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. ("RBS 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 UK plc ("**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 pursuant to Part VII of the UK Financial Services and Markets Act 2000. Substantially all of the Netherlands and EMEA businesses were transferred in September 2012. Further transfers are expected to take place during 2013 but are subject to certain authorisations including regulatory approval where necessary. The Group now anticipates that the transfers in China will be completed at a later date.

Assets, owners' equity and capital ratios

The Group had total assets of £1,312 billion and owners' equity of £68 billion as at 31 December 2012. The Group's capital ratios as at 31 December 2012 were a total capital ratio of 14.5 per cent., a Core Tier 1 capital ratio of 10.3 per cent. and a Tier 1 capital ratio of 12.4 per cent.

Principal subsidiaries

RBS, Direct Line Insurance Group plc ("**Direct Line Group**") 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 Financial Services Authority 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 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

- RBS Citizens Financial Group, Inc.
- Coutts & Company
- RBS Securities Inc.
- Direct Line Group
- Ulster Bank Limited
- RBS Holdings N.V.

Large exposure regime

RBS is subject to the FSA's large exposure regime and specific application to intra-group exposures. RBS is in breach of certain current rules relevant to intra-group exposures but is presently operating within the scope of an FSA-agreed remediation plan. RBS is expecting to be in full compliance with the current rules by the end of 2013.

The Group's businesses

The Group's activities are organised on a divisional basis as follows:

UK Retail offers a comprehensive range of banking products and related financial services to the personal market. It serves customers through a number of channels including: the RBS and NatWest network of branches and ATMs in the United Kingdom, telephony, online and mobile. UK Retail remains committed to delivering 'Helpful and Sustainable' banking and to the commitments set out in its Customer Charter - the results of which are externally assessed and published every six months.

UK Corporate is a leading provider of banking, finance and risk management services to the corporate and SME sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, and also through telephone and internet channels. The product range includes asset finance through the Lombard brand.

Wealth provides private banking and investment services in the UK through Coutts & Co and Adam & Company, offshore banking through RBS International, NatWest Offshore and Isle of Man Bank, and international private banking through Coutts & Co Ltd.

International Banking serves the world's largest companies with a leading client proposition focused on financing, transaction services and risk management. International Banking serves as the delivery channel for Markets products to corporate clients and serves international subsidiaries of both International Banking and clients from UK Corporate, Ulster Bank and US Retail & Commercial through its international network.

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 has a network of branches and operates in the personal and bancassurance sectors, and its Corporate Banking division, which provides services to business customers, corporate customers and institutional markets.

US Retail & Commercial provides financial services primarily through the Citizens and Charter One brands. US Retail & Commercial is engaged in retail and corporate banking activities through its branch network in 12 states in the United States and through non-branch offices in other states.

The divisions discussed above are collectively referred to as Retail & Commercial.

Markets is a leading origination, sales and trading business across debt finance, fixed income, currencies and investor products. The division offers a unified service to the Group's corporate and institutional clients. The Markets' sales and research teams build strong, ongoing client partnerships, provide market perspective and access, and work with the division's trading and structuring teams to meet the client's objectives across financing, risk management, investment, securitisation and liquidity.

Direct Line Group is a retail general insurer with leading market positions in the United Kingdom, a strong presence in the direct motor channel in Italy and Germany and a focused position in UK SME commercial insurance. The Group operates under highly recognised brands such as Direct Line and Churchill and is comprised of five primary segments: motor, home, rescue and other personal lines, commercial and international.

In the UK, Direct Line Group utilises a multi-brand, multi-product and multi-distribution channel business model that covers most major customer segments for personal lines general insurance. The Group also has a focused presence in the commercial market. The Group occupies leading market positions in terms of in-force policies and has the most highly recognised brands in the UK for personal motor and home insurance including Direct Line and Churchill. Other primary Direct Line Group brands include Privilege and Green Flag; NIG, a provider of insurance solutions to UK SMEs and Direct Line For Business ("**DL4B**"), the Group's direct commercial brand. The Group is also a major provider of insurance through a number of strategic partnerships. In Italy and Germany the Group operates under the Direct Line brand. It is planned for control of Direct Line Group to be ceded by the end of 2013. For more detail, see "State Aid".

Central Functions comprises Group and corporate functions, such as treasury, finance, risk management, legal, communications and human resources. The Centre manages the Group's capital resources and Group-wide regulatory projects and provides services to the operating divisions.

Non-Core division manages separately assets that the Group intends to run off or dispose of. The division contains a range of businesses and asset portfolios primarily from the legacy GBM businesses, higher risk profile asset portfolios including excess risk concentrations, and other illiquid portfolios. It also includes a number of other portfolios and businesses including regional markets businesses that the Group has concluded are no longer strategic.

Business 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. Business 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, Business Services costs are allocated to the divisions above. It is not deemed a reportable segment.

State Aid

On 14 December 2009, the European Commission formally approved the issuance of £25.5 billion of B Shares to HM Treasury, a contingent commitment by HM Treasury to subscribe for up to an additional £8 billion of B Shares and the State Aid restructuring plan.

To comply with State Aid approval, RBSG agreed a series of restructuring measures to be implemented over a four-year period from December 2009. This supplements the measures in RBSG's strategic plan. These include divesting Direct Line Group, 80.01 per cent. of Global

Merchant Services ("**GMS**") (completed in 2010) and substantially all of RBS Sempra Commodities JV business (completed in 2010) as well as divesting the RBS branch-based business in England and Wales and the NatWest branches in Scotland, along with the Direct SME customers across the United Kingdom. In 2011, the Group and Santander had reached agreement on the sale of UK branch-based businesses. However in October 2012, the Group announced that it had received notification of Santander's decision to pull out of its agreed purchase of certain of the Group's UK branch-based businesses. Santander's decision follows extensive work by both parties to separate the businesses into a largely standalone form and to prepare the business, customers and staff for transfer. RBSG has re-commenced its effort to divest the business.

Also in October 2012, the Group sold via an IPO 520.8 million ordinary shares in DLG, representing 34.7 per cent. of the total share capital. This is consistent with the already communicated plan to cede control by the end of 2013 and complete disposal by the end of 2014.

RBSG's major shareholder

The United Kingdom Government currently holds 65.3 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 81.1 per cent. following various capital actions. The B Shares are convertible, at the option of the holder at any time, into Ordinary Shares. If the £8 billion Contingent B Shares were issued by RBSG to HM Treasury (which is subject to certain conditions being met), assuming no other dilutive issuances, HM Treasury's economic interest in RBSG would increase further to approximately 83.5 per cent. In addition, HM Treasury's economic interest in RBSG would also increase if RBSG elects to issue B Shares to HM Treasury as a means of paying the fee due under the Contingent Subscription (which would require the consent of HM Treasury) or to fund dividend payments under the terms of the series 1 dividend access share (the "**Dividend Access Share**") or the B Shares. For further details of the issuance of the £25.5 billion of B shares and the Dividend Access Share and the £8 billion Contingent B Shares, see the section on page 359 of the 2010 Annual Report and Accounts of RBSG headed "Financial Statements – B Shares and dividend access share" which is incorporated by reference herein.

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 United Kingdom 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 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 has agreed with HM Treasury that it will be at the leading edge of implementing the G-20 principles and to consult with UKFI in connection with the Group's remuneration policy and the Group made a commitment to HM Treasury to comply with the FSA Remuneration Code which came into force on 1 January 2010. On 1 January 2011, a revised FSA Remuneration Code came into effect to implement the requirements of the Capital Requirements Directive III and the Group is fully compliant with the revised FSA Remuneration Code. Separate to the shareholding relationship, RBSG has a number of relationships with the United Kingdom Government arising out of the 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 could fail to attract or retain senior management, which may include members of the Board, or other key employees, and it may suffer if it does not maintain good employee relations". Other than in relation to these areas, however, UKFI's governance documents state that the United Kingdom 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 United Kingdom Government's holding, the United Kingdom Government and United Kingdom 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 United Kingdom Government or any United Kingdom 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 United Kingdom Government or any United Kingdom Government-controlled body involving goods or services which is material to the United Kingdom Government or any United Kingdom Government-controlled body. However, given the nature and extent of the United Kingdom 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 United Kingdom Government or any United Kingdom Government-controlled body, were made on an arm's length basis and (A) such loans were made in the ordinary course of business, (B) 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 (C) 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 United Kingdom Government or any United Kingdom Government-controlled body, there may not exist any comparable transactions with other persons.

Litigation, Investigations and Reviews

RBSG and certain Group members are party to legal proceedings, investigations and regulatory matters in the United Kingdom, the United States and other jurisdictions, arising out of their normal business operations. All such matters are periodically reassessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of the Group incurring a liability. 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 which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

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 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, 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.

While the outcome of the legal proceedings, investigations and regulatory matters in which the Group is involved is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of legal proceedings, investigations and regulatory matters as at 31 December 2012.

The material legal proceedings, investigations and reviews involving the Group are described below. Unless specifically noted otherwise, it is not possible to reliably estimate the liability in excess of any provision accrued, if any, or the effect these proceedings, investigations and reviews, and any related developments, may have on the Group. If any such matters were resolved against the Group, these matters could, individually or in the aggregate, have a material adverse effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Other than as set out in the sections entitled "Litigation" and "Investigations and reviews" on pages 30 to 40, 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 FSA.

Litigation

Set out below are the descriptions of the material legal proceedings involving the Group.

Shareholder litigation

RBSG and certain of its subsidiaries, together with certain current and former individual officers and directors were named as defendants in purported class actions filed in the United States District Court for the Southern District of New York involving holders of RBS preferred shares (the "**Preferred Shares Litigation**") and holders of American Depositary Receipts (the "**ADR Claims**").

In the Preferred Shares Litigation, the consolidated amended complaint alleged certain false and misleading statements and omissions in public filings and other communications during the period 1 March 2007 to 19 January 2009, and variously asserted claims under Sections 11, 12 and 15 of the US Securities Act of 1933, as amended (the "**Securities Act**"). The putative class is composed of all persons who purchased or otherwise acquired Group Series Q, R, S, T and/or U non-cumulative dollar preference shares issued pursuant or traceable to the 8 April 2005 US Securities and Exchange Commission (the "**SEC**") registration statement. Plaintiffs sought unquantified damages on behalf of the putative class. The defendants moved to dismiss the complaint and briefing on the motions was completed in September 2011. On 4 September 2012, the Court dismissed the Preferred Shares Litigation with prejudice. The plaintiffs have appealed the dismissal to the United States Court of Appeals for the Second Circuit.

With respect to the ADR Claims, a complaint was filed in January 2011 and a further complaint was filed in February 2011 asserting claims under Sections 10 and 20 of the US Securities Exchange Act of 1934, as amended (the "**Exchange Act**") on behalf of all persons who purchased or otherwise acquired the Group's American Depositary Receipts ("**ADRs**") between 1 March 2007 and 19 January 2009. On 18 August 2011, these two ADR cases were consolidated and lead plaintiff and lead counsel were appointed. On 1 November 2011, the lead plaintiff filed a consolidated amended complaint asserting ADR-related claims under Sections 10 and 20 of the Exchange Act and Sections 11, 12 and 15 of the Securities Act. The defendants moved to dismiss the complaint in January 2012 and briefing on the motions was completed in April 2012. The Court heard oral argument on the motions on 19 July 2012. On 27 September 2012, the Court dismissed the ADR Claims with prejudice. The plaintiffs have filed motions for reconsideration and for leave to re-plead their case.

The Group has also received notification of similar prospective claims in the United Kingdom and elsewhere but no court proceedings have been commenced in relation to these claims. In October 2011, the Group submitted a detailed response to a letter before action from one purported plaintiff group in the United Kingdom.

The Group cannot predict the outcome of these claims at this stage and is unable reliably to estimate the liability, if any, that might arise or its effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Other securitisation and securities related litigation in the United States

There continues to be a high level of litigation activity in the financial services industry focused on residential mortgage and credit crisis related matters. As a result, the Group has become the subject of claims for damages and other relief regarding mortgages and related securities and expects that it may become the subject of additional such claims in the future.

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$85 billion of mortgage-backed securities ("**MBS**") issued primarily from 2005 to 2007. Although the allegations vary by claim, 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 have been named as defendants in more than 45 lawsuits brought by purchasers of MBS, including the purported class actions identified below.

Among these MBS lawsuits are six cases filed on 2 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 is pending in the federal court in 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. The defendants' motion to dismiss FHFA's amended complaint in this case is pending, but the court has permitted discovery to commence. The other five FHFA lawsuits (against Ally Financial Group, Countrywide Financial Corporation, JP Morgan, Morgan Stanley and Nomura) name RBS Securities Inc. as a defendant by virtue of the fact that it was an underwriter of some of the securities at issue. Four of these cases are part of a coordinated proceeding in federal court in New York in which discovery is underway. The fifth case (the Countrywide matter) is pending in federal court in California, and is currently the subject of a motion to dismiss.

Other MBS lawsuits against Group companies include two cases filed by the National Credit Union Administration Board (on behalf of US Central Federal Credit Union and Western Corporate Federal Credit Union) and eight cases filed by the Federal Home Loan Banks of Boston, Chicago, Indianapolis, Seattle and San Francisco.

The purported MBS class actions in which Group companies are defendants include *New Jersey Carpenters Vacation Fund et al. v. The Royal Bank of Scotland plc et al.*; *New Jersey Carpenters Health Fund v. Novastar Mortgage Inc. et al.*; *In re IndyMac Mortgage-Backed Securities Litigation*; *Genesee County Employees' Retirement System et al. v. Thornburg Mortgage Securities Trust 2006-3, et al.* (the "**Thornburg Litigation**"); *and Luther v. Countrywide Financial Corp. et al.* and related cases. On 25 February 2013, the federal district court overseeing the Thornburg Litigation entered a final order approving a settlement of the litigation, involving a US$11.25 million payment by the defendants.

Certain other institutional investors have threatened to bring claims against the Group in connection with various mortgage-related offerings. The Group cannot predict whether any of these individual investors will pursue these threatened claims (or their outcome), but expects that several may. If such claims are asserted and were successful, the amounts involved may be material.

In many of these actions, 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.

With respect to the current claims described above, the Group considers that it has substantial and credible legal and factual defences to these claims and will continue to defend them vigorously. The Group cannot predict the outcome of these claims at this stage and is unable reliably to estimate the liability, if any, that may arise or its effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

*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. 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 by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means. The Group considers that it has substantial and credible legal and factual defences to these and prospective claims. It is possible that further claims may be threatened or brought in the US or elsewhere relating to the setting of interest rates or interest rate-related trading.

Details of LIBOR investigations affecting the Group are set out under "Investigations and reviews".

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 New York bankruptcy court. In the operative complaint, filed in August 2012, 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. The Group considers that it has substantial and credible legal and factual defences to these claims and intends to defend itself vigorously.

The Group cannot predict the outcome of these claims at this stage and is unable reliably to estimate the liability, if any, that may arise or its effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Unarranged overdraft charges

RBS Citizens Financial Group, Inc ("**RBS Citizens**") and its affiliates were among more than thirty banks named as defendants in United States class action lawsuits alleging that the manner in which defendant banks posted transactions to consumer accounts caused customers to incur excessive overdraft fees. The complaints against RBS Citizens, which concern the period between 2002 and 2010 and were consolidated into one case, alleged that this conduct violated its duty of good faith and fair dealing, was unconscionable and constituted an unfair trade practice and a conversion of customers' funds. RBS Citizens has agreed to settle this matter for US$137.5 million and, as a result, the matter has been stayed. The Group has made a one-time payment of the settlement amount into a settlement fund which, upon final approval of the settlement, will be used to make payments to class members. A motion for final approval of the settlement was filed on 10 January 2013. If the settlement is given final approval by the United States District Court for the

Southern District of Florida, consumers who do not opt out of the settlement will be deemed to have released any claims related to the allegations in the lawsuits.

Summary of Other Disputes, Legal Proceedings and Litigation

In addition to the matters described above, members of the Group are engaged in other disputes and legal proceedings in the United Kingdom and a number of overseas jurisdictions, including the United States, involving claims by and against them arising in the ordinary course of business. The Group has reviewed these other actual, threatened and known potential claims and proceedings and, after consulting with its legal advisers, does not expect that the outcome of any of these other claims and proceedings will have a material adverse effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

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 and the United States, on an ongoing and regular basis regarding operational, systems and control evaluations and issues, including those related to compliance with applicable 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 these events or circumstances 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.

Political and regulatory scrutiny of the operation of retail banking and consumer credit industries in the United Kingdom, United States and elsewhere continues. The nature and impact of future changes in policies and regulatory action are not predictable and are beyond the Group's control.

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

LIBOR and other trading rates

On 6 February 2013 the Group announced settlements with the FSA, the United States Commodity Futures Trading Commission and the United States Department of Justice (the "**DOJ**") in relation to investigations into submissions, communications and procedures around the setting of the London Interbank Offered Rate ("**LIBOR**"). RBS 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. RBS Securities Japan Limited agreed to enter a plea of guilty to one count of wire fraud relating to Yen LIBOR.

The Group continues to co-operate with investigations by these and various other governmental and regulatory authorities, including in the US and Asia into its submissions, communications and procedures relating to the setting of LIBOR and other trading rates.

The Group is also under investigation by competition authorities in a number of jurisdictions, including the European Commission and Canadian Competition Bureau, stemming from the actions of certain individuals in the setting of LIBOR and other trading rates, as well as interest rate-related trading. The Group is also co-operating with these investigations.

It is not possible to estimate reliably what effect the outcome of these remaining investigations, any regulatory findings and any related developments may have on the Group, including the timing and amount of further fines, sanctions or settlements, which may be material.

Technology incident

On 19 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 cause of the incident has been investigated by independent external counsel with the assistance of third party advisors. The Group has agreed to reimburse customers for any loss suffered as a result of the incident. The Group provided £175 million in 2012 for this matter. Additional costs may arise once all redress and business disruption items are clear.

The incident, the Group's handling of the incident and the systems and controls surrounding the processes affected, are the subject of regulatory enquiries (both from the UK and Ireland) and the Group could become a party to litigation. In particular, the Group could face legal claims from those whose accounts were affected and could itself have claims against third parties.

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. On 31 January 2013, the FSA issued a report outlining the principles to which it wishes the Group and other UK banks to adhere in conducting the review and redress exercise.

The Group will provide fair and reasonable redress to non-sophisticated customers classified as retail clients or private customers, who were mis-sold interest rate hedging products. In relation to non-sophisticated customers classified as retail clients or private customers who were sold interest rate products other than interest rate caps on or after 1 December 2001 up to 29 June 2012, the Group is required to (i) make redress to customers sold structured collars; and (ii) write to customers sold other interest rate hedging products offering a review of their sale and, if it is appropriate in the individual circumstances, the Group will propose fair and reasonable redress on a case by case basis. Furthermore, non-sophisticated customers classified as retail clients or private customers who have purchased interest rate caps during the period on or after 1 December 2001 to 29 June 2012 will be entitled to approach the Group and request a review.

The redress exercise and the past business review is being scrutinised by an independent reviewer, who will review and agree any redress, and will be overseen by the FSA. The Group made a total provision of £700 million in 2012 in respect of this matter, including £125 million for administration expenses. As the actual amount that the Group will be required to pay will depend on the facts and circumstances of each case, there is no certainty as to the eventual costs of redress.

Retail banking

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, with proposals expected in the first quarter of 2013. The Group cannot predict the outcome of these actions at this stage.

FSA mystery shopping review

On 13 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 co-operative and agreed to take immediate action. The Group was one of the firms involved. The action required includes 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 historic poor advice (and where breaches of regulatory requirements are identified, to put this right for customers). The Group will be required to appoint an independent third party to either carry out or oversee this work. The scope and terms of the past business review and the appointment of the independent third party have not yet been determined. The Group cannot predict the outcome of this review at this stage.

Multilateral interchange fees

In 2007, the EC issued a decision that while interchange is not illegal per se, 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 were in breach of competition law. MasterCard was required to withdraw the relevant cross-border MIF (i.e. set these fees to zero) by 21 June 2008.

MasterCard appealed against the decision to the General Court in March 2008, with the Group intervening in the appeal proceedings. The General Court heard MasterCard's appeal in July 2011 and issued its judgment in May 2012, upholding the EC's original decision. MasterCard has appealed further to the Court of Justice and the Group has intervened in these appeal proceedings.

In March 2008, the EC also opened a formal inquiry into Visa's MIF arrangements for cross-border payment card transactions with Visa branded debit and consumer credit cards in the EEA. In April 2009 the EC announced that it had issued Visa with a formal Statement of Objections. However, in April 2010 Visa announced it had reached an agreement with the EC as regards immediate cross border debit card MIF rates only and in December 2010 the commitments were finalised for a four year period commencing December 2010 under Article 9 of Regulation 1/2003. In July 2012 Visa made a request to re-open the settlement in order to modify the fee. The EC rejected the request and in October 2012 Visa filed an appeal to the General Court seeking to have that decision annulled. The EC is continuing its investigations into Visa's cross border MIF arrangements for deferred debit and credit transactions.

On 31 July 2012 the EC announced that it had issued Visa with a supplementary Statement of Objections regarding consumer credit cards in the EEA.

In the UK, the Office of Fair Trading ("**OFT**") has carried out investigations into Visa and MasterCard domestic credit card interchange rates. The OFT has not made any finding of an infringement of competition law and has not issued a Statement of Objections to any of the parties under investigation. In February 2013 the OFT confirmed that while reserving its right to do so, it does not currently expect to issue Statements of Objections (if at all) prior to the handing down of the Court of Justice judgment in the matter of MasterCard's appeal against the EC's 2007 infringement decision. Timing of the Court of Justice judgment is currently not known by the Group.

The outcome of these investigations is not known, but they may have a material adverse effect on the consumer credit industry in general and, therefore, on the Group's business in this sector.

Payment Protection Insurance

The FSA conducted a broad industry thematic review of Payment Protection Insurance ("**PPI**") sales practices and in September 2008, the FSA announced that it intended to escalate its level of regulatory intervention. Substantial numbers of customer complaints alleging the mis-selling of PPI policies have been made to banks and to the Financial Ombudsman Service ("**FOS**") and many of these are being upheld by the FOS against the banks.

The FSA published a final policy statement in August 2010 imposing significant changes with respect to the handling of complaints about the mis-selling of PPI. In October 2010, the British Bankers' Association (the "BBA") filed an application for judicial review of the FSA's policy statement and of related guidance issued by the FOS. In April 2011 the High Court issued judgment in favour of the FSA and the FOS and in May 2011 the BBA announced that it would not appeal that judgment. The Group then reached agreement with the FSA on a process for implementation of its policy statement and for the future handling of PPI complaints. Implementation of the agreed processes is currently under way. Following agreement with the FSA in 2011, the Group increased its provision of £215 million at 31 December 2010 by £850 million in respect of PPI. In 2012 a further provision of £1,110 million was recorded. This strengthened the cumulative provision for PPI to £2.2 billion, from which £1.3 billion in redress had been paid by 31 December 2012.

Personal current accounts

In July 2008 the OFT published a market study report into Personal Current Accounts ("**PCAs**") raising concerns as regards the way the market was functioning. In October 2009, the OFT summarised initiatives agreed with industry to address these concerns. In December 2009, the OFT published a further report in which it stated that it continued to have significant concerns about the operation of the PCA market in the United Kingdom, in particular in relation to unarranged overdrafts, and that it believed that fundamental changes were required for the market to work in the best interests of bank customers. In March 2010, the OFT announced that it had secured agreement from the banks on four industry-wide initiatives designed to address its concerns, namely minimum standards on the operation of opt-outs from unarranged overdrafts, new working groups on information sharing with customers, best practice for PCA customers in financial difficulties and incurring charges, and PCA providers to publish their policies on dealing with PCA customers in financial difficulties. The OFT also announced that it would conduct six-monthly reviews and would also review the market again fully in 2012 and undertake a brief analysis on barriers to entry.

The first six-monthly review was completed in September 2010. The OFT noted progress in switching, transparency and unarranged overdrafts for the period March to September 2010 and highlighted further changes it wanted to see in the market. In March 2011, the OFT published the next update report in relation to PCAs. This noted further progress in improving consumer control over the use of unarranged overdrafts. In particular, the Lending Standards Board had led on producing standards and guidance to be included in a revised Lending Code. The OFT stated it would continue to monitor the market and would consider the need for, and appropriate timing of, further update reports in light of other developments, in particular the work of the UK Government's Independent Commission on Banking ("**ICB**").

Additionally, in May 2010, the OFT announced its review of barriers to entry. The review concerned retail banking and banking for small and medium size enterprises (SMEs) (up to £25 million turnover) and looked at products which require a banking licence to sell mortgages, loan products and, where appropriate, other products such as insurance or credit cards where cross-selling may facilitate entry or expansion. The OFT published its report in November 2010. It advised that it expected its review to be relevant to the ICB, the FSA, HM Treasury and the Department for Business, Innovation and Skills and to the devolved governments in the United Kingdom. The OFT did not indicate whether it would undertake any further work. The report maintained that barriers to entry remain, in particular regarding switching, branch networks and brands. At this stage, it is not possible to estimate the effect of the OFT's report and recommendations regarding barriers to entry upon the Group.

On 13 July 2012, the OFT launched its planned full review of the PCA market. The review was intended to consider whether the initiatives agreed by the OFT with banks to date have been successful and whether the market should be referred to the Competition Commission ("**CC**") for a fuller market investigation.

The OFT's PCA report was published on 25 January 2013. The OFT acknowledged some specific improvements in the market since its last review but concluded that further changes are required to tackle ongoing concerns, including a lack of switching, the ability of consumers to compare products and the complexity of overdraft charges. However, the OFT recognises that a number of major developments are expected over the coming months including divestment of branches and improvements in account switching and assistance to customers to compare products and services. Therefore the OFT has provisionally decided not to refer the market to the CC at this stage but expects to return to the question of a referral to the CC in 2015, or before. The OFT also announced that it will be carrying out behavioural economic research on the way consumers make decisions and engage with retail banking service, and will study the operation of payment systems as well as the SME banking market.

At this stage it is not possible to estimate the effect of these OFT reviews which may be material.

Private motor insurance

In December 2011, the OFT launched a market study into private motor insurance, with a focus on the provision of third party vehicle repairs and credit hire replacement vehicles to claimants. The OFT issued its report in May 2012 and advised that it believed there were features of the market that potentially restrict, distort or prevent competition in the market meriting a referral to the CC. On 28 September 2012, the OFT referred the private motor insurance market to the CC for a market investigation. The CC has until 27 September 2014 to publish its findings. At this stage, it is not possible to estimate the effect the market investigation may have on Direct Line Insurance Group plc, and indirectly on the Group.

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 relating to, among other things, 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, and repurchase requests.

In September and October 2010, the SEC requested voluntary production of information concerning residential mortgage-backed securities ("**RMBS**") underwritten by subsidiaries of RBS during the period from September 2006 to July 2007 inclusive. In November 2010, the SEC commenced a formal investigation. The investigation appears to be focused on certain specific RMBS securitisations underwritten in 2007 and is continuing.

Also in October 2010, the SEC commenced an inquiry into document deficiencies and repurchase requests with respect to certain securitisations, and in January 2011, this was converted to a formal investigation. Among other matters, the investigation seeks information related to document deficiencies and remedial measures taken with respect to such deficiencies. The investigation also seeks information related to early payment defaults and loan repurchase requests.

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, at the New York State Attorney General's request, representatives of the Group attended an informal meeting to provide additional information about the Group's mortgage securitisation business. The investigation is ongoing and the Group continues to provide requested information.

At this stage it is not possible to estimate the effect of the matters discussed in this section headed "Securitisation and collateralised debt obligation business" upon the Group, if any.

US mortgages – loan repurchase matters

The Group's Markets & International Banking N.A. or M&IB N.A. business (formerly Global Banking & Markets N.A.), 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**"). M&IB N.A. 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. the Federal National Mortgage Association and the Federal Home Loan Mortgage Association).

In issuing RMBS, M&IB N.A. 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, M&IB N.A. made such representations and warranties itself. Where M&IB N.A. has given those or other representations and warranties (whether relating to underlying loans or otherwise), M&IB N.A. 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, M&IB N.A. may be able to assert claims against third parties who provided representations or warranties to M&IB N.A. when selling loans to it; although the ability to recover against such parties is uncertain. Between the start of 2009 and the end of December 2012 M&IB N.A. received approximately US$606 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 M&IB N.A. However, repurchase demands presented to M&IB N.A. are subject to challenge and rebuttal by M&IB N.A.

RBS Citizens has not been an issuer or underwriter of non-agency RMBS. However, RBS 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, RBS 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 the end of 2012, RBS Citizens received US$141.9 million in repurchase demands in respect of loans originated primarily since 2003. However, repurchase demands presented to RBS Citizens are subject to challenge and, rebuttal by, RBS Citizens.

Although there has 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) over the last year (including as a result of interventions by certain states and local governments), to date, RBS Citizens has not been materially impacted by such disruptions and the Group has not ceased making foreclosures.

The volume of repurchase demands is increasing and is expected to continue to increase, and the Group cannot currently estimate what the ultimate exposure of M&IB N.A. or RBS Citizens may be. 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.

Other investigations

On 27 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 "**Order**") to address deficiencies related to governance, risk management and compliance systems and controls in RBS plc and RBS N.V. branches. In the 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 U.S. operations on an enterprise-wide and business line basis;
- an enterprise-wide risk management programme for the Group's U.S. operations;
- a plan to oversee compliance by the Group's U.S. operations with all applicable U.S. laws, rules, regulations, and supervisory guidance;
- a Bank Secrecy Act/anti-money laundering compliance programme for RBS and RBS N.V. branches in the U.S. (the "**U.S. Branches**") on a consolidated basis;
- a plan to improve the U.S. 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 U.S. 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 U.S. Branches' compliance with OFAC requirements.

The 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 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 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 U.S. 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 Order, which will remain in effect until terminated by the regulators.

The Group's operations include businesses outside the United States that are responsible for processing US dollar payments. The Group has been conducting a review of its policies, procedures and practices in respect of such payments, has voluntarily made disclosures to US and UK authorities with respect to its historical compliance with US economic sanctions regulations, and is continuing to co-operate with related investigations by government authorities. The Group has also, over time, enhanced its relevant systems and controls. Further, the Group has initiated disciplinary proceedings against a number of its employees as a result of its investigation into employee conduct relating to this matter. Although the Group cannot currently determine the outcome of its discussions with the relevant authorities, the investigation costs, remediation required or liability incurred could have a material adverse effect on the Group's net assets, operating results or cash flows in any particular period.

The Group may become 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.

In March 2008, the Group was advised by the SEC that it had commenced a non-public, formal investigation relating to the Group's United States sub-prime securities exposures and United States residential mortgage exposures. In September 2012, SEC staff communicated that it had completed this investigation as to RBS and that it did not, as of the date of that communication and based upon the information then in its possession, intend to recommend any enforcement action against RBS. In December 2010, the SEC contacted the Group and indicated that it would also examine valuations of various RBS N.V. structured products, including CDOs. In March 2012, the SEC communicated to the Group that it had completed this investigation and that it did not, as of the date of that communication and based upon the information then in its possession, intend to recommend any enforcement action against RBS.

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		
Sir Philip Hampton	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, 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 of Anglo American plc.
Executive Directors		
Stephen Hester	Group Chief Executive	Formerly chief executive of The British Land Company PLC. He was previously chief operating officer of Abbey National plc and prior to that he held positions with Credit Suisse First Boston. Former director of Northern Rock plc.
Bruce Van Saun	Group Finance Director	Formerly vice chairman and chief financial officer of Bank of New York Mellon. He previously held senior positions with Deutsche Bank, Wasserstein Perella Group and Kidder Peabody & Co. He is currently a director of ConvergEx Holdings LLC.

Name	*Functions within the Group*	*Principal outside activity (if any) of significance to the Group*
Non-Executive Directors		
Sir Sandy Crombie	Senior Independent Director	Former director of the Association of British Insurers. Formerly group chief executive of Standard Life plc.
Alison Davis	—	Currently serves on the board of Unisys Corporation and the advisory board of City National Bank. Former director of 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.
Tony Di Iorio	—	Former chief financial officer of the Investment Bank of NationsBank (now Bank of America) and former chairman and chief executive of Paine Webber International. Former chief financial officer and member of the management board of Deutsche Bank.
Penny Hughes	—	Currently a non-executive director of Wm Morrisons Supermarkets PLC. Former non-executive director of Cable & Wireless Worldwide PLC, The Gap Inc, Vodafone PLC, Reuters PLC, Home Retail Group plc and Skandinaviska Enskilda Banken AB. Former President of Coca-Cola Great Britain and Ireland.
Joe MacHale	—	Currently a non-executive director of Huntsworth plc and chairman of Prytania Holdings LLP. Formerly chief executive of JP Morgan Europe, Middle East and Africa Region. Previously held non-executive roles at The Morgan Crucible Company plc and Brit Insurance Holdings plc.

Name	*Functions within the Group*	*Principal outside activity (if any) of significance to the Group*
Brendan Nelson	—	Formerly held various positions within KPMG, including global chairman, financial services. He is currently a board member of the Financial Skills Partnership and a non-executive director and a chairman of the audit committee of BP plc. He is vice president of the Institute of Chartered Accountants of Scotland.
Baroness Noakes	—	Currently serves on the boards of Severn Trent plc where she chairs the audit committee and Carpetright plc where she is deputy chairman, chairman of the audit and nominations committees and a senior independent director. Former non-executive roles include the Court of the Bank of England, Hanson, ICI, John Laing and SThree. Former partner at KPMG. 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.
Arthur “Art” Ryan	—	Former chairman, chief executive officer and president of Prudential Financial Inc. Previously held senior positions with Prudential Insurance and the former Chase Manhattan Bank NA. Currently a non-executive director of Regeneron Pharmaceuticals Inc.
Philip Scott	—	Formerly group finance director of Aviva plc and previously held a number of senior positions with Aviva. Currently a non-executive director and chairman of the audit committee of Diageo plc.

Name	*Functions within the Group*	*Principal outside activity (if any) of significance to the Group*
Company Secretary		
Aileen Taylor	Group 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 and Corporate Governance

Membership

The Group Audit Committee is made up of at least three independent non-executive directors. The Chairman and members of the Group Audit Committee, together with their attendance at meetings, are shown below:

		Attended/Scheduled
Brendan Nelson (Chairman)	Independent	7/7
Tony Di Iorio	Independent	7/7
Baroness Noakes	Independent	7/7
Philip Scott	Independent	7/7

All members of the Group Audit Committee are also members of the Board Risk Committee facilitating effective governance of finance and risk issues. The Group Audit Committee and the Board Risk Committee also have strong links with the Group Performance and Remuneration Committee ensuring that levels of compensation reflect relevant finance and risk considerations.

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. 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 an 'Audit Committee Financial Expert' and is independent, each as defined in the SEC rules under the Exchange Act and related guidance.

Role and Responsibilities of the Group Audit Committee

The Group Audit Committee's primary responsibilities, as set out in its terms of reference, are to assist the Board in discharging its responsibilities in respect of:

- Financial reporting and policy;
    - Monitor the integrity of the financial statements of the Group, and any formal announcements relating to the Group's actual and forecast financial performance;
    - Review significant financial and accounting judgements.

- Systems of internal control;
    - Review the arrangements of the Group's systems of internal controls in relation to financial management, compliance with laws and regulations, safeguarding of assets, and the procedures for monitoring the effectiveness of such controls.
- Processes for Internal Audit;
    - Monitor and review the scope, nature of the work and effectiveness of Internal Audit;
    - Receive and review its reports findings and recommendations covering the management of key operating risks, the adequacy of any necessary follow up action and any relevant investigation work;
- Processes for External Audit;
    - Monitor and review reports prepared by the external auditor, including its annual management letter;
    - Approve the terms of engagement of the external auditor;
    - Resolve any disagreements between management and the external auditor regarding financial reporting;
    - Assess the performance of the external auditors annually; and
- Oversight of the Group's relationship with its regulators;
    - Monitor the relationship with the FSA and other relevant regulatory bodies, including review of the scope and results of work conducted by the Skilled Persons approved by the FSA.

The terms of reference of the Group Audit Committee are reviewed annually by the Group Audit Committee and approved by the Board.

A report on the activity of the Group Audit Committee in fulfilling its responsibilities was provided to the Board following each Group Audit Committee meeting. The key considerations of the Group Audit Committee during 2012 are explained more fully below.

Meetings and visits

A total of seven scheduled meetings of the Group Audit Committee were held in 2012, 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 five ad hoc meetings. Group Audit Committee meetings are attended by relevant executive directors, the internal and external auditors and Finance and Risk Management executives. Other executives, subject matter experts and external advisers are also invited to attend the Group Audit Committee, 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 auditors. The Group Audit Committee also meets privately with the Group Internal Audit management.

The annual programme of joint visits by the Group Audit Committee and the Board Risk Committee to the Group's business divisions and control functions continued in 2012. The object of the programme is for members of the Group Audit Committee and Board Risk Committee to gain a deeper understanding of the Group; invitations to attend are extended to all non-executive directors. During 2012, the Group Audit Committee and the Board Risk Committee undertook a total of six visits – to– Risk Management (2), Internal Audit (2), Group Finance and Business Services to review the Group Change portfolio.

Performance Evaluation

An external review evaluating the effectiveness of the Group Audit Committee takes place every three to five years with internal reviews by the Board in the intervening years. An external review of the Board and its senior committees took place during 2012. Overall, the review concluded that the Group Audit Committee continued to operate effectively.

Work in 2012

The Group Audit Committee focused on a number of salient judgments and reporting issues in the preparation of the 2012 accounts, and considered:

- The directors' going concern conclusion, including the Group's capital, liquidity and funding position.
- The adequacy of loan impairment provisions in Ulster Bank. The Irish economy showed some signs of stabilisation but there remained significant uncertainty. The Group Audit Committee considered the level of provision for loan impairment in light of these uncertainties. It monitored external conditions closely and compared loss experience with forecasts. Loan impairments in the Corporate and Non-core divisions were also carefully reviewed. During 2012, the Committee also revisited the application of IAS-39's to loan impairment rules and concluded that the Group applies them on a neutral and consistent basis;
- The Group forbearance policies. The Group Audit Committee considered the impact of forbearance on provision levels and monitored emerging trends and reporting capabilities across the Group's various portfolios;
- The approach to valuation of the Group's financial instruments measured at fair value, including its credit market exposures and liabilities carried at fair value;
- The adequacy of reserves held to meet the claims in the Group's general insurance business. The Committee considered management's assessment of the full cost of settling outstanding general insurance claims including claims estimated to have been incurred but not yet reported and for claims handling expenses. It is comfortable that the level of provision is appropriate based on claims experience and on statistical models;
- Valuation of the Group's defined benefit pension scheme. The Committee considered the assumptions that had been set in valuing the fund and the sensitivities on those assumptions;
- Carrying value of the Group's goodwill and other intangible assets;
- The background to and the judgements that had been made by management in assessing the recoverability of the Group's deferred tax assets;
- Adequacy of the Group's provision held for the mis-selling of payment protection insurance and interest rate hedging products. The Group has established a provision which represents the Group's best estimate of the redress that will be payable by the Group. The Committee challenged management's judgements and is satisfied that the level of provision is appropriate;

- The Group's provisions made for outstanding litigation and regulatory investigations and the extent to which reliable estimates could be made for the purposes of the accounts;
- The Group's provision for redress and other costs following the Group's IT incident in June 2012;
- The impact of the announcement that Santander would not complete its planned purchase of certain UK branch-based businesses. The Committee considered whether the assets and liabilities should continue to be "held for sale" at 31 December 2012 and concluded that they should no longer be held for sale and that they should be reclassified to the relevant balance sheet captions in the consolidated balance sheet; and
- The quality and transparency of disclosures bearing in mind regulatory developments and expectations. The Group Audit Committee received a report on the recommendations of the Financial Stability Board's Enhanced Disclosure Task Force and the Group's plans to meet the recommendations.

Processes for Internal Audit

The Group Audit Committee oversaw the work of Group Internal Audit throughout 2012, and received regular reports from the Head of Group Internal Audit. These included bi-annual opinion reports which rated both the quality of the control environment of all the Group's divisions and of management's level of awareness. The reports from Group Internal Audit enabled the Group Audit Committee to monitor internal control within the Group by reporting on areas where improvements to the control environment were needed.

In response to Group Internal Audit findings during 2012 the Group Audit Committee requested presentations from the International Banking business on improvements to its control environment. More generally, Group Internal Audit raised observations regarding the Group's management of the conduct risk agenda. Following discussion at the Group Executive Committee, Stephen Hester presented management's action plan responding to these findings to the Group Audit Committee.

The Group Audit Committee considered Group Internal Audit's annual plan and the adequacy of its resources and budget. Nicholas Crapp joined the function at the beginning of 2012 and the Group Audit Committee reviewed the strategy for Group Internal Audit under his leadership.

In line with best practice, an external review of the effectiveness of Group Internal Audit takes place every three to five years, with internal reviews continuing in intervening years. In January 2013, the Group Audit Committee undertook an internal evaluation of Group Internal Audit. It concluded that Group Internal Audit had operated effectively throughout 2012. Minor observations and recommendations will be implemented.

Processes for External Audit

During 2012, the external auditors provided the Group Audit Committee with reports summarising their main observations and conclusions arising from their year end audit, half year review and work in connection with the first and third quarters and their recommendations for enhancements to the Group's reporting and controls. The external auditors also presented for approval to the Group Audit Committee their audit plan and audit fee proposal and engagement letter, as well as confirmation of their 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 auditors and the effectiveness of the audit process, taking into consideration relevant professional and regulatory requirements. The annual evaluation is carried out in two stages. An initial review was carried out in early 2013. In assessing the effectiveness of the Group's external auditors, the Group Audit Committee had regard to:

- the experience and expertise of the senior members of the engagement team;
- the proposed scope of the audit work;
- the quality of dialogue between the external auditors, the Group Audit Committee and senior management;
- the clarity and quality and robustness of written reports presented to the Group Audit Committee setting out the external auditors' findings;
- the quality of observations provided to the company by the external auditors on the Group's systems of internal control; and
- the views of management on the performance of the external auditors.

The second phase of the review will be conducted following completion of all year end processes and will involve targeted interviews with individuals based on outputs from the initial phase and level of interaction with the external auditors.

In addition to the annual evaluation performed by the Group Audit Committee, the external auditors will also conduct their own annual review of audit quality. Twelve service criteria for the audit have been defined by the external auditors to measure their performance against the quality commitments set out in their annual audit plan, under the headings of "quality of audit, approach and conduct", "independence and objectivity", "quality of the team" and "value added". 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 Board has endorsed the Group Audit Committee's recommendation that shareholders be requested to approve the reappointment of Deloitte LLP as external auditors at the Annual General Meeting in 2013. The Group Audit Committee also fixes the remuneration of the external auditors as authorised by shareholders at the Annual General Meeting.

Deloitte LLP has been RBSG's auditors since March 2000. There are no contractual obligations restricting RBSG's choice of external auditors. A revised version of the UK Corporate Governance Code was issued by the Financial Reporting Council in September 2012 which provides that companies should put the external audit contract out to tender at least every ten years. The Group Audit Committee has considered the requirements and will consider each year whether there are any circumstances or events such that the contract for the audit of the Group should be put out to tender. Furthermore, unless the Group Audit Committee determines otherwise, the audit contract will be put out to tender every ten years as will any new appointment following the resignation of the incumbent auditors.

Audit and Non-Audit Services

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

In particular, the Group does not engage the external auditors to provide any of the following non-audit services:

- bookkeeping or other services related to the accounting records or financial statements;
- financial information systems design and implementation;
- appraisal or valuation services, fairness opinions or contribution-in-kind reports;
- actuarial services;
- internal audit outsourcing services;
- management functions or human resources;
- broker or dealer, investment adviser, or investment banking services;
- legal services and expert services unrelated to the audit; or
- other services determined to be impermissible by the US Public Company Accounting Oversight Board.

The Group Audit Committee reviews the policy annually and prospectively approves the provision of audit services and certain non-audit services by the external auditors. Annual audit services include all services detailed in the annual engagement letter including the annual audit and interim reviews (including US reporting requirements) and periodic profit verifications.

Annual audit services also include statutory or non-statutory audits required by any Group companies that are not incorporated in the UK. Terms of engagement for these audits are agreed separately with management, and are consistent with those set out in the audit engagement letter insofar as local regulations permit. During 2012, prospectively approved non-audit services included the following classes of service:

- capital raising, including consents, comfort letters and relevant reviews of registration statements;
- provision of accounting opinions relating to the financial statements of the Group and its subsidiaries;
- provision of reports that, according to law or regulation, must be rendered by the external auditors;
- permissible services relating to companies that will remain outside the Group;
- reports providing assurance to third parties over certain of the Group's internal controls prepared under Standards for Attestation Engagements (SSAE) No. 16 or similar auditing standards in other jurisdictions; and
- reports and letters providing assurance to the Group in relation to a third party company where the Group is acting as equity/debt underwriter in a transaction, in the ordinary course of business.

For all other permitted non-audit services, Group Audit Committee approval must be sought, on a case by case basis, in advance. The Group Audit Committee reviews and monitors the independence and objectivity of the external auditors when it approves non-audit work, taking into consideration relevant legislation, ethical guidance and the level of non-audit services relative to audit services. The approval process is rigorously applied to prevent the external auditors from functioning as management, auditing their own work, or serving in an advocacy role.

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 Group Chief Accountant and Group Procurement. Where the engagement is tax related, approval must also be obtained from the Head of Group Taxation. Ad hoc approvals of non-audit services are ratified by the Group Audit Committee each quarter. During 2012, the external auditor was approved to undertake certain significant engagements, which are categorised and explained more fully below:

Summary of category of engagement	Reason for selection of external auditor
Assurance testing and agreed upon procedures to regulators (three engagements)	The external auditors' knowledge of the Group and extensive experience in such work ensured time and cost savings were achieved in both instances.
Business product development and launch (one engagement)	The external auditors were selected following a competitive tender. They were appointed based on their firm-wide capability, the quality and relevant expertise of the team and the competitive fee levels.
Provision of advice to management and independent assurance and assessment (one engagement)	The external auditors were considered to be the most suitable firm to undertake this work given their extensive knowledge of the Group's systems, end to end process and financial reporting framework. The considerable time pressures associated with this project meant that by appointing the external auditors a number of efficiency savings were ensured.

In addition, the external auditors are engaged from time to time by RBSG to perform restructuring services. The Group is not liable for these fees, and often has a limited role in the selection process. As an additional governance control, these engagements are subject to the ad hoc approval process.

Information on fees paid in respect of audit and non-audit services carried out by the external auditors is detailed in the 2012 Preliminary Annual Results of RBSG.

Oversight of the Group's Relationship with its Regulators

The Group Audit Committee has a responsibility to monitor the Group's relationship with the FSA and other regulatory bodies. During 2012, it received regular reports on the Group's relationships with all its regulators and highlighting significant developments. It received reports on regulatory actions and investigations. Over the course of the year, the Chairman of the Group's senior Board committees met with the FSA on an individual basis and also participated in certain Regulatory College meetings with the Group's primary regulators. The FSA attended a Group Audit Committee meeting in October 2012 as an observer.

During 2012 the Chairman of the Group Audit Committee also met with the FSA and with the external auditors on a trilateral basis.

The Group Audit Committee closely monitored the Group's relationship with its international regulators and significant time continued to be dedicated in particular to understanding the regulatory requirements in the US and the implications on the Group's US operations and structure.

Systems of Internal Control

Implementation of a clear and effective three lines of defence model was a priority in 2012. The Group Audit Committee received regular reports on the approach to its implementation across the Group. Focus is now on ensuring the model is fully operational and the Group Audit Committee will exercise close oversight of progress during 2013.

Regulatory investigations highlighted deficiencies in the control environment in certain parts of the Group, most notably within the Markets and International Banking divisions. Cultural weaknesses were also identified. On behalf of the Board, the Group Audit Committee undertook a detailed review of the divisional remediation plans and sought independent external assurance regarding comprehensiveness and timeliness of those plans. The Group Audit Committee will closely oversee remediation throughout 2013 receiving quarterly reports.

During the period, the Group Audit Committee reviewed progress against plan for a number of strategic initiatives such as the Finance and Risk Transformation Programme. It also tracked progress in relation to mandatory and remedial projects including the Group's Anti-Money Laundering Programme and the progress of the Group's US regulatory initiatives.

The Group Audit Committee received reports on the operation of the Group Policy Framework. At its request, a policy standard was developed on the management of model risk across the organisation. This standard sets minimum requirements for ownership, design and use of models in RBSG. The Group Audit Committee will review operation of this and other policy standards, and the outputs of assurance activity in early 2013.

The Group Audit Committee also reviewed the effectiveness of the Group New Product Approval Process and received quarterly reports from the Credit Quality Assurance function. It considered the Group's compliance with the requirements of the Sarbanes-Oxley Act of 2002 and was regularly advised of: whistle blowing disclosures which took place in the Group; complaints raised with members of the Group's executive team; and significant and sensitive internal investigations.

Divisional Risk and Audit Committees have responsibility for individual divisions and report to the Group Audit Committee and the Board Risk Committee. Given the size and complexity of the Group, these committees are essential components of the governance framework that supports the effective operation of the Group Audit Committee and the Board Risk Committee. The Group Audit Committee agreed improvements to the divisional risk reporting framework and these changes will be implemented during 2013. Quarterly reports were received by the Group Audit Committee and the Board Risk Committee from each Divisional Risk and Audit Committee.

RBSG complies with the laws and regulations of the United Kingdom regarding corporate governance.

Board Risk Committee

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
Philip Scott (Chairman)	Independent	7/7
Sandy Crombie	Independent	7/7
Tony Di Iorio[1]	Independent	6/7
Joe MacHale	Independent	5/7
Brendan Nelson	Independent	7/7
Baroness Noakes[2]	Independent	5/5

Philip Scott, Tony Di Iorio, Brendan Nelson and Baroness Noakes are also members of the Group Audit Committee. Sandy Crombie is also a member of the Group Performance and Remuneration Committee. This common membership ensures effective governance across all finance, risk and remuneration issues, and that agendas are aligned and overlap is avoided, where possible.

Role of the Board Risk Committee

The Board Risk Committee is responsible for providing oversight and advice to the Board in relation to current and potential future risk exposures of the Group and future risk strategy, including determination of risk appetite and tolerance. The Board Risk Committee reviews the performance of the Group relative to risk appetite and provides oversight of the effectiveness of key Group policies. The Board Risk Committee has responsibility for promoting a risk awareness culture within the Group.

Authority is delegated to the Board Risk Committee by the Board and the Board Risk Committee will report and make recommendations to the Board as required. The terms of reference of the Board Risk Committee are considered annually by the Board Risk Committee and approved by the Board.

Meetings and Visits

The Board Risk Committee held seven scheduled meetings and three additional ad hoc meetings in 2012. Meetings are held alongside Group Audit Committee meetings to ensure that the work of the two committees is coordinated and consistent. Board Risk Committee meetings are attended by relevant executive directors, risk management, finance and the internal audit executives. External advice may be sought by the Board Risk Committee where considered appropriate. During 2012, the members of Board Risk Committee, in conjunction with the members of the Group Audit Committee, took part in an annual programme of visits to the Group’s business divisions and control functions. This programme included two in depth sessions with the Risk Management function to consider key risk areas and the risk strategy and operating model.

Principal activity of the Board Risk Committee during 2012

Risk Strategy and Policy

The Group has a clear risk strategy supported by well defined strategic risk objectives. The members of the Board Risk Committee provide input to the overarching strategy for the Group on an ongoing basis. In the first half of 2012, the Board Risk Committee reviewed and provided direction to the Group’s Resolution submission to the FSA pursuant to its Recovery and Resolution Programme. In conjunction with the Board, the Board Risk Committee considered the potential

[1] Missed one meeting owing to travel disruption as a consequence of Hurricane Sandy.

[2] Joined the Board Risk Committee on 1 March 2012; attended all previous 2012 meetings as an attendee.

implications for the Group of the proposals contained in the UK's White Paper on Banking Reform and its interaction with potential future regulation in Europe and the U.S. It will continue to monitor developments throughout 2013. During 2012 the Board Risk Committee reviewed the implementation of the Group Policy Framework across the organisation and reviewed the output of assurance testing to assess how those standards were operating in practice. Governance arrangements were also reviewed during the year. In particular, the Board Risk Committee considered regional governance arrangements in operation across the Group; local guidance; regulatory expectations; and considered the adequacy of the current Group structure against that backdrop. In conjunction with the Group Audit Committee, the members reviewed how the three lines of defence model was being implemented across the Group and the Board Risk Committee reinforced with management, the importance of ensuring the model operated effectively in practice. The Board Risk Committee will continue to review governance arrangements and compliance with the Group Policy Framework during 2013. The Board Risk Committee regards conduct risk and the delivery of appropriate outcomes to customers to be fundamental to the future success of the Group. As referenced above, in 2012, the Board Risk Committee oversaw the development of the Group conduct risk appetite statement and framework which is now in the process of being fully implemented across all lines of defence in the organisation. Focus of the Board Risk Committee has now turned to consideration of what measures, standards, training and objectives are required to instil and evidence the correct behaviours in practice.

The Committee also considered conduct risk in the context of product design and regulatory investigations as referenced below.

Risk Profile

The Board Risk Committee received a detailed report on key risks and metrics at each meeting and the Chief Risk Officer provided an oral update on the key risks to the organisation. This enabled the Board Risk Committee to identify the key risk areas where additional focus was required. Focus sessions were provided by the Heads of Risk disciplines at Board Risk Committee meetings on a rotational basis, to offer the Board Risk Committee additional insights.

During the period, risk reporting was enhanced and the Board Risk Committee oversaw the development of a report on the key headline and emerging risks. Likewise, at the request of the Board Risk Committee, metric based risk reporting in dashboard format was developed and will be extended to cover each of the key risk disciplines during 2013.

The Board Risk Committee reported to the Board following each meeting on its consideration of the risk profile of the Group and made recommendations as appropriate.

Regulatory Reviews and Investigations

Regulatory risk featured highly on the agenda of the Board Risk Committee and during 2012 the Board Risk Committee assumed responsibility for considering certain key areas of risk in a deeper level of granularity. Most significantly, as highlighted above, the Board Risk Committee played a central role in the oversight and remediation of the Group's IT incident. In order to ensure appropriate outcomes for customers, members reviewed the remediation plans in detail to ensure that they were fair and robust. On behalf of the Board, the Board Risk Committee oversaw the independent internal investigation of the incident. Interaction with regulators in relation to their investigation of the incident continues and the Board Risk Committee has committed to ensuring that the investigation is brought to a close, accountability is fully considered and learnings are addressed, across the organisation.

A number of other internal and regulatory investigations arose or continued throughout 2012. During the period, the Board Risk Committee received reports on the investigation of the alleged mis-selling of interest rate hedging products to small and medium sized enterprises; it reviewed ongoing programmes of work, remediation and investigation relating to unauthorised trading events and Anti-Money Laundering; it received reports on required enhancements to the mortgage sales process; and it continued to play an important governance role in the oversight and remediation of known regulatory issues in the RBS Americas region. Where appropriate, the Board Risk Committee oversaw liaison with regulators; made recommendations regarding required remediation, training and process controls and enhancements; and made recommendations to the Group Performance and Remuneration Committee in relation to accountability. Progress to address identified weaknesses will be closely monitored throughout 2013.

In recognition of the conduct issues under investigation, the Board Risk Committee reviewed the product approval process. Complex products were reviewed from the perspective of the customer. The Board Risk Committee intends to look at sales processes and the approvals required for process design in 2013.

Operational risks inherent in the Group's processes were also considered and the Board Risk Committee has specifically considered IT continuity, security and data control.

Capital and Liquidity

The Board Risk Committee reviewed the capital and liquidity position of the Group regularly in light of external conditions. The difficulties being experienced in Europe and the US necessitated a continued focus on market and sovereign risk over the course of 2012 and a number of additional reports in this regard were considered over the course of the year. The Board Risk Committee made recommendations to the Board in relation to the Individual Liquidity Adequacy Assessment, the Individual Capital Adequacy Assessment and the Contingency Funding Plan, required by the FSA.

The Board Risk Committee considered pension risk in the context of managing liability and investment strategy. It will continue to monitor these risks in 2013.

Risk Appetite, Framework and Limits

The risk appetite framework for the Group was approved in 2011. During 2012, focus was placed on ensuring that the framework was rolled out and embedded across the business divisions and legal entities within the Group. The Board Risk Committee has committed to review the risk appetite framework on an annual basis to ensure it remains fit for purpose and will review capital adequacy risk, earnings volatility, and liquidity risk appetite targets in early 2013.

Significant improvements were made to the Group's integrated stress testing capabilities over the course of 2012 and the Board Risk Committee reviewed the output of stress tests and considered how these informed risk appetite and key strategic decisions. Reports on reverse stress testing, including key sensitivities and vulnerabilities were reviewed. The Board Risk Committee monitored progress in the development of an economic capital model and will review how these measures and tools work together in an integrated manner.

The Board Risk Committee received reports on the new Country Risk Appetite Framework that was developed in 2012. The members reviewed the approach to assessment of the potential for losses due to country risk shocks and how the framework informed the setting of country risk limits within the Group's Risk Appetite Framework.

A framework of Divisional Risk and Audit Committees is responsible for reviewing the business of each division and reporting to the Group Audit Committee and the Board Risk Committee. During 2012, the risk agenda of these committees continued to evolve alongside the Board Risk

Committee agenda. The Material Integrated Risk Assessment process that was introduced in 2011 continued to be refined in 2012 and the Board Risk Committee received reports on progress.

Risk Management Operating Model

The Board Risk Committee reviewed planned improvements to the risk management operating model and noted the proposed enhancements and the additional assurance that the revised model seeks to introduce. Members of the Board Risk Committee reviewed the calibre of senior risk personnel and succession planning arrangements. Adequacy of resource was considered in the context of the scope and nature of work undertaken by the risk management function. The risk governance model continues to evolve and the Board Risk Committee has and will continue to monitor developments as appropriate.

Risk Architecture

The Board Risk Committee reviewed the standards of data quality across the Group and the programmes in place to improve data quality. It monitored the progress of the Finance and Risk Transformation Programme designed to develop a golden source of data for use in reporting across the Group. Improvements to data quality, management information and reporting have been identified as key areas of focus for the Board Risk Committee in 2013.

Remuneration

The Board Risk Committee recognises that embedding the correct conduct and culture in the organisation requires an emphasis on performance management and conduct and standards. The Board Risk Committee continued to strengthen its coordination with the Group Performance and Remuneration Committee during the period with the aim of ensuring that risk was adequately reflected in objectives and compensation arrangements and decisions. The members of the Board Risk Committee met regularly during 2012, including on an ad hoc basis, to consider specific regulatory and operational issues and to consider accountability and the potential impact upon remuneration.

Performance Evaluation

An external review of the effectiveness of the Board and senior committees, including the Board Risk Committee during 2012 was conducted. The Board Risk Committee has considered and discussed the report on the outcomes of the evaluation and is satisfied with the way in which the evaluation has been conducted, the conclusions and the recommendations for action. Overall the review concluded that the Board Risk Committee continued to operate effectively. The outcomes of the evaluation have been reported to the Board and during 2013, the Board Risk Committee will place focus on driving further improvements to risk reporting and prioritisation of Board Risk Committee time.

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 2012 and 31 December 2011.

RBSG Share Capital

The amount of RBSG's issued share capital as at 31 December 2012 was £6,583 million.

	Allotted, called up and fully paid			
	1 January 2012 £m (unaudited)	*Issued during the year £m (unaudited)*	*Share sub-division and consolidation £m (unaudited)*	*31 December 2012 £m (unaudited)*
Ordinary shares of £0.25	14,807	82	(14,889)	-
Ordinary shares of £1[(1)]	-	115	5,956	6,071
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	15,319	197	8,933	6,583

Number of shares – thousands	Allotted, called up and fully paid 31 December 2012 Number of shares (unaudited)
Ordinary shares of £0.25[(1)]	6,070,765
B shares of £0.01	51,000,000
Dividend access share of £0.01[(2)]	-
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	54
Cumulative preference shares of £1	900

Notes:

(1) In June 2012, the ordinary shares of 25p each were initially sub-divided into 59,554,319,127 ordinary shares of 10p each and 59,554,319,127 deferred shares of 15p each. The deferred shares created by virtue of the sub-division were cancelled with the nominal value transferred to capital redemption reserve. The 59,554,319,127 ordinary shares of 10p were consolidated into 5,955,431,912 ordinary shares of £1 each.

(2) One dividend access share in issue.

Under IFRS, certain preference shares included in the tables 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 2012.

Selected financial information of RBSG for the years ended 31 December 2012 and 2011

	Year ended 31 December 2012 £m (unaudited)	*Year ended 31 December 2011 £m (audited)*
Operating loss before tax	(5,165)	(1,190)
Tax charge	(469)	(1,127)
Loss from continuing operations	(5,634)	(2,317)
(Loss)/profit from discontinued operations, net of tax	(172)	348
Loss for the year	(5,806)	(1,969)

	31 December 2012 £m (unaudited)	*31 December 2011 £m (audited)*
Called-up share capital	6,582	15,318
Reserves	61,548	59,501
Owners' equity	68,130	74,819
Minority interests	2,318	1,234
Subordinated liabilities	26,773	26,319
Capital resources	97,221	102,372

	31 December 2012 £m (unaudited)	*31 December 2011 £m (audited)*
Deposits by customers and banks	622,684	611,759
Loans and advances to customers and banks	564,086	598,916
Total assets	1,312,295	1,506,867

	31 December 2012 per cent. (unaudited)	*31 December 2011 per cent. (unaudited)*
Core Tier 1 ratio	10.3	10.6
Tier 1 ratio	12.4	13.0
Total capital ratio	14.5	13.8

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 2012 (the end of the last financial period for which the latest unaudited interim 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 2011 (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 2011 and 2010 have been audited by Deloitte LLP (name changed from Deloitte & Touche LLP on 1 December 2008), Chartered Accountants (authorised and regulated by the Financial Services 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 2012, 31 December 2011 and 31 December 2010 to which the financial information in this Registration Document relates have been, or (in the case of the year ended 31 December 2012) will be, delivered to the Registrar of Companies in Scotland.

Deloitte LLP has reported, or(in respect of the year ended 31 December 2012) will report, on such statutory accounts and such reports in respect of the years ended 31 December 2010 and 31 December 2011 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 445 (under the heading 'Consortium and Shareholders Agreement'), page 447 (under the heading 'B Share Acquisition and Contingent Capital Agreement'), page 449 (under the headings 'State Aid Commitment Deed' and 'State Aid Costs Reimbursement Deed') and page 450 (under the heading 'Sale of RBS Aviation Capital') of the 2011 Annual Report and Accounts of RBSG. In addition:

- In respect of the Consortium and Shareholders Agreement ("**CSA**"), on 7 November 2012, *Stichting Administratiekantoor Beheer Financiële Instellingen* (the "**Foundation**") acceded to the CSA (as amended and restated) as a shareholder following its acquisition of the shares held by the Dutch State in RFS Holdings pursuant to a Deed of Accession entered into between RFS Holdings, RBSG, Santander, the Dutch State and the Foundation. The Dutch State remains a party to the CSA.
- In respect of the Sale of RBS Aviation Capital, the sale completed on 1 June 2012 following satisfaction of various conditions.

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 such expressions.

In particular, this Registration Document includes forward-looking statements relating, but not limited to: the Group’s restructuring plans, divestments, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets, return on equity, cost: income ratios, leverage and loan: deposit ratios, funding and risk profile, certain ring-fencing proposals, sustainability targets, the Group’s future financial performance, the level and extent of future impairments and write-downs, including sovereign debt impairments, and the Group’s potential exposures 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 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 about 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 cause actual results to differ materially from those estimated by the forward-looking statements contained in, or incorporated by reference in, this Registration Document include, but are not limited to: the global economic and financial market conditions and other geopolitical and other global risks, and their impact on the financial industry in general and on the Group in particular; the continuing economic crisis in Europe; competition and consolidation in the banking sector; the ability to access sufficient sources of liquidity and funding; the ability to implement strategic plans on a timely basis, or at all, including the disposal of certain non-core assets and assets and businesses required as part of the State Aid restructuring plan; organisational restructuring, including any adverse consequences of a failure to transfer, or delay in transferring, certain business assets and liabilities from RBS N.V. to RBS; the full nationalisation of the Group or other resolution procedures under the Banking Act 2009; deteriorations in borrower and counterparty credit quality; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the United States; 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; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group or of the UK Government; ineffective management of capital or changes to capital adequacy or liquidity requirements; litigation and regulatory investigations; changes to the valuation of financial instruments recorded at fair value; the ability of the Group to attract or retain senior management or other key employees; employee misconduct; regulatory or legal changes (including those requiring any restructuring of the Group’s operations) in the United Kingdom, the United States and other countries in which the Group operates or a change in United Kingdom Government policy including arising out of the Independent Commission on Banking’s final report on competition and possible structural reform in the UK banking industry; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations and taxes, including changes in regulatory capital regulations and liquidity requirements; impairments of goodwill; pension fund shortfalls; general operational risks including dependence on information technology systems; HM Treasury exercising influence over the operations of the Group; insurance claims; reputational risk; the ability to access the contingent capital arrangements with HM Treasury; the conversion of the B Shares in accordance with their terms; 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 24.

DOCUMENTS INCORPORATED BY REFERENCE

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

(a) the preliminary unaudited Annual Results 2012 of RBSG for the year ended 31 December 2012, which were published via the Regulatory News Service of the London Stock Exchange plc (the "**RNS**") on 28 February 2013 (the "**2012 Preliminary Annual Results of RBSG**");

(b) the following sections of the 2011 Annual Report and Accounts of RBSG, which were published via the RNS on 9 March 2012 (the "**2011 Annual Report and Accounts of RBSG**"):

(i) Independent auditor's report on page 306;

(ii) Consolidated income statement on page 307;

(iii) Consolidated statement of comprehensive income on page 308;

(iv) Consolidated balance sheet as at 31 December 2011 on page 309;

(v) Consolidated statement of changes in equity on pages 310 to 312;

(vi) Consolidated cash flow statement on page 313;

(vii) Accounting policies on pages 314 to 326;

(viii) Notes on the consolidated accounts on pages 327 to 419;

(ix) Parent company financial statements and notes on pages 420 to 431;

(x) Essential reading – Highlights on page 1;

(xi) Chairman's statement on page 9;

(xii) Group Chief Executive's review on pages 10 to 11;

(xiii) Our key targets on page 13;

(xiv) Our business and our strategy on pages 14 to 18;

(xv) Divisional review on pages 19 to 29;

(xvi) Business review on pages 32 to 249;

(xvii) Corporate governance on pages 258 to 262;

(xviii) Letter from the Chair of the Group Remuneration Committee on pages 272 to 273;

(xix) Directors' remuneration report on pages 274 to 295;

(xx) Report of the Directors on pages 298 to 302;

(xxi) Directors' interests in shares on page 303;

(xxii) Financial Summary on pages 433 to 441;

(xxiii) Exchange rates on page 441;

(xxiv) Economic and monetary environment on page 442;

(xxv) Supervision on page 443;

(xxvi) Regulatory developments and reviews on page 444;

(xxvii) Description of property and equipment on page 445;

(xxviii) Major shareholders on page 445;

(xxix) Material contracts on pages 445 to 450; and

(xxx) Glossary of terms on pages 476 to 483;

(c) the following sections of the 2010 Annual Report and Accounts of RBSG, which were published via the RNS on 17 March 2011 (the "**2010 Annual Report and Accounts of RBSG**"):

(i) Independent auditor's report on page 267;

(ii) Consolidated income statement on page 268;

(iii) Consolidated statement of comprehensive income on page 269;

(iv) Balance sheets as at 31 December 2010 on page 270;

(v) Statements of changes in equity on pages 271 to 273;

(vi) Cash flow statements on page 274;

(vii) Accounting policies on pages 275 to 286;

(viii) Notes on the accounts on pages 287 to 385;

(ix) Essential reading – we have met, and in some cases exceeded, the targets for the second year of our Strategy Plan on page 1;

(x) Chairman's statement on pages 2 to 3;

(xi) Group Chief Executive's review on pages 4 to 5;

(xii) Our key targets on page 7;

(xiii) Our business and our strategy on pages 10 to 19;

(xiv) Divisional review on pages 21 to 41;

(xv) Business review on pages 50 to 224 (excluding the financial information on page 51, pages 56 to 77, pages 106 to 118 and page 131 which is indicated as being "pro forma");

(xvi) Report of the Directors on pages 230 to 234;

(xvii) Corporate governance on pages 235 to 245;

(xviii) Letter from the Chair of the Remuneration Committee on pages 246 to 247;

(xix) Directors' remuneration report on pages 248 to 263;

(xx) Directors' interests in shares on page 264;

(xxi) Financial Summary on pages 387 to 395;

(xxii) Exchange rates on page 395;

(xxiii) Economic and monetary environment on page 396;

(xxiv) Supervision on page 397;

(xxv) Regulatory developments and reviews on pages 398 to 399;

(xxvi) Description of property and equipment on page 399;

(xxvii) Major shareholders on page 399;

(xxviii) Material Contracts on pages 399 to 404; and

(xxix) Glossary of terms on pages 434 to 439;

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 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 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.

THE ISSUER

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