HESS CORP
Form 4
April 16, 2008

# FORM 4

Check this box if no longer subject to Section 16. Form 4 or Form 5 obligations may continue. *See* Instruction 1(b).

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**
**Washington, D.C. 20549**

**STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES**

Filed pursuant to Section 16(a) of the Securities Exchange Act of 1934, Section 17(a) of the Public Utility Holding Company Act of 1935 or Section 30(h) of the Investment Company Act of 1940

OMB APPROVAL

| | |
|---|---|
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(Print or Type Responses)

1. Name and Address of Reporting Person *
HESS JOHN B

(Last) (First) (Middle)

HESS CORPORATION, 1185 AVENUE OF THE AMERICAS

(Street)

NEW YORK, NY 10036

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
HESS CORP [HES]

3. Date of Earliest Transaction (Month/Day/Year)
04/15/2008

4. If Amendment, Date Original Filed(Month/Day/Year)

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

__X__ Director __X__ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
Chairman of the Board and CEO

6. Individual or Joint/Group Filing(Check Applicable Line)
_X_ Form filed by One Reporting Person
___ Form filed by More than One Reporting Person

**Table I - Non-Derivative Securities Acquired, Disposed of, or Beneficially Owned**

| 1.Title of Security (Instr. 3) | 2. Transaction Date (Month/Day/Year) | 2A. Deemed Execution Date, if any (Month/Day/Year) | 3. Transaction Code (Instr. 8) | | 4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5) | | | 5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4) | 6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4) | 7. Nature of Indirect Beneficial Ownership (Instr. 4) |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | Code | V | Amount | (A) or (D) | Price | | | |
| Common Stock, $1.00 par value | 04/15/2008 | | S (1) | | 100 | D | $ 103.07 | 10,840,029 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | | 100 | D | $ 103.04 | 10,839,929 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | | 100 | D | $ 102.45 | 10,839,829 | I | Charitable Lead Annuity Trust |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Common Stock, $1.00 par value | 04/15/2008 | S | 100 | D | $ 101.41 | 10,839,729 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | S | 100 | D | $ 101.49 | 10,839,629 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | S | 100 | D | $ 101.4 | 10,839,529 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | S | 100 | D | $ 101.42 | 10,839,429 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | S | 200 | D | $ 102.43 | 10,839,229 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | S | 100 | D | $ 103.4 | 10,839,129 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | S | 200 | D | $ 103.45 | 10,838,929 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | S | 100 | D | $ 101.9 | 10,838,829 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | S | 100 | D | $ 100.97 | 10,838,729 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | S | 100 | D | $ 100.98 | 10,838,629 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | S | 100 | D | $ 101.12 | 10,838,529 | I | Charitable Lead Annuity Trust |
| | 04/15/2008 | S | 100 | D | | 10,838,429 | I | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Common Stock, $1.00 par value | | | | | | $ 100.99 | | | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | 100 | D | $ 100.96 | 10,838,329 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | 200 | D | $ 101.19 | 10,838,129 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | 100 | D | $ 101.97 | 10,838,029 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | 100 | D | $ 101.13 | 10,837,929 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | 100 | D | $ 102.17 | 10,837,829 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | 100 | D | $ 102.9 | 10,837,729 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | 100 | D | $ 103.16 | 10,837,629 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | 100 | D | $ 101.31 | 10,837,529 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | 100 | D | $ 100.37 | 10,837,429 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | 200 | D | $ 101.39 | 10,837,229 | I | Charitable Lead Annuity Trust |
| | 04/15/2008 | | S | 100 | D | $ 101.3 | 10,837,129 | I | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Common Stock, $1.00 par value | | | | | | | | | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | | 100 | D | $ 101.37 | 10,837,029 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | | 100 | D | $ 101.35 | 10,836,929 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | | 100 | D | $ 101.33 | 10,836,829 | I | Charitable Lead Annuity Trust |
| Common Stock, $1.00 par value | 04/15/2008 | | S | | 100 | D | $ 100.68 | 10,836,729 (2) | I | Charitable Lead Annuity Trust |

Reminder: Report on a separate line for each class of securities beneficially owned directly or indirectly.

**Persons who respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.**

SEC 1474 (9-02)

**Table II - Derivative Securities Acquired, Disposed of, or Beneficially Owned**
**(*e.g.*, puts, calls, warrants, options, convertible securities)**

| 1. Title of Derivative Security (Instr. 3) | 2. Conversion or Exercise Price of Derivative Security | 3. Transaction Date (Month/Day/Year) | 3A. Deemed Execution Date, if any (Month/Day/Year) | 4. Transaction Code (Instr. 8) | | 5. Number of Derivative Securities Acquired (A) or Disposed of (D) (Instr. 3, 4, and 5) | | 6. Date Exercisable and Expiration Date (Month/Day/Year) | | 7. Title and Amount of Underlying Securities (Instr. 3 and 4) | | 8. Price of Derivative Security (Instr. 5) | 9. Nu Deriv Secur Bene Own Follo Repo Trans (Instr |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | | | Date Exercisable | Expiration Date | Title | Amount or Number of Shares | | |
| | | | | Code | V | (A) | (D) | | | | | | |

# Reporting Owners

| Reporting Owner Name / Address | Relationships | | | |
|---|---|---|---|---|
| | Director | 10% Owner | Officer | Other |
| HESS JOHN B<br>HESS CORPORATION<br>1185 AVENUE OF THE AMERICAS<br>NEW YORK, NY 10036 | X | X | Chairman of the Board and CEO | |

# Signatures

| George C. Barry for John B. Hess | 04/16/2008 |
|---|---|
| **Signature of Reporting Person | Date |

# Explanation of Responses:

* If the form is filed by more than one reporting person, *see* Instruction 4(b)(v).

** Intentional misstatements or omissions of facts constitute Federal Criminal Violations. *See* 18 U.S.C. 1001 and 15 U.S.C. 78ff(a).

**(1)** The sales of shares set forth herein are made in connection with a selling plan by the charitable lead annuity trust referred to below dated March 20, 2008 that is intended to comply with Rule 10b5-1(c).

**(2)** Held by a previously reported charitable lead annuity trust established under the will of Leon Hess. The reporting person is one of five trustees of the trust.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. 212;

0.7

—

0.5

—

0.5

—

Total liabilities

9.0

—

8.6

0.4

| |
|---|
| 13.9 |
| — |
| 13.4 |
| 0.5 |
| |
| 34.0 |
| 0.4 |
| 32.4 |
| 1.2 |

For notes relating to this table refer to page 123.

Notes on the consolidated accounts

| 9 Financial instruments - valuation continued | | | | | | |
|---|---|---|---|---|---|---|
| **Valuation hierarchy** continued | | | | | | |
| The following table analyses level 3 balances and related valuation sensitivities. | | | | | | |
| | 2013 | | | 2012 | | |
| | | Sensitivity (2) | | | Sensitivity (2) | |
| | Balance | Favourable | Unfavourable | Balance | Favourable | Unfavourable |
| | €m | €m | €m | €m | €m | €m |
| Assets | | | | | | |
| Debt securities | 27 | 2 | (2) | 7 | — | — |
| Equity shares | 65 | 12 | (9) | 118 | 8 | (13) |
| Derivatives | | | | | | |
| Credit | 52 | 4 | (4) | 144 | 4 | (14) |
| Other | 211 | 7 | (8) | 323 | 5 | (36) |
| | 263 | 11 | (12) | 467 | 9 | (50) |
| Total assets at 31 December | 355 | 25 | (23) | 592 | 17 | (63) |
| | | | | | | |
| Total assets at 31 December 2011 | | | | 1,630 | 165 | (154) |
| | | | | | | |
| Liabilities | | | | | | |
| Deposits by banks | 49 | 5 | (13) | 84 | 22 | — |
| Debt securities in issue | 74 | 7 | (8) | 37 | 15 | (12) |
| Derivatives | | | | | | |
| Credit | 95 | 9 | (10) | 46 | 12 | (5) |
| Other | 196 | 4 | (4) | 307 | 18 | (47) |
| | 291 | 13 | (14) | 353 | 30 | (52) |
| Total liabilities at 31 December | 414 | 25 | (35) | 474 | 67 | (64) |
| | | | | | | |
| Total liabilities at 31 December 2011 | | | | 1,185 | 138 | (56) |

For notes relating to this table refer to next page.

**RBS Holdings N.V.** **122**

Explanation of Responses:

Notes on the consolidated accounts

| 9 Financial instruments - valuation continued | | | | | | |
|---|---|---|---|---|---|---|
| **Amounts classified as available-for-sale** | | | | | | |
| | | | | | Level 3 sensitivity (2) | |
| | Total | Level 1 | Level 2 | Level 3 | Favourable | Unfavourable |
| 2013 | €m | €m | €m | €m | €m | €m |
| Debt securities | 14,608 | 3,566 | 11,017 | 25 | 2 | (2) |
| Equity shares | 17 | — | — | 17 | 2 | (2) |
| | 14,625 | 3,566 | 11,017 | 42 | 4 | (4) |
| | | | | | | |
| 2012 | | | | | | |
| Debt securities | 21,612 | 4,312 | 17,300 | — | — | — |
| Equity shares | 45 | 4 | 10 | 31 | 4 | (4) |
| | 21,657 | 4,316 | 17,310 | 31 | 4 | (4) |
| | | | | | | |
| 2011 | | | | | | |
| Debt securities | 34,393 | 11,967 | 22,386 | 40 | 1 | (1) |
| Equity shares | 297 | 5 | 70 | 222 | 32 | (33) |
| | 34,690 | 11,972 | 22,456 | 262 | 33 | (34) |

Notes:

(1) Level 1: valued using unadjusted quoted prices in active markets, for identical financial instruments.

Level 2: valued using techniques based significantly on observable market data. Instruments in this category are valued using:

(a) quoted prices for similar instruments or identical instruments in markets which are not considered to be active; or

(b) valuation techniques where all the inputs that have a significant effect on the valuations are directly or indirectly based on observable market

data.

The type of instruments that trade in markets that are not considered to be active, but are based on quoted market prices, banker dealer quotations, or alternative pricing sources with reasonable levels of price transparency.

Level 3: instruments in this category have been valued using a valuation technique where at least one input which could have a significant effect on the instrument's valuation, is not based on observable market data. Where inputs can be observed from market data without undue cost and effort, the observed input is used. Otherwise, RBSH Group determines a reasonable level for the input.

(2) Sensitivity represents the favourable and unfavourable effect on the income statement or the statement of comprehensive income due to reasonably possible changes to valuations using reasonably possible alternative inputs to RBSH Group's valuation techniques or models. Totals for sensitivities are not indicative of the total potential effect on the income statement or the statement of comprehensive income. The level 3 sensitivities above are calculated at a trade or low level portfolio basis. They are not calculated on an overall portfolio basis and therefore do not reflect the likely overall potential uncertainty on the whole portfolio. The figures are aggregated and do not reflect the correlated nature of some of the sensitivities. In particular, for some of the portfolios the sensitivities may be negatively correlated where a downwards movement in one asset would produce an upwards movement in another, but due to the additive presentation of the above figures this correlation cannot be observed. The actual potential downside sensitivity of the total portfolio may be less than the non-correlated sum of the additive figures as shown in the above table.

(3) Primarily includes debt securities issued by banks and building societies.

(4) Transfers between levels are deemed to have occurred at the beginning of the quarter in which the instruments were transferred.

(5) Improvements in IPV methodology resulted in €37 million assets and €36 million liabilities, principally derivatives transfers from level 3 to level 2. Transfers from level 2 to level 3 primarily resulted from unobservability of valuation inputs and market illiquidity and comprised: deposits (€156 million), debt securities in issue (€87 million) and derivatives (assets €18 million and liabilities €34 million). There were no significant transfers between level 1 and level 2.



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Notes on the consolidated accounts

## 9 Financial instruments - valuation continued

### Valuation techniques

The table below shows a breakdown of valuation techniques and the ranges for those unobservable inputs used in valuation models and techniques that have a material impact on the valuation of Level 3 financial instruments. The table excludes unobservable inputs where the impact on valuation is less significant. Movements in the underlying input may have a favourable or unfavourable impact on the valuation depending on the particular terms of the contract and the exposure. For example an increase in the credit spread of a bond would be favourable for the issuer and unfavourable for the note holder. Whilst we indicate where we consider that there are significant relationships between the inputs, these inter-relationships will be affected by macro economic factors including interest rates, foreign exchange rates or equity index levels.

| | Level 3 (€bn) | | | | Range | |
|---|---|---|---|---|---|---|
| Financial instruments | Assets | Liabilities | Valuation technique | Unobservable inputs | Low | High |
| Equity shares | 0.1 | | Discounted cash flow model (DCF) | Discount rate (1) | 20% | 100% |
| Debt securities in issue | | 0.1 | DCF | Discount margin (2) | 84bps | 114bps |
| | | | Option pricing | Volatility (3) | 27% | 30% |
| Derivatives | | | | | | |
| Foreign exchange | 0.2 | 0.2 | Option pricing | Correlation (4) | 93% | 107% |
| Credit | 0.1 | 0.1 | DCF | Discount margin (2) | 16% | 21% |

Notes:

(1) Discount rate: The rate at which future cash flows are discounted. A higher discount rate reduces the net present value of future cash flows.

(2) Credit spreads and discount margins: Credit spreads and margins express the return required over a benchmark rate or index to compensate for the credit risk associated with a cash instrument. A higher credit spread would indicate that the underlying instrument has more credit risk associated with it. Consequently, investors require a higher yield to compensate for the higher risk. The discount rate comprises credit spread or margin plus the benchmark rate; it is used to value future cash flows.

(3) Volatility: A measure of the tendency of a price to change with time.

(4) Correlation: Measures the degree by which two prices or other variables are observed to move together. If they move in the same direction there is positive correlation; if they move in opposite directions there is negative correlation. Correlations typically include relationships between: default probabilities of assets in a basket (a group of separate assets), exchange rates, interest rates and other financial variables.

(5) RBSH Group does not have any material liabilities measured at fair value that are issued with an inseparable third party credit enhancement.

## Judgmental issues

The diverse range of products traded by RBSH Group results in a wide range of instruments that are classified into the three level hierarchy. Whilst the majority of these instruments naturally fall into a particular level, for some products an element of judgement is required. The majority of RBSH Group's financial instruments carried at fair value are classified as level 2: inputs are observable either directly (i.e. as a price) or indirectly (i.e. derived from prices).

## Active and inactive markets

A key input in the decision making process for the allocation of assets to a particular level is liquidity. In general, the degree of valuation uncertainty depends on the degree of liquidity of an input. For example, a derivative can be placed into level 2 or level 3 dependent upon its liquidity.

Where markets are liquid or very liquid, little judgement is required. However, when the information regarding the liquidity in a particular market is not clear, a judgement may need to be made. This can be made more difficult as assessing the liquidity of a market may not always be straightforward. For an equity traded on an exchange, daily volumes of trading can be seen, but for an-over-the-counter (OTC) derivative assessing the liquidity of the market with no central exchange can be more difficult.

A key related issue is where a market moves from liquid to illiquid or vice versa. Where this change is considered to be temporary, the classification is not changed. For example, if there is little market trading in a product on a reporting date but at the previous reporting date and during the intervening period the market has been considered to be liquid, the instrument will continue to be classified in the same level in the hierarchy. This is to provide consistency so that transfers between levels are driven by genuine changes in market liquidity and do not reflect short term or seasonal effects.

## Interaction with the IPV process

The determination of an instrument's level cannot be made at a global product level as a single product type can be in more than one level. For example, a single name corporate credit default swap could be in level 2 or level 3 depending on whether the reference counterparty is liquid or illiquid.

The breadth and depth of this data allows a good assessment to be made of market activity, liquidity and pricing uncertainty, which assists with the process of allocation to an appropriate level. Where suitable independent pricing information is not readily available the instrument will be considered to be level 3.

As part of RBSH Group's IPV process, data is gathered at a trade level from market trading activity, trading systems, pricing services, consensus pricing providers, brokers and research material amongst other sources.

Notes on the consolidated accounts

## 9 Financial instruments - valuation continued

### Modelled products

For modelled products the market convention is to quote these trades through the model inputs or parameters as opposed to a cash price equivalent. A mark-to-market is derived from the use of the independent market inputs calculated using RBSH Group's model.

The decision to classify a modelled asset as level 2 or 3 will be dependent upon the product/model combination, the currency, the maturity, the observability and quality of input parameters and other factors. All these need to be assessed to classify the asset.

An assessment is made of each input into a model. There may be multiple inputs into a model and each is assessed in turn for observability and quality. As part of the process of classifying the quality of IPV results the IPV quality classifications have been designed to follow the accounting level classifications, although with a further level of granualrity. For example there are a number of different IPV quality levels that equate to a level 2 classification and so on.

If an input fails the observability or quality tests then the instrument is considered to be in level 3 unless the input can be shown to have an insignificant effect on the overall valuation of the product.

The majority of derivative instruments are classified as level 2 as they are vanilla products valued using observable inputs. The valuation uncertainty on these is considered to be low and both input and output testing may be available. Examples of these products would be vanilla interest rate swaps, foreign exchange swaps and liquid single name credit derivatives.

### Non-modelled products

Non-modelled products are generally quoted on a price basis and can therefore be considered for each of the 3 levels. This is determined by the market activity liquidity and valuation uncertainty of the instruments which is in turn measured from the availability of independent data used by the IPV process to allocate positions to IPV quality trends.

The availability and quality of independent pricing information is considered during the classification process. An assessment is made regarding the quality of the independent information. For example where consensus prices are used for non-modelled products, a key assessment of the quality of a price is the depth of the number of prices used to provide the consensus price. If the depth of contributors falls below a set hurdle rate, the instrument is considered to be level 3. This hurdle rate is that used in the IPV process to determine the IPV quality rating. However, where an instrument is generally considered to be illiquid, but regular quotes from market participants exist, these instruments may be classified as level 2 depending on frequency of quotes, other available pricing and whether the quotes are used as part of the IPV process or not.

For some instruments with a wide number of available price sources, there may be differing quality of available information and there may be a wide range of prices from different sources. In these situations an assessment is made as to which source is the highest quality and this will be used to determine the classification of the asset. For example, a tradable quote would be considered a better source than a consensus price.

### Instruments that cross levels

Some instruments will predominantly be in one level or the other, but others may cross between levels. For example, a cross currency swap may be between very liquid currency pairs where pricing is readily observed in the market and will therefore be classified as level 2. The cross currency swap may also be between two illiquid currency pairs in which case the swap would be placed into level 3. Defining the difference between liquid and illiquid may be based upon the number of consensus providers the consensus price is made up from and whether the consensus price can be supplemented by other sources.

### Level 3 portfolios and sensitivity methodologies

For each of the portfolio categories shown in the above table, there follows a description of the types of products that comprise the portfolio and the valuation techniques that are applied in determining fair value, including a description of valuation techniques used for levels 2 and 3 and inputs to those models and techniques. Where reasonably possible alternative assumptions of unobservable inputs used in models would change the fair value of the portfolio significantly, the alternative inputs are indicated. Where there have been significant changes to valuation techniques during the year a discussion of the reasons for this are also included.

### Overview of sensitivity methodologies

Reasonably possible alternative assumptions of unobservable inputs are determined based on a 95% confidence interval. The assessments recognise different favourable and unfavourable valuation movements where appropriate. Each unobservable input within a product is considered separately and sensitivity is reported on an additive basis.

Alternative assumptions are determined with reference to all available evidence including consideration of the following: quality of independent pricing information taking into account consistency between different sources, variation over time, perceived tradability or otherwise of available quotes; consensus service dispersion ranges; volume of trading activity and market bias (e.g. one-way inventory); day 1 P&L arising on new trades; number and nature of market participants; market conditions; modelling consistency in the market; size and nature of risk; length of holding of position; and market intelligence.

Notes on the consolidated accounts

## 9 Financial instruments - valuation continued

The fair value of securities within each class of asset changes on a broadly consistent basis in response to changes in given market factors. However, the extent of the change, and therefore the range of reasonably possible alternative assumptions, may be either more or less pronounced, depending on the particular terms and circumstances of the individual security. The Group believes that probability of default was the least transparent input into Alt-A and prime RMBS modelled valuations (and most sensitive to variations).

*Collateralised debt obligations (CDOs)*

CDOs purchased from third parties are valued using independent, third party quotes or independent lead manager indicative prices.

For super senior CDOs which have been originated by RBSH Group no specific third party information is available. The valuation of these super senior CDOs therefore takes into consideration outputs from a proprietary model, market data and appropriate valuation adjustments. A collateral net asset value methodology using dealer buy side marks is used to determine an upper bound for super senior CDO valuations. An ABS index implied collateral valuation, is also used which provides a market calibrated valuation data point. Both the ABS index implied valuation and the collateral net asset value methodology apply an assumed immediate liquidation approach.

*Asset-backed and corporate debt securities*

Where observable market prices for a particular debt security are not available, the fair value will typically be determined with reference to observable market transactions in other related products, such as similar debt securities or credit derivatives. Assumptions are made about the relationship between the individual debt security and the available benchmark data. Where significant management judgement has been applied in identifying the most relevant related product, or in determining the relationship between the related product and the instrument itself, the instrument is classified as level 3.

Equity shares

Private equity investments include unit holdings and limited partnership interests primarily in corporate private equity funds, debt funds and fund of hedge funds. Externally managed funds are valued using recent prices where available. Where not available, the fair value of investments in externally managed funds is generally determined using statements or other information provided by the fund managers.

RBSH Group considers that valuations may rely significantly on the judgements and estimates made by the fund managers, particularly in assessing private equity components. Given the decline in liquidity in world markets, and the level of subjectivity, these are included in level 3.

## Derivatives

Derivatives are priced using quoted prices for the same or similar instruments where these are available. However, the majority of derivatives are valued using pricing models. Inputs for these models are usually observed directly in the market, or derived from observed prices. However, it is not always possible to observe or corroborate all model inputs. Unobservable inputs used are based on estimates taking into account a range of available information including historic analysis, historic traded levels, market practice, comparison to other relevant benchmark observable data and consensus pricing data.

### *Credit derivatives*

RBSH Group's other credit derivatives include vanilla and bespoke portfolio tranches, gap risk products and certain other unique trades.

Valuation of single name credit derivatives is carried out using industry standard models. Where single name derivatives have been traded and there is a lack of independent data or the quality of the data is weak, these instruments are classified into level 3. These assets will be priced using the Group’s standard credit derivative model using a proxy curve based upon a suitable alternative single name curve, a cash based product or a sector based curve. Where the sector based curve is used, the proxy will be chosen taking maturity, rating, seniority, geography and internal credit review on recoveries into account. Sensitivities for these instruments will be based upon the selection of reasonable alternative assumptions which may include adjustments to the credit curve and recovery rate assumptions.

Gap risk products are leveraged trades, with the counterparty's potential loss capped at the amount of the initial principal invested. Gap risk is the probability that the market will move discontinuously too quickly to exit a portfolio and return the principal to the counterparty without incurring losses, should an unwind event be triggered. This optionality is embedded within these portfolio structures and is very rarely traded outright in the market. Gap risk is not observable in the markets and, as such, these structures are deemed to be level 3 instruments.

Other unique trades are valued using a specialised model for each instrument and the same market data inputs as all other trades where applicable. By their nature, the valuation is also driven by a variety of other model inputs, many of which are unobservable in the market. Where these instruments have embedded optionality they are valued using a variation of the Black-Scholes option pricing formula, and where they have correlation exposure they are valued using a variant of the Gaussian Copula model. The volatility or unique correlation inputs required to value these products are generally unobservable and the instruments are therefore deemed to be level 3 instruments.

*Equity derivatives*

Equity derivative products are split into equity exotic derivatives and equity hybrids. Exotic equity derivatives have payouts based on the performance of one or more stocks, equity funds or indices. Most payouts are based on the performance of a single asset and are valued using observable market option data. Unobservable equity derivative trades are typically complex basket options on stocks. Such basket option payouts depend on the performance of more than one equity asset and require correlations for their valuation. Valuation is then performed using industry standard valuation models, with unobservable correlation inputs calculated by reference to correlations observed between similar underlyings.

Equity hybrids have payouts based on the performance of a basket of underlyings where underlyings are from different asset classes. Correlations between these different underlyings are typically unobservable with no market information on closely related assets available. Where no market for the correlation input exists, these inputs are based on historical time series.



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Notes on the consolidated accounts

## 9 Financial instruments - valuation continued

*Interest rate derivatives*

Interest rate derivatives provide a payout (or series of payouts) linked to the performance of one or more underlying, including interest rates, foreign exchange rates and commodities.

Exotic valuation inputs include the correlation between interest rates, foreign exchange rates and commodity prices. Correlations for more liquid rate pairs are valued using independently sourced consensus pricing levels. Where a consensus pricing benchmark is unavailable, these instruments are classified as level 3.

The carrying value of debt securities in issue is represented partly by underlying cash and partly through a derivative component. The classification of the amount in level 3 is driven by the derivative component and not by the cash element.

*Other financial instruments*

In addition to the portfolios discussed above, there are other financial instruments which are held at fair value determined from data which are not market observable, or incorporating material adjustments to market observed data.

### Other considerations

*Valuation adjustments*

CVA applied to derivative exposures to other counterparties and own credit adjustments applied to derivative liabilities (DVA) are calculated on a portfolio basis. Whilst the methodology used to calculate each of these adjustments references certain inputs which are not based on observable market data, these inputs are not considered to have a significant effect on the net valuation of the related portfolios. The classification of the derivative portfolios which the valuation adjustments are applied to is not determined by the observability of the valuation adjustments, and any related sensitivity does not form part of the level 3 sensitivities presented.

*Own credit - issued debt*

For structured notes issued the own credit adjustment is based on debt issuance spreads above average inter-bank rates at the reporting date (at a range of tenors). Whilst certain debt issuance spreads are not based on observable market data, these inputs are not considered to have a significant effect on the valuation of individual trades. Neither the classification of structured notes issued nor any related valuation sensitivities are determined by the observability of the debt issuance

spreads.

Notes on the consolidated accounts

## 9 Financial instruments - valuation

continued

### Level 3 movement table

| | At 1 January 2013 €m | (Losses)/gains Recorded in the income statement €m | SOCI €m | Level 3 transfers In €m | Out €m | Purchases €m | Settlements €m | Transfer to disposal groups and sales €m | Foreign exchange €m | At 31 December 2013 €m | Amounts recorded in the income statement relating to instruments held at year end - unrealised €m |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | |
| FVTPL (2) | | | | | | | | | | | |
| Debt securities | 7 | — | — | — | — | — | — | (4) | (1) | 2 | — |
| Equity shares | 87 | (2) | — | — | (2) | 20 | — | (53) | (2) | 48 | — |
| Derivatives | 467 | (105) | — | 18 | (35) | 102 | (56) | (116) | (12) | 263 | (87) |
| FVTPL assets | 561 | (107) | — | 18 | (37) | 122 | (56) | (173) | (15) | 313 | (87) |
| AFS (3) | | | | | | | | | | | |
| Debt securities | — | — | — | — | — | 25 | — | — | — | 25 | — |
| Equity shares | 31 | — | (5) | 10 | — | 7 | — | (21) | (5) | 17 | — |
| AFS assets | 31 | — | (5) | 10 | — | 32 | — | (21) | (5) | 42 | — |
| | 592 | (107) | (5) | 28 | (37) | 154 | (56) | (194) | (20) | 355 | (87) |
| **Liabilities** | | | | | | | | | | | |
| Deposits | 84 | (40) | — | 156 | — | 1 | — | (147) | (5) | 49 | (33) |
| | 37 | (44) | | | (3) | | — | — | (3) | 74 | (35) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Debt securities in issue | | | — | 87 | — | | | | | |
| Short positions | — | — | — | —— | — | — | — | — | — | — |
| Derivatives | 353 | 81 | — | 34(33) | 47 | (57) | (123) | (11) | 291 | 83 |
| | 474 | (3) | — | 277(36) | 48 | (57) | (270) | (19) | 414 | 15 |

| | At 1 January 2012 | Gain/(losses) recorded in the income statement or SOCI (1, 4) | Level 3 transfers in/out | Purchases | Settlements | Transfer to disposal groups and sales | Foreign exchange | At 31 December 2012 | | Amounts in the to ins held at |
|---|---|---|---|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m | €m | €m | | |
| Assets | | | | | | | | | | |
| FVTPL (2) | | | | | | | | | | |
| Debt securities | 399 | 11 | 4 | 2 | — | (419) | 10 | 7 | | |
| Equity shares | 277 | (11) | (70) | 1 | — | (113) | 3 | 87 | | |
| Derivatives | 692 | (7) | 158 | 11 | (306) | (100) | 19 | 467 | | |
| FVTPL assets | 1,368 | (7) | 92 | 14 | (306) | (632) | 32 | 561 | | |
| | | | | | | | | | | |
| AFS (3) | | | | | | | | | | |
| Debt securities | 40 | 31 | — | — | (4) | (67) | — | — | | |
| Equity shares | 222 | 101 | 70 | 1 | — | (363) | — | 31 | | |
| AFS assets | 262 | 132 | 70 | 1 | (4) | (430) | — | 31 | | |
| | 1,630 | 125 | 162 | 15 | (310) | (1,062) | 32 | 592 | | |
| | | | | | | | | | | |
| Liabilities | | | | | | | | | | |
| Deposits | — | 85 | — | — | — | — | (1) | 84 | | |
| Debt securities in issue | 485 | (22) | — | — | (427) | — | 1 | 37 | | |
| Short positions | 67 | (69) | — | — | — | — | 2 | — | | |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Derivatives | 633 | (95) | (51) | 34 | (33) | (153) | 18 | 353 | | |
| | 1,185 | (101) | (51) | 34 | (460) | (153) | 20 | 474 | | |

For the notes relating to these tables refer to the following page.

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Notes on the consolidated accounts

| **9 Financial instruments - valuation** continued | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Level 3 movement table** continued | | | | | | | | | | |
| | At 1 January 2011 | (Losses)/gains recorded in the income statement or SOCI (1, 4) | Level 3 transfers in/out | Issuances | Purchases | Settlements | Transfer to disposal groups and sales | Foreign exchange | At 31 December 2011 | A |
| | €m | €m | €m | €m | €m | €m | €m | €m | €m | |
| Assets | | | | | | | | | | |
| FVTPL (2) | | | | | | | | | | |
| Loans and advances | 242 | (20) | — | — | 59 | (229) | (59) | 7 | — | |
| Debt securities | 1,003 | (184) | (88) | — | 4 | (1) | (364) | 29 | 399 | |
| Equity shares | 354 | (32) | 108 | — | 9 | (85) | (86) | 9 | 277 | |
| Derivatives | 632 | 25 | (21) | 4 | 359 | (71) | (255) | 19 | 692 | |
| FVTPL assets | 2,231 | (211) | (1) | 4 | 431 | (386) | (764) | 64 | 1,368 | |
| | | | | | | | | | | |
| AFS (3) | | | | | | | | | | |
| Debt securities | 52 | (1) | — | — | — | (13) | — | 2 | 40 | |
| Equity shares | 140 | 37 | 55 | — | 1 | — | (13) | 2 | 222 | |
| AFS assets | 192 | 36 | 55 | — | 1 | (13) | (13) | 4 | 262 | |
| | 2,423 | (175) | 54 | 4 | 432 | (399) | (777) | 68 | 1,630 | |
| | | | | | | | | | | |
| Liabilities | | | | | | | | | | |
| Debt securities | 2,284 | (183) | 9 | 537 | — | (1,020) | (1,149) | 7 | 485 | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| in issue | | | | | | | | | |
| Short positions | 4 | — | 65 | — | — | (2) | (2) | 2 | 67 |
| Derivatives | 1,002 | (44) | 92 | 5 | 40 | (81) | (411) | 30 | 633 |
| Other financial liabilities | 26 | — | (27) | — | — | — | — | 1 | — |
| | 3,316 | (227) | 139 | 542 | 40 | (1,103) | (1,562) | 40 | 1,185 |

Notes:

(1) Net losses recognised in the income statement were €101 million (2012 - €66 million gains). Net losses of €72 million (2012 - €30 million) were included in income from trading activities. None of this relates to discontinued operations.

(2) FVTPL: Fair value through profit or loss.

(3) AFS: Available-for-sale.

(4) SOCI: Statement of comprehensive income.

Gains and losses recognised on assets held-for-trading and derivatives have been included in non-interest income from trading activities. Gains and losses on available-for-sale assets have been included in non-interest income and interest income.

Notes on the consolidated accounts

## 9 Financial instruments - valuation continued

### Fair value of financial instruments not carried at fair value

The following table shows the carrying value and fair value of financial instruments carried at amortised cost on the balance sheet.

| | Items where fair value approximates carrying value | Carrying value | Fair value | Fair value hierarchy level | |
|---|---|---|---|---|---|
| | | | | Level 2 | Level 3 |
| 2013 | €m | €m | €m | €m | €m |
| Financial assets | | | | | |
| Cash and balances at central banks | 3,193 | | | | |
| Loans and advances to banks | | 4,894 | 4,896 | 2,187 | 2,709 |
| Loans and advances to customers | | 3,406 | 3,249 | 298 | 2,951 |
| Amount due from ultimate holding company | | 2,820 | 3,279 | 3,279 | — |
| Debt securities | | 39 | 40 | — | 40 |
| Settlement balances | 10 | | | | |
| | | | | | |
| Financial liabilities | | | | | |
| Deposits by banks | | | | | |
| - items in the course of transmission to other banks | 3 | | | | |
| - other deposits by banks | | 17,916 | 17,922 | 13,147 | 4,775 |
| Customer accounts | | | | | |
| - demand deposits | 1,878 | | | | |
| - other customer deposits | | 1,579 | 1,578 | 629 | 949 |
| Debt securities in issue | | 489 | 501 | 501 | — |
| Settlement balances | 83 | | | | |
| Subordinated liabilities | | 4,339 | 3,649 | 3,649 | — |

| | 2012 Carrying value €m | 2012 Fair value €m | 2011 Carrying value €m | 2011 Fair value €m |
|---|---|---|---|---|
| Financial assets | | | | |
| Cash and balances at central banks | 2,294 | 2,294 | 12,609 | 12,609 |
| Loans and advances to banks | 10,685 | 10,697 | 23,751 | 23,720 |
| Loans and advances to customers | 5,932 | 5,617 | 28,612 | 27,684 |
| Amounts due from ultimate holding company | 2,949 | 2,949 | 1,136 | 1,136 |
| Debt securities | 133 | 133 | 547 | 547 |
| Settlement balances | 31 | 31 | 2,608 | 2,608 |
| Financial liabilities | | | | |
| Deposits by banks | 33,160 | 33,160 | 45,272 | 45,242 |
| Customer accounts | 1,972 | 1,972 | 38,584 | 38,584 |
| Debt securities in issue | 1,028 | 997 | 6,929 | 6,923 |
| Settlement balances | 73 | 73 | 2,845 | 2,845 |
| Subordinated liabilities | 6,127 | 5,700 | 6,336 | 4,225 |

Notes on the consolidated accounts

**9 Financial instruments - valuation** continued

The fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Quoted market values are used where available; otherwise, fair values have been estimated based on discounted expected future cash flows and other valuation techniques. These techniques involve uncertainties and require assumptions and judgments covering prepayments, credit risk and discount rates. Furthermore there is a wide range of potential valuation techniques. Changes in these assumptions would significantly affect estimated fair values. The fair values reported would not necessarily be realised in an immediate sale or settlement.

The fair values of intangible assets, such as core deposits, credit card and other customer relationships are not included in the calculation of these fair values as they are not financial instruments.

The assumptions and methodologies underlying the calculation of fair values of financial instruments at the balance sheet date are as follows:

For certain short-term financial instruments: cash and balances at central banks, items in the course of collection from other banks, settlement balances, items in the course of transmission to other banks, customer demand deposits and notes in circulation, fair value approximates to carrying value.

Loans and advances to banks and customers

In estimating the fair value of loans and advances to banks and customers measured at amortised cost, RBSH Group's loans are segregated into appropriate portfolios reflecting the characteristics of the constituent loans. Two principal methods are used to estimate fair value:

(a) contractual cash flows are discounted using a market discount rate that incorporates the current spread for the borrower or where this is not observable, the spread for borrowers of a similar credit standing. This method is used for the majority of Markets and International Banking's portfolios where most counterparties have external ratings.

(b) expected cash flows (unadjusted for credit losses) are discounted at the current offer rate for the same or similar products. This approach is adopted for lending portfolios reflecting the more homogeneous nature of these portfolios.

### Debt securities

Fair values are determined using discounted cash flow valuation techniques.

### Deposits by banks and customer accounts

Fair values of deposits are estimated using discounted cash flow valuation techniques.

### Debt securities in issue and subordinated liabilities

Fair values are determined using quoted prices where available or by reference to valuation techniques and adjusting for own credit spreads where appropriate.

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**10 Financial instruments - maturity analysis**

**Remaining maturity**

The following table shows the residual maturity of financial instruments, based on contractual date of maturity.

| | 2013 | | | | 2012 | | | | 2011 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Less than 12 months | More than 12 months | Total | | Less than 12 months | More than 12 months | Total | | Less than 12 months | More than 12 months | Total |
| | €m | €m | €m | | €m | €m | €m | | €m | €m | €m |
| Assets | | | | | | | | | | | |
| Cash and balances at central banks | 3,193 | — | 3,193 | | 2,294 | — | 2,294 | | 12,609 | — | 12,609 |
| Loans and advances to banks | 5,245 | 450 | 5,695 | | 10,147 | 2,059 | 12,206 | | 24,006 | 1,911 | 25,917 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Loans and advances to customers | 2,036 | 1,748 | 3,784 | 2,444 | 3,936 | 6,380 | 16,796 | 12,782 | 29,578 |
| Amounts due from ultimate holding company | 20 | 2,800 | 2,820 | 131 | 2,818 | 2,949 | 10 | 1,126 | 1,136 |
| Debt securities | 1,376 | 13,912 | 15,288 | 1,326 | 21,329 | 22,655 | 8,644 | 31,001 | 39,645 |
| Equity shares | — | 295 | 295 | — | 1,127 | 1,127 | — | 3,093 | 3,093 |
| Settlement balances | 10 | — | 10 | 29 | 2 | 31 | 2,605 | 3 | 2,608 |
| Derivatives | 658 | 4,124 | 4,782 | 1,464 | 6,091 | 7,555 | 4,988 | 14,150 | 19,138 |
| | | | | | | | | | |
| Liabilities | | | | | | | | | |
| Deposits by banks | 18,541 | 402 | 18,943 | 30,083 | 4,382 | 34,465 | 44,762 | 1,758 | 46,520 |
| Customer accounts | 3,147 | 1,004 | 4,151 | 1,550 | 1,088 | 2,638 | 37,726 | 1,875 | 39,601 |
| Debt securities in issue | 196 | 1,123 | 1,319 | 561 | 2,041 | 2,602 | 5,598 | 12,116 | 17,714 |
| Settlement balances and short positions | 105 | — | 105 | 79 | 28 | 107 | 3,310 | 99 | 3,409 |
| Derivatives | 828 | 5,034 | 5,862 | 1,568 | 8,076 | 9,644 | 5,226 | 14,642 | 19,868 |
| Subordinated liabilities | — | 4,951 | 4,951 | 11 | 6,840 | 6,851 | 61 | 6,798 | 6,859 |

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Notes on the consolidated accounts

## 10 Financial instruments - maturity analysis continued

### Assets and liabilities by contractual cash flow maturity

The tables below and on the following page show the contractual undiscounted cash flows receivable and payable, up to a period of twenty years, including future receipts and payments of interest of on-balance sheet assets by contractual maturity. The balances in the table below do not agree directly with the consolidated balance sheet, as the table includes all cash flows relating to principal and future coupon payments, presented on an undiscounted basis. The tables have been prepared on the following basis:

Financial assets have been reflected in the time band of the latest date on which they could be repaid, unless earlier repayment can be demanded by the RBSH Group. Financial liabilities are included at the earliest date on which the counterparty can require repayment, regardless of whether or not such early repayment results in a penalty.

If the repayment of a financial instrument is triggered by, or is subject to, specific criteria such as market price hurdles being reached, the asset is included in the time band that contains the latest date on which it can be repaid, regardless of early repayment. The liability is included in the time band that contains the earliest possible date on which the conditions could be fulfilled, without considering the probability of the conditions being met.

For example, if a structured note is automatically prepaid when an equity index exceeds a certain level, the cash outflow will be included in the less than three months period, whatever the level of the index at the year end. The settlement date of debt securities in issue, issued by certain securitisation vehicles consolidated by the RBSH Group, depends on when cash flows are received from the securitised assets. Where these assets are prepayable, the timing of the cash outflow relating to securities assumes that each asset will be prepaid at the earliest possible date. As the repayments of assets and liabilities are linked, the repayment of assets in securitisations is shown on the earliest date that the asset can be prepaid, as this is the basis used for liabilities.

The principal amounts of financial assets and liabilities that are repayable after twenty years or where the counterparty has no right to repayment of the principal are excluded from the table, as are interest payments after twenty years.

*Held-for-trading assets and liabilities -* held-for-trading derivative assets and liabilities amounting to €4.6 billion (assets) and €4.5 billion (liabilities) (2012 - €0.2 billion assets and €2.4 billion liabilities; 2011 - €18.7 billion assets and €17.6 billion liabilities) have been excluded from the tables below in view of their short-term nature.

| | 0 - 3 months | 3 - 12 months | 1 – 3 years | 3 - 5 years | 5 - 10 years | 10 - 20 years |
|---|---|---|---|---|---|---|
| 2013 | €m | €m | €m | €m | €m | €m |
| Assets by contractual maturity | | | | | | |
| Cash and balances at central banks | 3,193 | — | — | — | — | — |
| Loans and advances to banks | 4,292 | 448 | 765 | 29 | 23 | — |
| Amounts due from ultimate holding company | 42 | 143 | 372 | 372 | 1,023 | 1,781 |
| Debt securities | 379 | 1,230 | 2,073 | 5,957 | 2,621 | 1,144 |
| Settlement balances | 10 | — | — | — | — | — |
| Total maturing assets | 7,916 | 1,821 | 3,210 | 6,358 | 3,667 | 2,925 |
| Loans and advances to customers | 1,684 | 462 | 419 | 264 | 504 | 250 |
| Derivatives held for hedging | 69 | 34 | 32 | 7 | — | — |
| | 9,669 | 2,317 | 3,661 | 6,629 | 4,171 | 3,175 |
| | | | | | | |
| Liabilities by contractual maturity | | | | | | |
| Deposits by banks | 13,310 | 5,071 | 314 | 34 | 33 | — |
| Debt securities in issue | 95 | 129 | 567 | 49 | 50 | 511 |
| Subordinated liabilities | 49 | 218 | 1,289 | 1,235 | 1,094 | 1,991 |
| Settlement balances and other liabilities | 105 | — | — | — | — | — |
| Total maturing liabilities | 13,559 | 5,418 | 2,170 | 1,318 | 1,177 | 2,502 |
| Customer accounts | 2,020 | 1,070 | 404 | 356 | 106 | 10 |
| Derivatives held for hedging | 95 | 226 | 507 | 255 | 216 | 135 |
| | 15,674 | 6,714 | 3,081 | 1,929 | 1,499 | 2,647 |
| | | | | | | |
| Maturity gap | (5,643) | (3,597) | 1,040 | 5,040 | 2,490 | 423 |
| Cumulative maturity gap | (5,643) | (9,240) | (8,200) | (3,160) | (670) | (247) |

Notes on the consolidated accounts

| **10 Financial instruments - maturity analysis** continued | | | | | | |
|---|---|---|---|---|---|---|
| | 0 - 3 months | 3 - 12 months | 1 – 3 years | 3 - 5 years | 5 - 10 years | 10 - 20 years |
| 2012 | €m | €m | €m | €m | €m | €m |
| Assets by contractual maturity | | | | | | |
| Cash and balances at central banks | 2,294 | — | — | — | — | — |
| Loans and advances to banks | 9,926 | 185 | 433 | 150 | 412 | 433 |
| Amounts due from ultimate holding company | — | 119 | — | 34 | 102 | 2,841 |
| Debt securities | 691 | 1,314 | 3,838 | 5,956 | 6,412 | 1,207 |
| Settlement balances | 30 | — | — | — | — | — |
| Total maturing assets | 12,941 | 1,618 | 4,271 | 6,140 | 6,926 | 4,481 |
| Loans and advances to customers | 1,465 | 1,773 | 998 | 555 | 598 | 682 |
| Derivatives held for hedging | 77 | 31 | 35 | 20 | 3 | — |
| | 14,483 | 3,422 | 5,304 | 6,715 | 7,527 | 5,163 |
| | | | | | | |
| Liabilities by contractual maturity | | | | | | |
| Deposits by banks | 18,619 | 11,663 | 4,247 | 81 | 239 | 325 |
| Debt securities in issue | 142 | 380 | 608 | 607 | 134 | 850 |
| Subordinated liabilities | 29 | 895 | 3,148 | 489 | 1,633 | 1,741 |
| Settlement balances and other liabilities | 106 | — | — | — | — | — |
| Total maturing liabilities | 18,896 | 12,938 | 8,003 | 1,177 | 2,006 | 2,916 |
| Customer accounts | 1,398 | 326 | 231 | 78 | 269 | 6 |
| Derivatives held for hedging | 56 | 244 | 668 | 449 | 317 | 171 |
| | 20,350 | 13,508 | 8,902 | 1,704 | 2,592 | 3,093 |
| | | | | | | |
| Maturity gap | (5,955) | (11,320) | (3,732) | 4,963 | 4,920 | 1,565 |
| Cumulative maturity gap | (5,955) | (17,275) | (21,007) | (16,044) | (11,124) | (9,559) |

| | | | | | | |
|---|---|---|---|---|---|---|
| 2011 | | | | | | |
| Assets by contractual maturity | | | | | | |
| Cash and balances at central banks | 12,607 | 2 | — | — | — | — |
| Loans and advances to banks | 24,041 | — | 456 | 106 | 309 | 580 |
| Amounts due from ultimate holding company | 54 | — | 77 | 1,200 | — | — |

| | | | | | | |
|---|---|---|---|---|---|---|
| Debt securities | 5,108 | 3,794 | 7,808 | 5,745 | 11,619 | 2,731 |
| Settlement balances | 2,595 | 10 | — | — | — | — |
| Total maturing assets | 44,405 | 3,806 | 8,341 | 7,051 | 11,928 | 3,311 |
| Loans and advances to customers | 11,539 | 5,657 | 5,822 | 3,902 | 2,986 | 1,349 |
| Derivatives held for hedging | 37 | 54 | 206 | 116 | 19 | 12 |
| | 55,981 | 9,517 | 14,369 | 11,069 | 14,933 | 4,672 |
| | | | | | | |
| Liabilities by contractual maturity | | | | | | |
| Deposits by banks | 43,741 | 1,067 | 694 | 860 | 204 | 25 |
| Debt securities in issue | 3,737 | 2,104 | 4,855 | 4,444 | 2,734 | 1,344 |
| Subordinated liabilities | 54 | 177 | 256 | 2,981 | 1,514 | 1,006 |
| Settlement balances and other liabilities | 3,209 | 16 | 14 | 70 | 99 | 1 |
| Total maturing liabilities | 50,741 | 3,364 | 5,819 | 8,355 | 4,551 | 2,376 |
| Customer accounts | 36,929 | 843 | 595 | 524 | 691 | 30 |
| Derivatives held for hedging | 197 | 309 | 948 | 517 | 390 | 202 |
| | 87,867 | 4,516 | 7,362 | 9,396 | 5,632 | 2,608 |
| | | | | | | |
| Maturity gap | (6,336) | 442 | 2,522 | (1,304) | 7,377 | 935 |
| Cumulative maturity gap | (6,336) | (5,894) | (3,372) | (4,676) | 2,701 | 3,636 |

Notes on the consolidated accounts

| **10 Financial instruments - maturity analysis** continued | | | |
|---|---|---|---|
| **Assets and liabilities by contractual cash flow maturity** continued | | | |
| | 2013 | 2012 | 2011 |
| Guarantees and commitments notional amount | €m | €m | €m |
| Guarantees (1) | 6,884 | 10,070 | 19,901 |
| Commitments (2) | 972 | 5,706 | 22,378 |
| | 7,856 | 15,776 | 42,279 |

Notes:

(1) RBSH Group is only called upon to satisfy a guarantee when the guaranteed party fails to meet its obligations. RBSH Group expects most guarantees it provides to expire unused.

(2) RBSH Group has given commitments to provide funds to customers under undrawn formal facilities, credit lines and other commitments to lend subject to certain conditions being met by the counterparty. RBSH Group does not expect all facilities to be drawn, and some may lapse before drawdown.

| **11 Financial assets - impairments** | | | | | | |
|---|---|---|---|---|---|---|
| The following table shows the movement in the provision for impairment losses for loans and advances. | | | | | | |
| | | | | | | |
| | Individually assessed | Collectively assessed | Latent | Total 2013 | Total 2012 | Total 2011 |
| | €m | €m | €m | €m | €m | €m |
| At 1 January | 306 | — | 35 | 341 | 1,572 | 1,572 |
| Transfers to/(from) disposal groups | (42) | 78 | — | 36 | (171) | — |
| Currency translation and other adjustments | (14) | 5 | 50 | 41 | (87) | 68 |
| Disposals | (4) | (87) | — | (91) | (562) | (45) |
| Amounts written-off | (98) | (5) | — | (103) | (453) | (397) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Recoveries of amounts previously written-off | 8 | 1 | — | 9 | 12 | 22 |
| Charged/(credited) to the income statement - continuing operations | 26 | 8 | (72) | (38) | 30 | 360 |
| Unwind of discount (recognised in interest income) | — | — | — | — | — | (8) |
| At 31 December | 182 | — | 13 | 195 | 341 | 1,572 |

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **Impairment losses charged to the income statement** | €m | €m | €m |
| Loans and advances to banks | — | 15 | — |
| Loans and advances to customers | (38) | 15 | 360 |
| | (38) | 30 | 360 |
| Recoveries/(recharge) to RBS plc under credit protection arrangements | 46 | (13) | (58) |
| Debt securities | 34 | 48 | 1,463 |
| | 42 | 65 | 1,765 |

| The following tables analyse impaired financial assets. | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2011 | | |
| | | | Carrying | | | Carrying | | | Carrying |
| | Cost | Provision | value | Cost | Provision | value | Cost | Provision | value |
| | €m | €m | €m | €m | €m | €m | €m | €m | €m |
| Loans and advances to banks (1) | 1 | 1 | — | — | — | — | 52 | 45 | 7 |
| Loans and advances to customers (2) | 310 | 181 | 129 | 506 | 306 | 200 | 1,878 | 1,421 | 457 |
| | 311 | 182 | 129 | 506 | 306 | 200 | 1,930 | 1,466 | 464 |

Notes:

(1) Impairment provisions individually assessed.

(2) All impairment provisions were individually assessed in 2013 and 2012. Impairment provisions were individually assessed on balances of €1,711 million in 2011.

**RBS Holdings N.V.**
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| **11 Financial assets - impairments** continued | | | |
|---|---|---|---|
| | Carrying value 2013 €m | Carrying value 2012 €m | Carrying value 2011 €m |
| Debt securities | 39 | 133 | 515 |

RBSH Group holds collateral in respect of certain loans and advances to banks and to customers that are past due or impaired. Such collateral includes mortgages over property; charges over business assets such as plant, inventories and trade debtors; and guarantees of lending from parties other than the borrower.

Loans that have been renegotiated in the past 12 months that would otherwise have been past due or impaired amounted to nil as at 31 December 2013 (2012 - nil; 2011 - €194 million).

**12 Derivatives**

Companies in RBSH Group transact derivatives as principal either as a trading activity or to manage balance sheet foreign exchange, interest rate and credit risks.

RBSH Group enters into fair value hedges, cash flow hedges and hedges of net investments in foreign operations. The majority of RBSH Group's interest rate hedges relate to the management of RBSH Group's non-trading interest rate risk. RBSH Group manages this risk within approved limits. Residual risk positions are hedged with derivatives principally interest rate swaps. Suitable larger ticket financial instruments are fair value hedged; the remaining exposure, where possible, is hedged by derivatives documented as cash flow hedges and qualifying for hedge accounting. The majority of RBSH Group's fair value hedges involve interest rate swaps hedging the interest rate risk in recognised financial assets and financial liabilities. Cash flow hedges relate to exposures to the variability in future interest payments and receipts on forecast transactions and on recognised financial assets and financial liabilities. RBSH Group hedges its net investments in foreign operations with currency borrowings and forward foreign exchange contracts.

For cash flow hedge relationships of interest rate risk, the hedged items are actual and forecast variable interest rate cash flows arising from financial assets and financial liabilities with interest rates linked to LIBOR and EURIBOR. The financial assets are customer loans and the financial liabilities are customer deposits and LIBOR linked medium-term notes and other issued securities.

For cash flow hedging relationships, the initial and ongoing prospective effectiveness is assessed by comparing movements in the fair value of the expected highly probable forecast interest cash flows with movements in the fair value of the expected changes in cash flows from the hedging interest rate swap or by comparing the respective changes in the price value of a basis point. Prospective effectiveness is measured on a cumulative basis i.e. over the entire life of the hedge relationship. The method of calculating hedge ineffectiveness is the hypothetical derivative method. Retrospective effectiveness is assessed by comparing the actual movements in the fair value of the cash flows and actual movements in the fair value of the hedged cash flows from the interest rate swap over the life to date of the hedging relationship.

For fair value hedge relationships of interest rate risk, the hedged items are typically government bonds, large corporate fixed-rate loans, fixed-rate finance leases, fixed-rate medium-term notes or preference shares classified as debt.

The initial and ongoing prospective effectiveness of fair value hedge relationships is assessed on a cumulative basis by comparing movements in the fair value of the hedged item attributable to the hedged risk with changes in the fair value of the hedging interest rate swap or by comparing the respective changes in the price value of a basis point. Retrospective effectiveness is assessed by comparing the actual movements in the fair value of the hedged items attributable to the hedged risk with actual movements in the fair value of the hedging derivative over the life to date of the hedging relationship.

Notes on the consolidated accounts

**12 Derivatives** continued

The following table shows the notional amounts and fair values of RBSH Group's derivatives.

| | 2013 | | | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Notional amounts | Assets | Liabilities | Notional amounts | Assets | Liabilities | Notional amounts | Assets | Liabilities |
| | €m | €m | €m | €m | €m | €m | €m | €m | €m |
| Exchange rate contracts | | | | | | | | | |
| Spot, forwards and futures | 21,253 | 382 | 343 | 31,204 | 521 | 366 | 104,888 | 2,585 | 2,671 |
| Currency swaps | 26,107 | 636 | 794 | 94,278 | 1,039 | 1,313 | 81,318 | 3,696 | 3,234 |
| Options purchased | 1,538 | 86 | — | 1,664 | 118 | — | 5,065 | 252 | — |
| Options written | 1,241 | — | 62 | 1,779 | — | 114 | 4,409 | — | 180 |
| | | | | | | | | | |
| Interest rate contracts | | | | | | | | | |
| Interest rate swaps | 32,073 | 3,140 | 4,265 | 137,077 | 4,809 | 7,230 | 292,228 | 6,880 | 9,854 |
| Options purchased | 104 | 2 | — | 1,456 | 82 | — | 6,815 | 301 | 3 |
| Options written | 172 | — | 26 | 1,549 | — | 27 | 5,497 | — | 238 |
| Futures and forwards | — | — | — | — | — | — | 873 | 2 | 1 |
| | | | | | | | | | |
| Credit derivatives | 786 | 135 | 157 | 2,748 | 197 | 133 | 11,315 | 713 | 650 |
| | | | | | | | | | |
| Equity and commodity contracts | 907 | 401 | 215 | 1,706 | 789 | 461 | 18,739 | 4,709 | 3,037 |
| | | 4,782 | 5,862 | | 7,555 | 9,644 | | 19,138 | 19,868 |

Explanation of Responses:

Included above are derivatives held for hedging purposes as follows:

| | 2013 | | 2012 | | 2011 | |
|---|---|---|---|---|---|---|
| | Assets | Liabilities | Assets | Liabilities | Assets | Liabilities |
| | €m | €m | €m | €m | €m | €m |
| Fair value hedging | | | | | | |
| Interest rate contracts | 63 | 1,375 | 104 | 2,372 | 362 | 2,731 |
| | | | | | | |
| Cash flow hedging | | | | | | |
| Interest rate contracts | — | — | — | — | — | 17 |
| | | | | | | |
| Net investment hedging | | | | | | |
| Exchange rate contracts | 78 | 16 | 82 | 26 | 33 | 171 |

| Hedge ineffectiveness recognised in other operating income comprised: | | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | €m | €m | €m |
| Fair value hedging | | | |
| (Losses)/gains on the hedged items attributable to the hedged risk | (562) | 354 | 570 |
| Gains/(losses) on the hedging instruments | 556 | (371) | (571) |
| Fair value ineffectiveness | (6) | (17) | (1) |

Notes on the consolidated accounts

| 13 Debt securities | US central and local government | Other central and local government | Bank and building society | Corporate | Other financial institutions | Total | Of which ABS (1) |
|---|---|---|---|---|---|---|---|
| 2013 | €m | €m | €m | €m | €m | €m | €m |
| Held-for-trading | 7 | 285 | 207 | 12 | — | 511 | — |
| Designated as at fair value through profit or loss | — | 125 | — | — | 5 | 130 | — |
| Available-for-sale | 1,711 | 3,864 | 4,135 | 45 | 4,853 | 14,608 | 8,644 |
| Loans and receivables | — | — | — | — | 39 | 39 | — |
| | 1,718 | 4,274 | 4,342 | 57 | 4,897 | 15,288 | 8,644 |
| | | | | | | | |
| Available-for-sale | | | | | | | |
| Gross unrealised gains | 188 | 407 | 81 | 3 | 63 | 742 | 117 |
| Gross unrealised losses | — | (8) | (245) | — | (165) | (418) | (410) |
| | | | | | | | |
| 2012 | | | | | | | |
| Held-for-trading | — | 506 | 228 | 16 | 95 | 845 | — |
| Designated as at fair value through profit or loss | — | — | — | 65 | — | 65 | — |
| Available-for-sale | 1,871 | 5,557 | 5,097 | 143 | 8,944 | 21,612 | 13,777 |
| Loans and receivables | — | — | — | 133 | — | 133 | — |
| | 1,871 | 6,063 | 5,325 | 357 | 9,039 | 22,655 | 13,777 |
| | | | | | | | |
| Available-for-sale | | | | | | | |
| Gross unrealised gains | 284 | 740 | 48 | 13 | 83 | 1,168 | 124 |
| Gross unrealised losses | — | (14) | (609) | — | (894) | (1,517) | (1,503) |
| | | | | | | | |
| 2011 | | | | | | | |
| Held-for-trading | 1,036 | 1,857 | 695 | 326 | 639 | 4,553 | — |
| | — | 152 | — | — | — | 152 | — |

Explanation of Responses:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Designated as at fair value through profit or loss | | | | | | | |
| Available-for-sale | 2,485 | 13,592 | 8,181 | 186 | 9,949 | 34,393 | 17,362 |
| Loans and receivables | — | — | 341 | 174 | 32 | 547 | — |
| | 3,521 | 15,601 | 9,217 | 686 | 10,620 | 39,645 | 17,362 |
| | | | | | | | |
| Available-for-sale | | | | | | | |
| Gross unrealised gains | 411 | 574 | 30 | 10 | 36 | 1,061 | 56 |
| Gross unrealised losses | — | (203) | (911) | (1) | (908) | (2,023) | (1,813) |

Note:

(1) Includes asset-backed securities issued by US federal agencies and government sponsored entities, and covered bonds.

Net losses of €70 million (2012 – €153 million losses; 2011 - €16 million gains) were realised on the sale of available-for-sale debt securities.

Notes on the consolidated accounts

**13 Debt securities** continued

The following table analyses RBSH Group's available-for-sale debt securities and the related yield (based on weighted averages) by remaining maturity and issuer.

| | Within 1 year | | After 1 but within 5 years | | After 5 but within 10 years | | After 10 years | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield | Amount | Yield |
| 2013 | €m | % | €m | % | €m | % | €m | % | €m | % |
| US central and local government | — | — | 1,711 | 4.01 | — | — | — | — | 1,711 | 4.01 |
| Other central and local government | 198 | 3.97 | 1,680 | 4.56 | 565 | 3.9 | 1,421 | 3.88 | 3,864 | 4.18 |
| Bank and building society | 691 | 0.72 | 2,809 | 1.36 | 488 | 3.7 | 147 | 1.53 | 4,135 | 1.54 |
| Other financial institutions | 31 | 3.82 | 682 | 2.32 | 1,120 | 4.18 | 3,020 | 1.66 | 4,853 | 2.35 |
| Corporate | — | — | 15 | 3.72 | 30 | 3.12 | — | — | 45 | 3.32 |
| | 920 | 1.53 | 6,897 | 2.90 | 2,203 | 3.99 | 4,588 | 2.34 | 14,608 | 2.80 |
| | | | | | | | | | | |
| Of which ABS (1) | 426 | 0.97 | 3,444 | 1.53 | 1,607 | 4.04 | 3,167 | 1.65 | 8,644 | 2.01 |
| | | | | | | | | | | |
| 2012 | | | | | | | | | | |
| US central and local government | — | — | 1,871 | 4.52 | — | — | — | — | 1,871 | 4.52 |
| Other central and local government | 79 | 0.56 | 1,716 | 3.31 | 2,213 | 4.12 | 1,549 | 4.63 | 5,557 | 3.93 |
| Bank and building society | 461 | 0.55 | 2,495 | 3.16 | 2,005 | 0.97 | 136 | 1.41 | 5,097 | 1.95 |
| | 85 | 3.24 | 1,694 | 3.17 | 1,065 | 4.12 | 6,100 | 0.60 | 8,944 | 1.52 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Other financial institutions | | | | | | | | | | |
| Corporate | 1 | 2.07 | 109 | 3.47 | 33 | 3.33 | — | — | 143 | 3.43 |
| | 626 | 0.91 | 7,885 | 3.48 | 5,316 | 2.75 | 7,785 | 1.23 | 21,612 | 2.38 |
| | | | | | | | | | | |
| Of which ABS (1) | 455 | 0.54 | 4,025 | 3.21 | 3,062 | 2.02 | 6,235 | 0.62 | 13,777 | 1.66 |
| | | | | | | | | | | |
| 2011 | | | | | | | | | | |
| US central and local government | — | — | — | — | 2,485 | 4.53 | — | — | 2,485 | 4.53 |
| Other central and local government | 3,311 | 1.67 | 5,101 | 3.79 | 3,505 | 5.31 | 1,675 | 5.87 | 13,592 | 3.80 |
| Bank and building society | 1,689 | 1.67 | 3,935 | 3.31 | 2,081 | 2.20 | 476 | 5.11 | 8,181 | 2.76 |
| Other financial institutions | 182 | 2.25 | 1,555 | 3.47 | 1,207 | 3.82 | 7,005 | 1.77 | 9,949 | 2.29 |
| Corporate | 5 | 1.51 | 153 | 3.68 | 28 | 3.48 | — | — | 186 | 3.59 |
| | 5,187 | 1.68 | 10,744 | 3.53 | 9,306 | 4.06 | 9,156 | 2.60 | 34,393 | 3.15 |
| | | | | | | | | | | |
| Of which ABS (1) | 1,588 | 1.28 | 5,019 | 3.34 | 3,288 | 2.77 | 7,467 | 1.80 | 17,362 | 2.40 |

Note:

(1) Includes asset-backed securities issued by US federal agencies and government sponsored entities.

| **14 Equity shares** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2011 | | |
| | Listed | Unlisted | Total | Listed | Unlisted | Total | Listed | Unlisted | Total |
| | €m | €m | €m | €m | €m | €m | €m | €m | €m |
| Held-for-trading | 229 | — | 229 | 998 | 31 | 1,029 | 2,558 | — | 2,558 |
| Designated as at fair value | | | | | | | | | |
| through profit or loss | 1 | 48 | 49 | 4 | 49 | 53 | 43 | 195 | 238 |
| Available-for-sale | 2 | 15 | 17 | 16 | 29 | 45 | 14 | 283 | 297 |
| | 232 | 63 | 295 | 1,018 | 109 | 1,127 | 2,615 | 478 | 3,093 |
| | | | | | | | | | |
| Available-for-sale | | | | | | | | | |
| Gross unrealised gains | 1 | 1 | 2 | 2 | 7 | 9 | 2 | 155 | 157 |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Gross unrealised losses | — | — | — | (1) | — | (1) | (2) | — | (2) |

Net gains of €17 million (2012 - €99 million; 2011 - €16 million) were realised on the sale of available-for-sale equity shares.

Dividend income from available-for-sale equity shares was €0.2 million (2012 - €4 million; 2011 - €2 million).

Notes on the consolidated accounts

## 15 Prepayments, accrued income and other assets

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | €m | €m | €m |
| Prepayments and deferred expenses | 69 | 97 | 649 |
| Current tax | 123 | 103 | 444 |
| Pension schemes in net surplus (see Note 4) | — | — | 80 |
| Intangible assets | 7 | 49 | 115 |
| Property, plant & equipment | 14 | 15 | 152 |
| Other assets (1) | 1,640 | 1,269 | 4,473 |
| | 1,853 | 1,533 | 5,913 |

Note:

(1) Includes interests in associates - see below.

### Interests in associates

The RBSH Group has one significant associate, Saudi Hollandi Bank (SHB) which is incorporated and has its principal place of business in the Kingdom of Saudi Arabia. The RBSH Group holds 40% of SHB's shares. It is accounted for using the equity method.

| | 2013 | | | 2012 | | | 2011 | |
|---|---|---|---|---|---|---|---|---|
| | Carrying value | Fair value | | Carrying value | Fair value | | Carrying value | Fair value |
| | €m | €m | | €m | €m | | €m | €m |
| SHB | 721 | 1,269 | | 707 | 880 | | 628 | 634 |
| Other associates | 64 | | | 27 | | | — | |
| | 785 | | | 734 | | | 628 | |

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| **SHB** | €m | €m | €m |
| Financial assets | 15,278 | 13,572 | 11,436 |
| Property, plant and equipment | 98 | 99 | 101 |
| Other assets | 200 | 190 | 246 |
| Total assets | 15,576 | 13,861 | |

| | | | |
|---|---|---|---|
| | | | 11,783 |
| | | | |
| Financial liabilities | 13,354 | 11,794 | 9,847 |
| Other liabilities | 401 | 387 | 410 |
| Total liabilities | 13,755 | 12,181 | 10,257 |

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | €m | €m | €m |
| Total income | 512 | 460 | 384 |
| Total expenses | 218 | 200 | 190 |
| Profit before tax | 294 | 260 | 194 |
| | | | |
| Share of profit after tax | 57 | 93 | 62 |

## 16 Discontinued operations and assets and liabilities of disposal groups

### (a) Profit from discontinued operations, net of tax

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | €m | €m | €m |
| Total income | 34 | 36 | 48 |
| Operating expenses | (3) | (3) | (4) |
| Impairment (losses)/recoveries | — | (5) | 9 |
| Operating profit before tax | 31 | 28 | 53 |
| Tax | (12) | (11) | (13) |
| Profit after tax | 19 | 17 | 40 |

All Dutch State acquired businesses are classified as discontinued operations. Following the successful demerger of the majority of the Dutch State acquired businesses into the new ABN AMRO Bank on 6 February 2010, these businesses met the IFRS requirements of a disposal group held for sale.

Legal separation of the new ABN AMRO Bank occurred on 1 April 2010 through a sale of the shares in that entity by RBS Holdings N.V. to a holding company called ABN AMRO Group N.V., a newly incorporated entity owned by the Dutch State. The gain on sale for the Dutch State acquired businesses was included within the distribution paid to RFS Holdings, in favour of the Dutch State. This disposal group represented a major line of business and therefore results for the period are presented as results from discontinued operations as a single line item in the consolidated income statement with prior period amounts re-presented. Profits from discontinued operations include the related operating results and if applicable the gain on sale.

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Explanation of Responses:

Notes on the consolidated accounts

| **16 Discontinued operations and assets and liabilities of disposal groups** continued | | | | | |
|---|---|---|---|---|---|
| (b) Assets and liabilities of disposal groups | | | | | |
| | 2013 | | | | |
| | Transfers (1) | Other (2) | Total | 2012 | 2011 |
| | €m | €m | €m | €m | €m |
| Assets of disposal groups | | | | | |
| Cash and balances at central banks | 3 | 3 | 6 | 3,565 | 306 |
| Loans and advances to banks | 76 | 58 | 134 | 1,278 | 987 |
| Loans and advances to customers | 29 | 1,299 | 1,328 | 3,240 | 2,440 |
| Debt securities and equity shares | 161 | 218 | 379 | 2,909 | 1,502 |
| Derivatives | 154 | — | 154 | 1,932 | 739 |
| Other assets | 3 | 44 | 47 | 880 | 721 |
| | 426 | 1,622 | 2,048 | 13,804 | 6,695 |
| Liabilities of disposal groups | | | | | |
| Deposits by banks | — | — | — | 865 | 445 |
| Customer accounts | 106 | 99 | 205 | 7,468 | 2,826 |
| Derivatives | 127 | — | 127 | 1,902 | 1,052 |
| Other liabilities | 67 | 8 | 75 | 791 | 970 |
| | 300 | 107 | 407 | 11,026 | 5,293 |

Notes:

(1) These assets and liabilities relate largely to businesses which will be transferred to entities outside RBSH Group but within the RBS Group.

(2) Other assets and liabilities relate to businesses transferring outside of the RBS Group.

As at 31 December 2013 the assets and liabilities of disposal groups related mainly to the Thai business; other assets and liabilities related to certain loan portfolios in the Latin American region, remaining Private Equity portfolios within the Non-Core segment, and the remaining Dutch State acquired businesses.

In accordance with the classification of financial instruments in IAS 39, cash and balances at central banks, loans and advances to banks and to customers, deposits by banks and customer accounts and settlement balances included within assets and liabilities of disposal groups are classified as financial instruments at amortised cost.  Derivatives included within assets and liabilities of disposal groups are classified as held-for-trading and measured at fair value. The majority of debt securities and equity shares within assets of disposal groups are either classified as held-for-trading €29 million (2012 - €618 million; 2011 - €1,215 million) or as available-for-sale €161 million (2012 - €1,433 million; 2011 - €110 million) and are measured at fair value. The majority of financial instruments carried at fair value within assets and liabilities of disposal groups at 31 December 2013, 2012 and 2011 are classified as level 2.

As at 31 December 2012 the assets and liabilities of disposal groups represented balances of a number of businesses in the Asian region, loan portfolios in the Latin American region and remaining Private Equity portfolios within the Non-Core segment, as well as the remaining Dutch State acquired businesses.

As at 31 December 2011 the assets and liabilities of disposal groups represented balances of a number of businesses in the Asian, EMEA and Latin American regions and remaining Private Equity portfolios within the Non-Core segment, as well as the remaining Dutch State acquired businesses. In addition, they included assets and liabilities relating largely to businesses in Singapore, Australia and Kazakhstan, which were transferred to RBS plc during the first half of 2012.

Notes on the consolidated accounts

| 17 Settlement balances and short positions | | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | €m | €m | €m |
| Settlement balances (amortised cost) | 83 | 73 | 2,845 |
| Short positions (held-for-trading): | | | |
| Debt securities | | | |
| - Government | — | — | 42 |
| - Other issuers | 18 | 23 | 229 |
| Equity shares | 4 | 11 | 293 |
| | 105 | 107 | 3,409 |

| 18 Accruals, deferred income and other liabilities | | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | €m | €m | €m |
| Current taxation | 41 | 211 | 285 |
| Accruals | 42 | 42 | 199 |
| Deferred income | 110 | 111 | 835 |
| Retirement benefit liabilities | 20 | — | 62 |
| Other liabilities | 852 | 1,418 | 2,514 |
| | 1,065 | 1,782 | 3,895 |

Included in other liabilities are the following provisions for liabilities and charges:

| | Litigation | Restructuring | Other Provisions |
|---|---|---|---|
| | €m | €m | €m |
| At 1 January 2013 | 107 | — | 181 |
| Reclassification related to disposal groups/discontinued operations | — | — | (4) |
| Currency translation and other movements | (2) | — | (63) |
| Acquisitions/disposals | — | — | (29) |
| Charge to income statement | 56 | 19 | 32 |

| | | | |
|---|---|---|---|
| Releases to income statement | (9) | — | (49) |
| Provisions utilised | (23) | (10) | (15) |
| At 31 December 2013 | 129 | 9 | 53 |

Other provisions include tax provisions and other provisions arising in the normal course of business.

Arising out of its normal business operations, RBSH Group is party to legal proceedings in the Netherlands, United Kingdom, the United States of America and other jurisdictions. Litigation provisions at 31 December 2013 related to numerous proceedings; no individual provision is material. Detailed descriptions of the Group's legal proceedings and discussion of the associated uncertainties are given in Note 25.

Notes on the consolidated accounts

| **19 Deferred taxation** | | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | €m | €m | €m |
| Deferred tax asset | (40) | (420) | (444) |
| Deferred tax liability | 63 | 40 | 201 |
| Net deferred tax liability/(asset) | 23 | (380) | (243) |

| | Pension | Accelerated capital allowances | Provisions | Revaluations/ deferred gains | Available -for-sale financial assets | Intangibles | Cash flow hedging | Tax losses carried forward (1) | Othe |
|---|---|---|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m | €m | €m | € |
| At 1 January 2012 | (30) | (2) | (62) | 85 | 6 | (8) | (5) | (200) | (2 |
| Transfers to disposal groups | 24 | — | 3 | — | — | — | — | (93) | |
| (Disposal)/acquisition of subsidiaries | 3 | — | 8 | — | — | 5 | — | — | 1 |
| Charge/(credit) to income statement | 2 | 1 | 47 | (50) | — | 3 | — | (44) | (2 |
| Charge/(credit) to other comprehensive income | — | — | — | — | (5) | — | 5 | — | |
| Currency translation and other adjustments | — | — | 1 | — | — | — | — | (55) | |
| At 1 January 2013 | (1) | (1) | (3) | 35 | 1 | — | — | (392) | (1 |
| Transfers to/from disposal groups | (21) | — | (27) | — | — | — | — | — | |
| (Disposal)/acquisition of subsidiaries | — | — | 3 | — | — | — | — | — | ( |
| Settlements with RBS Group | — | — | — | — | — | — | — | 311 | |
| | 7 | — | 1 | 29 | — | — | — | 66 | 2 |

Explanation of Responses:

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Charge/(credit) to income statement | | | | | | | | | |
| Charge/(credit) to other comprehensive income | — | — | — | — | (1) | — | — | — | |
| Currency translation and other adjustments | 3 | — | 5 | (2) | — | — | — | 15 | ( |
| At 31 December 2013 (2) | (12) | (1) | (21) | 62 | — | — | — | — | ( |
| | | | | | | | | | |

Notes:

(1) Predominantly relates to losses incurred on UK businesses which were transferred to RBS plc. Under UK tax rules the associated tax losses move to RBS plc as the businesses transfer. RBS Group reimbursed RBSH Group for the value of the losses attached and the transferring businesses. During 2013 €1.4 billion of tax losses transferred – nil during 2012 and €13 billion during 2011.

(2) Other deferred tax assets are recognised, that depend on the availability of future taxable profits in excess of profits arising from the reversal of other temporary differences. Tax losses in the Netherlands can be carried forward for up to nine years, however business projections prepared for impairment review indicate it is probable that insufficient future taxable income will be available against which to offset these recognised deferred tax assets in respect of the unused tax losses. Therefore these tax assets have been fully impaired. For the remaining deferred tax assets, business projections prepared for impairment reviews indicate that it is probable that sufficient future taxable income will be available against which to offset these recognised deferred tax assets. In jurisdictions where doubt exists over the availability of future taxable profits, deferred tax assets of €2,492 million (2012 - €2,930 million; 2011 - €4,034 million) have not been recognised in respect of tax losses carried forward of €10,052 million (2012 - €11,796 million; 2011 - €17,158 million). Of these losses, €54 million will expire within one year, €1,757 million within five years and €7,064 million thereafter. The balance of tax losses carried forward has no time limit.

## 20 Subordinated liabilities

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | €m | €m | €m |
| Dated loan capital | 2,586 | 4,417 | 4,526 |
| Undated loan capital | 2,365 | 2,434 | 2,333 |
| | 4,951 | 6,851 | 6,859 |

On 26 November 2009, RBS Group entered into a State Aid Commitment Deed with HM Treasury of the United Kingdom government (HM Treasury) containing commitments and undertakings given by RBS Group to HM Treasury that are designed to ensure that HM Treasury is able to comply with the commitments given by it to the European Commission for the purpose of obtaining approval for the State

Aid provided to RBS Group.

As part of these commitments, RBS Group agreed that RBSH Group would not pay investors any coupons on, or exercise any call rights in relation to, existing hybrid capital instruments, unless in any such case there is a legal obligation to do so, for an effective period of two years. The two-year distribution restriction period in relation to the affected securities commenced on 1 April 2011 and ended on 1 April 2013.

Notes on the consolidated accounts

## 20 Subordinated liabilities continued

The following tables analyse the remaining maturity of subordinated liabilities by the final redemption date; and the next call date.

| | | 2014 | 2015 | 2016 - 2018 | 2019 - 2023 | Thereafter | Perpetual | Total |
|---|---|---|---|---|---|---|---|---|
| 2013 - final redemption | | €m | €m | €m | €m | €m | €m | €m |
| US dollars | | — | 409 | 407 | 227 | 110 | 2,365 | 3,518 |
| Euro | | — | 420 | 39 | 273 | 212 | — | 944 |
| Other | | — | — | 489 | — | — | — | 489 |
| Total | | — | 829 | 935 | 500 | 322 | 2,365 | 4,951 |
| | | | | | | | | |
| | Currently | 2014 | 2015 | 2016 - 2018 | 2019 - 2023 | Thereafter | Perpetual | Total |
| 2013 - call date | €m | €m | €m | €m | €m | €m | €m | €m |
| US dollars | 2,365 | 409 | — | 407 | 227 | 110 | — | 3,518 |
| Euro | — | 420 | — | 39 | 273 | 212 | — | 944 |
| Other | — | 489 | — | — | — | — | — | 489 |
| Total | 2,365 | 1,318 | — | 446 | 500 | 322 | — | 4,951 |

| | | 2013 | 2014 | 2015 - 2017 | 2018 - 2022 | Thereafter | Perpetual | Total |
|---|---|---|---|---|---|---|---|---|
| 2012 - final redemption | | €m | €m | €m | €m | €m | €m | €m |
| US dollars | | — | — | 1,100 | 610 | — | 2,434 | 4,144 |
| Euro | | — | — | 1,633 | 256 | 218 | — | 2,107 |
| Other | | — | — | — | 600 | — | — | 600 |
| Total | | — | — | 2,733 | 1,466 | 218 | 2,434 | 6,851 |
| | | | | | | | | |
| | Currently | 2013 | 2014 | 2015 - 2017 | 2018 - 2022 | Thereafter | Perpetual | Total |
| 2012 - call date | €m | €m | €m | €m | €m | €m | €m | €m |
| US dollars | 3,534 | — | — | — | 610 | — | — | 4,144 |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Euro | 1,504 | 88 | — | 41 | 256 | 218 | — | 2,107 |
| Other | — | 600 | — | — | — | — | — | 600 |
| Total | 5,038 | 688 | — | 41 | 866 | 218 | — | 6,851 |

| | | 2012 | 2013 | 2014 - 2016 | 2017 - 2021 | Thereafter | Perpetual | Total |
|---|---|---|---|---|---|---|---|---|

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2011 - final redemption | | €m | €m | €m | €m | €m | €m | €m |
| US dollars | | — | — | 1,121 | 597 | 228 | 2,333 | 4,279 |
| Euro | | — | — | 1,547 | 264 | 113 | — | 1,924 |
| Other | | — | — | — | 656 | — | — | 656 |
| Total | | — | — | 2,668 | 1,517 | 341 | 2,333 | 6,859 |
| | | | | | | | | |
| | Currently | 2012 | 2013 | 2014 - 2016 | 2017 - 2021 | Thereafter | Perpetual | Total |
| 2011 - call date | €m | €m | €m | €m | €m | €m | €m | €m |
| US dollars | 3,454 | — | — | — | 597 | 228 | — | 4,279 |
| Euro | 1,506 | 110 | — | 41 | 171 | 96 | — | 1,924 |
| Other | — | — | 606 | — | 50 | — | — | 656 |
| Total | 4,960 | 110 | 606 | 41 | 818 | 324 | — | 6,859 |

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Notes on the consolidated accounts

## 20 Subordinated liabilities continued

| Dated loan capital | | | | |
|---|---|---|---|---|
| | Capital treatment | 2013 €m | 2012 €m | 2011 €m |
| €250 million floating rate subordinated notes 2019 | Lower Tier 2 | 259 | 244 | 163 |
| €100 million 5.13% flip flop Bermudan callable subordinated notes 2017 (redeemed July 2013) | Lower Tier 2 | — | 88 | 93 |
| €13 million zero coupon subordinated notes (redeemed July 2013) | Lower Tier 2 | — | 13 | 17 |
| €170 million floating rate sinkable subordinated notes 2041 | Lower Tier 2 | 212 | 204 | 96 |
| €15 million CMS linked floating rate subordinated notes 2020 | Lower Tier 2 | 14 | 13 | 8 |
| €415 million (2012 and 2011 - €1,500 million) floating rate Bermudan subordinated notes 2015 | | | | |
| (callable quarterly from June 2010; partially redeemed June 2013) | Lower Tier 2 | 415 | 1,499 | 1,501 |
| €5 million floating rate Bermudan callable subordinated notes 2015 (callable quarterly from October 2010) | Lower Tier 2 | 5 | 5 | 5 |
| US$120 million (2011 - US$165 million) 6.14% subordinated notes 2019 | Lower Tier 2 | 85 | 92 | 91 |
| US$72 million 5.98% subordinated notes 2019 | Lower Tier 2 | 42 | 70 | 56 |
| US$500 million 4.65% subordinated notes 2018 | Lower Tier 2 | 406 | 448 | 450 |
| US$564 million (2012 and 2011 - US$1,500 million) floating rate Bermudan callable subordinated notes 2015 | | | | |
| (callable quarterly from March 2010; partially redeemed June 2013) | Lower Tier 2 | 409 | 1,100 | 1,121 |
| AUD575 million floating rate Bermudan subordinated notes 2018 (callable quarterly from May 2013) | Lower Tier 2 | 375 | 462 | 468 |
| AUD175 million floating rate Bermudan subordinated notes 2018 (callable quarterly from May 2013) | Lower Tier 2 | 114 | 138 | 138 |

| | | | | |
|---|---|---|---|---|
| €26 million 7.42% subordinated notes 2016 | Lower Tier 2 | 31 | 32 | 32 |
| €7 million 7.38% subordinated notes 2016 | Lower Tier 2 | 9 | 9 | 9 |
| US$136 million (2011 - US$ 250 million) 7.75% fixed rate subordinated notes 2023 (1) | Lower Tier 2 | 100 | — | 108 |
| US$150 million 7.13% fixed rate subordinated notes 2093 (1) | Lower Tier 2 | 110 | — | 120 |
| MYR200 million 4.15% subordinated notes 2017 (2) | Lower Tier 2 | — | — | 50 |
| | | 2,586 | 4,417 | 4,526 |

Notes:

(1) Transferred to liabilities of disposal groups as at 31 December 2012 and from liabilities of disposal groups as at 31 December 2013.

(2) Transferred to RBS plc during 2012.

## Undated loan capital

| | Capital treatment | 2013 €m | 2012 €m | 2011 €m |
|---|---|---|---|---|
| US$1,285 million 5.90% 2049 (callable any time from July 2008) | Tier 1 | 931 | 952 | 913 |
| US$200 million 6.25% 2033 (callable any time from September 2008) | Tier 1 | 145 | 148 | 142 |
| US$1,800 million 6.08% 2033 (callable any time from February 2009) | Tier 1 | 1,289 | 1,334 | 1,278 |
| | | 2,365 | 2,434 | 2,333 |

Notes:

(1) Issued to limited partnerships that have in turn issued partnership preferred securities to trusts that have issued trust preferred securities to investors. On maturity, the partnerships are required to reinvest in eligible capital instruments issued by the RBSH Group.

(2) Dividends are non-cumulative. They cannot be declared if RBS Holdings N.V. has not paid dividends on any parity securities. Distributions must be made if RBS Holdings N.V. pays a dividend on its ordinary shares or on its parity securities or redeems or repurchases such securities.

(3) The trust preferred securities were subject to restrictions on coupon payments as agreed with the European Commission until 1 April 2013 (see page 142).

Notes on the consolidated accounts

**21 Share capital**

| | | |
|---|---|---|
| Movement in issued and fully paid ordinary shares | Number | €m |
| At 1 January and 31 December 2011 | 3,306,843,332 | 1,852 |
| Transferred to share premium | (3,306,754,046) | (1,852) |
| Share issue as a result of the Dutch Scheme | 1 | — |
| At 31 December 2012 and 2013 | 89,287 | — |

The Company's authorised share capital amounts to €224,000. It is divided into 400,000 ordinary shares, each with a nominal value of €0.56. All issued ordinary shares have been fully paid.

The General Meeting of the Shareholders of RBS Holdings N.V. approved on the 29 February 2012 and executed on 21 June 2012, a reduction of the issued capital to €50,000 through a purchase of 3,306,754,046 shares from its shareholder for no consideration followed by a cancellation of those shares, and to reduce its authorised share capital to €224,000.

Each ordinary share entitles the holder to cast one vote. Subject to certain exceptions provided for by law or in the articles of association, resolutions are passed by an absolute majority of the votes cast. When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash.

In the event of the dissolution and liquidation of RBS Holdings N.V., the assets remaining after payment of all debts will be distributed to the holders of ordinary shares on a pro-rata basis.

**22 Reserves**

### Share premium reserve

During 2013, the share premium reserve was reduced by €0.2 billion as a result of a cross border merger.

During 2012 the capital reduction described in Note 21 increased share premium by €1.9 billion. It was then reduced by €0.9 billion as a result of the Dutch Scheme.

As a part of the Dutch Scheme one share was issued against the share premium account.

Ordinary shares carry certain pre-emption rights and rank equally in voting, dividend and liquidation rights.

Dutch law prescribes that only the freely distributable reserves of the company are taken into account for the purpose of making distributions and in determining the permissible applications of the share premium account. RBSH Group optimises capital efficiency by maintaining reserves in subsidiaries, including regulated entities. The remittance of reserves to the company or the redemption of capital by regulated entities may be subject to maintaining the capital resources required by the relevant regulator.

## 23 Structured entities and asset transfers

### Structured entities

A structured entity (SE) is an entity that has been designed such that voting or similar rights are not the dominant factor in deciding who controls the entity, for example when any voting rights relate to administrative tasks only and the relevant activities are directed by means of contractual arrangements. SEs are usually established for a specific, limited purpose, they do not carry out a business or trade and typically have no employees. They take a variety of legal forms - trusts, partnerships and companies - and fulfil many different functions. As well as being a key element of securitisations, SEs are also used in fund management activities to segregate custodial duties from the fund management advice.

RBSH Group applies IFRS 10 ‘Consolidated Financial Statements’ in determining whether or not to consolidate an SE. Entities, including SEs, are consolidated where RBSH Group has power over the investee; exposure, or rights, to variable returns from its involvement with the entity; and the ability to use its power over the entity to affect the amount of RBSH Group’s returns.

## Consolidated structured entities

### Securitisations

In a securitisation, assets, or interests in a pool of assets, are transferred generally to a SE which then issues liabilities to third party investors. The majority of securitisations are supported through liquidity facilities or other credit enhancements. RBSH Group arranges securitisations to facilitate client transactions such as commercial paper conduits and undertakes own asset securitisations to sell or to fund portfolios of financial assets. RBSH Group also acts as an underwriter and depositor in securitisation transactions in both client and proprietary transactions.

RBSH Group's involvement in client securitisations takes a number of forms. It may: sponsor or administer a securitisation programme; provide liquidity facilities or programme-wide credit enhancement; and purchase securities issued by the vehicle.

### Own asset securitisations

In own-asset securitisations, the pool of assets held by the SE is either originated by RBSH Group, or (in the case of whole loan programmes) purchased from third parties.

## 23 Structured entities and asset transfers continued

### Synthetic securitisations

RBSH Group's securitisations portfolio comprised own originated programs as well as sponsor and investor positions. The legacy, own originated 'Basel I' programs were structured to provide Basel I related capital relief. Since June 2010, under Basel II, these programs no longer provide any relief. Most of the legacy programs were unwound in the course of 2010 and 2011. There were no synthetic securitisations in 2013 or 2012 (2011 - €0.3 billion).

### Unconsolidated structured entities

RBSH Group's interests in unconsolidated structured entities are analysed below.

| 2013 | Asset backed Securitisation vehicles - not sponsored €m | Investment funds €m | Other €m | Total €m |
|---|---|---|---|---|
| Held-for-trading | | | | |
| Loans and advances to customers | — | — | 6 | 6 |
| Debt securities | — | — | 125 | 125 |
| Equity shares | — | 41 | — | 41 |
| Derivaitive assets | — | — | 66 | 66 |
| Derivatives liabilities | — | — | (5) | (5) |
| Total | — | 41 | 192 | 233 |
| Other than held-for-trading | | | | |
| Loans and advances to customers | — | 31 | — | 31 |
| Debt securities | 5,758 | — | 52 | 5,810 |
| Total | 5,758 | 31 | 52 | 5,841 |
| Total exposure | 5,758 | 72 | 244 | 6,074 |

Notes:

(1) Income from interests in unconsolidated structured entities includes interest receivable, changes in fair value, and other income less impairments that may be required.

(2) A sponsored entity is a structured entity, established by RBSH Group where RBSH Group provides liquidity and/or credit enhancements or provides ongoing services to the entity. RBSH Group can act as sponsor for its own or for customers' transactions.

## Transfers that do not qualify for derecognition

### Asset transfers

Under IAS 39 a financial asset is transferred if RBSH Group either (a) transfers the contractual rights to receive the asset's cash flows; or (b) retains the right to the asset's cash flows but assumes a contractual obligation to pay those cash flows to a third party. Following a transfer the financial asset will be derecognised; not derecognised and retained in full on RBSH Group's balance sheet; continue to be recognised on the balance sheet to the extent of RBSH Group's continuing involvement.

### Securities repurchase agreements and lending transactions

RBSH Group enters into securities repurchase agreements and securities lending transactions under which it transfers securities in accordance with normal market practice.

Generally, the agreements require additional collateral to be provided if the value of the securities falls below a predetermined level. Under standard terms for repurchase transactions in the UK and US markets, the recipient of collateral has an unrestricted right to sell or repledge it, subject to returning equivalent securities on settlement of the transaction.

Securities sold under such repurchase transactions are not derecognised if RBSH Group retains substantially all the risks and rewards of ownership. The fair value (and carrying value) of debt securities transferred under repurchase transactions included on the balance sheet was €12.4 billion (2012 €10.9 billion; 2011 - €17.3 billion). Securities received as collateral under reverse repurchase agreements amounted to €0.1 billion (2012 - €0.1 billion; 2011 - €9.4 billion), of which €0.1 billion (2012 - €0.1 billion; 2011 - €8.9 billion) had been sold or repledged as collateral of RBSH Group's own transactions.

Notes on the consolidated accounts

**23 Structured entities and asset transfers** continued

**Assets pledged as collateral**

RBSH Group pledges collateral with its counterparties in respect of bank and other borrowings. This primarily relates to assets pledged for bank and other borrowings.

| Assets pledged against liabilities | 2013 €m | 2012 €m | 2011 €m |
|---|---|---|---|
| Loans and advances to banks | 804 | 1,510 | 1,986 |
| Loans and advances to customers | 954 | 1,428 | 1,266 |
| Debt securities | 246 | 9,648 | 329 |
| | 2,004 | 12,586 | 3,581 |
| | | | |
| Liabilities secured by assets | 2013 €m | 2012 €m | 2011 €m |
| Deposits by banks | — | 3,557 | 28 |
| Debt securities in issue | 501 | 867 | 636 |
| Derivatives | 5,824 | 9,473 | 19,055 |
| | 6,325 | 13,897 | 19,719 |

| **24 Capital resources** | | | |
|---|---|---|---|
| RBSH Group's regulatory capital resources were as follows: | | | |
| Composition of regulatory capital | 2013 €m | 2012 €m | 2011 €m |
| Tier 1 | | | |
| Controlling interests | 2,942 | 1,799 | 3,395 |
| Non-controlling interests | — | — | 21 |
| Adjustment for: | | | |
| - Goodwill and other intangible assets | (1) | (4) | (10) |
| - Unrealised losses on available-for-sale debt securities | 883 | 2,492 | 3,066 |
| - Unrealised gains on available-for-sale equities | (3) | (19) | (148) |
| - Other regulatory adjustments | (260) | (442) | (1,298) |

| | | | |
|---|---|---|---|
| Core Tier 1 capital | 3,561 | 3,826 | 5,026 |
| Innovative/hybrid Tier 1 securities | 2,365 | 2,470 | 2,511 |
| Less deductions from Tier 1 capital | (1,887) | (1,757) | (475) |
| Total Tier 1 capital | 4,039 | 4,539 | 7,062 |
| | | | |
| Tier 2 | | | |
| Unrealised gains on available-for-sale equities | 3 | 19 | 148 |
| Subordinated debt | 1,552 | 3,218 | 3,699 |
| Less deductions from Tier 2 capital | (1,061) | (1,303) | (639) |
| Total Tier 2 capital | 494 | 1,934 | 3,208 |
| | | | |
| Total regulatory capital | 4,533 | 6,473 | 10,270 |

It is RBSH Group's policy to maintain an appropriate capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders, while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, RBSH Group has regard to the supervisory requirements of DNB. DNB uses Capital Ratios as a measure of capital adequacy in the Dutch banking sector, comparing a bank's capital resources with its risk-weighted assets (RWAs) (the assets and off-balance sheet exposures are weighted to reflect the inherent credit and other risks). RBSH Group has complied with it's capital requirements during the year.

A number of subsidiaries and sub-groups within the RBSH Group are subject to various individual regulatory capital requirements in the UK and overseas. Furthermore, the payment of dividends by subsidiaries and the ability of members of the RBSH Group to lend money to other members of the RBSH Group may be subject to restrictions such as local regulatory or legal requirements, the availability of reserves and financial and operating performance.

Notes on the consolidated accounts

## 25 Memorandum items

### Contingent liabilities and commitments

The amounts shown in the table below are intended only to provide an indication of the volume of business outstanding at 31 December 2013. Although RBSH Group is exposed to credit risk in the event of non-performance of the obligations undertaken by customers, the amounts shown do not, and are not intended to, provide any indication of RBSH Group's expectation of future losses.

| | Less than 1 year | More than 1 year but less than 3 years | More than 3 years but less than 5 years | Over 5 years | 2013 | 2012 | 2011 |
|---|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m | €m |
| Contingent liabilities: | | | | | | | |
| Guarantees and assets pledged as collateral security | 947 | 466 | 1,408 | 4,063 | 6,884 | 10,070 | 20,903 |
| Other contingent liabilities | 423 | 11 | 1,138 | — | 1,572 | 1,009 | 2,294 |
| | 1,370 | 477 | 2,546 | 4,063 | 8,456 | 11,079 | 23,197 |
| Commitments: | | | | | | | |
| Undrawn formal standby facilities, credit lines | | | | | | | |
| and other commitments to lend | | | | | | | |
| - less than one year | 497 | — | — | — | 497 | 1,990 | 2,918 |
| - one year and over | — | 250 | 64 | 36 | 350 | 3,004 | 19,359 |
| Other commitments | 116 | 1 | 8 | — | 125 | 712 | 101 |
| | 613 | 251 | 72 | 36 | 972 | 5,706 | 22,378 |

Banking commitments and contingent obligations, which have been entered into on behalf of customers and for which there are corresponding obligations from customers, are not included in assets and liabilities. RBSH Group's maximum exposure to credit loss, in the event of non-performance by the other party and where all counterclaims, collateral or security proves valueless, is represented by the contractual nominal amount of these instruments included in the table above. These commitments and contingent obligations are subject to RBSH Group's normal credit approval processes.

## Contingent liabilities

Guarantees – RBSH Group gives guarantees on behalf of customers. A financial guarantee represents an irrevocable undertaking that RBSH Group will meet a customer's obligations to third parties if the customer fails to do so. The maximum amount that RBSH Group could be required to pay under a guarantee is its principal amount as disclosed in the table above. RBSH Group expects most guarantees it provides to expire unused.

Other contingent liabilities – these include standby letters of credit, supporting customer debt issues and contingent liabilities relating to customer trading activities such as those arising from performance and customs bonds, warranties and indemnities. In the normal course of business, liabilities and contingent liabilities arise in respect of RBSH Group’s tax position in the various jurisdictions in which it operates. RBSH Group makes provision for any liabilities in accordance with its accounting policy for provisions (see page 98). Estimating the financial effect of certain contingent tax liabilities, for which the possibility of any outflow in settlement is remote and not probable, is not practicable.

Also included within contingent liabilities as at 31 December 2013 is €4.0 billion (2012 - €4.0 billion) which relates to RBSH Group’s obligations over liabilities held within the Dutch State acquired businesses included in the new ABN AMRO Bank N.V. On the division of an entity by demerger, Dutch law establishes a cross liability between surviving entities in respect of the creditors at the time of the demerger. RBSH Group’s cross liability is limited by law to the lower of its equity and the eligible debts of ABN AMRO Bank N.V. on 6 February 2010. The likelihood of any cross liability crystallising is considered remote.

## Commitments

Commitments to lend - under a loan commitment RBSH Group agrees to make funds available to a customer in the future. Loan commitments, which are usually for a specified term may be unconditionally cancellable or may persist, provided all conditions in the loan facility are satisfied or waived. Commitments to lend include commercial standby facilities and credit lines, liquidity facilities to commercial paper conduits and unutilised overdraft facilities.

Other commitments - these include documentary credits, which are commercial letters of credit providing for payment by RBSH Group to a named beneficiary against presentation of specified documents, forward asset purchases, forward deposits placed and undrawn note issuance and revolving underwriting facilities, and other short-term trade related transactions.

**RBS Holdings N.V.**
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Notes on the consolidated accounts

| | | | |
|---|---|---|---|
| **25 Memorandum items** continued | | | |
| **Contractual obligations for future expenditure not provided in the accounts** | | | |
| The following table shows contractual obligations for future expenditure not provided for in the accounts at the year end. | | | |
| | | | |
| | 2013 | 2012 | 2011 |
| | €m | €m | €m |
| Operating leases | | | |
| Minimum rentals payable under non-cancellable leases (1) | | | |
| Within 1 year | 27 | 29 | 81 |
| After 1 year but within 5 years | 36 | 48 | 154 |
| After 5 years | 26 | 30 | 272 |
| Total | 89 | 107 | 507 |

Note:

(1) Predominantly property leases.

**Litigation, investigations and reviews**

Arising out of their normal business operations, RBS Group and certain RBS Group members are party to legal proceedings and the subject of investigation and other regulatory and governmental action in the Netherlands, the United Kingdom, the United States and other jurisdictions.

RBSH Group recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation resulting from past events, and a reliable estimate can be made of the amount of the obligation. While the outcome of the legal proceedings, investigations and regulatory and governmental matters in which RBSH Group is involved is inherently uncertain, the directors believe that, based on the information available to them, appropriate provisions have been made in respect of legal proceedings, investigations and regulatory and governmental matters as at 31 December 2013 (see Note 18). The future outflow of resources in respect of any matter may ultimately prove to be substantially greater than or less than the aggregate provision that RBSH Group has recognised.

In many proceedings, it is not possible to determine whether any loss is probable or to estimate the amount of any loss. Numerous legal and factual issues may need to be resolved, including through potentially lengthy discovery and 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 RBS 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.

There are also situations where the RBS Group may enter into a settlement agreement. This may occur in order to avoid the expense, management distraction or reputational implications of continuing to contest liability, even for those matters for which the RBS Group believes it has credible defences and should prevail on the merits. The uncertainties inherent in all such matters affect the amount and timing of any potential outflows for both matters with respect to which provisions have been established and other contingent liabilities. RBSH Group may not be directly involved in all of the following litigation, investigations and reviews but due to the potential implications to the RBS Group of such litigation, investigations and reviews, if a final outcome is adverse to RBS Group it may also have an adverse effect on RBSH Group.

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

Notes on the consolidated accounts

**25 Memorandum items** continued

## Litigation

### 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.

### London Interbank Offered Rate (LIBOR)

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

Most of the USD LIBOR-related actions in which RBS Group companies are defendants, including all purported class actions relating to USD LIBOR, have been transferred to a coordinated proceeding in the United States District Court for the Southern District of New York. In the coordinated proceeding, consolidated class action complaints were filed on behalf of (1) exchange-based purchaser plaintiffs, (2) over-the-counter purchaser plaintiffs, and (3) corporate debt purchaser plaintiffs. On 29 March 2013, the Court dismissed plaintiffs' antitrust claims, claims under RICO (Racketeer Influenced and Corrupt Organizations Act), and certain state law claims, but declined to dismiss certain other claims. Discovery is stayed. Over 35 other USD LIBOR-related actions involving RBS Group have been stayed pending further order from the Court.

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

## World Online

In November 2009, the Supreme Court in the Netherlands issued a declaratory judgment against World Online International N.V. (World Online), Goldman Sachs International and ABN AMRO Bank N.V. (now RBS N.V.) in relation to claims arising out of the World Online initial public offering of 2000. It held that these defendants had committed certain wrongful acts in connection with the initial public offering. The judgment did not establish liability or the amount of any loss. The defendant banks have paid settlement sums to certain investors and are in discussions regarding claims of other investors. A potential claim brought to RBSH Group's attention in December 2011 on behalf of a group of individuals linked to a company acquired by World Online in 2000. RBSH Group does not believe that such settlements or any final liability or loss will have a material adverse effect on RBSH Group's financial position or profitability.

## Complex Systems

RBS N.V. is a defendant in an action pending in the United States District Court for the Southern District of New York filed by Complex Systems, Inc (CSI). The plaintiff alleges that RBS N.V. has since late 2007 been using the plaintiff's back-office trade finance processing software without a valid licence, in violation of the US Copyright Act. On 17 October 2013, the Court granted summary judgment to CSI on the issue of liability. The plaintiff was seeking in excess of US$ 300 million in alleged profits that the plaintiff claimed was attributable to RBS N.V's use of the disputed software, but on 8 November 2013, the Court barred the plaintiff from recovering any such profits although the plaintiff continues to seek actual damages of an unspecified amount. On 25 October 2013, the plaintiff filed a motion for a permanent injunction against RBS N.V.'s further use of the software, and a hearing on that motion, which RBS N.V. opposes, took place on 14 March 2014 and 7 April 2014.

## CPDO Litigation

CPDO claims have been served on RBS N.V. in England, the Netherlands and Australia relating to the sale of a type of structured financial product known as a constant proportion debt obligation (CPDO). In November 2012, the Federal Court of Australia issued a judgment against RBS N.V. and others in one such case. It held that RBS N.V. and others committed certain wrongful acts in connection with the rating and sale of the CPDO. In March 2013, RBS N.V. was ordered to pay A$19.7 million. RBS N.V. has appealed this decision and the appeal was heard in March 2014. Judgment is awaited. The judgment may potentially have significance to the other claims served and to any future similar claims.

RiverCity

In 2005 RBS Group (Australia) Pty Ltd ("RBSGA"), previously ABN AMRO Australia Pty Limited, a member of the RBSH Group, was a member of a consortium that appointed AECOM Australia Pty Ltd (formerly known as Maunsell Australia Pty Ltd) ("AECOM") to forecast traffic for the Clem7 Tunnel in Brisbane, Australia. Three sets of proceedings have been brought against AECOM.

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**25 Memorandum items** continued

The first (Hopkins v AECOM) is a class action relating to the initial public offer of units to retail investors in the RiverCity Motorway Group, which operated the Clem7 Tunnel. The claim relates to allegations that the IPO disclosure was defective, particularly in relation to traffic volume forecasts by AECOM. The second and third proceedings (RiverCity v AECOM and Portigon v AECOM), involve claims of negligent misstatement and misleading or deceptive conduct in the issuance of traffic forecasts. In all three proceedings AECOM has filed a number of cross-claims for contribution in the event it is found liable, including against RBSGA.

## Credit Default Swap Antitrust Litigation

Certain members of RBS Group, as well as a number of other financial institutions, are defendants in a consolidated antitrust class action pending in the U.S. District Court for the Southern District of New York. The plaintiffs generally allege that defendants violated the U.S. antitrust laws by restraining competition in the market for credit default swaps through various means and thereby causing inflated bid-ask spreads for credit default swaps.

## Investigations and reviews

RBSH 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 Netherlands, the United Kingdom, the European Union, the United States and elsewhere. RBSH Group has engaged, and will continue to engage, in discussions with relevant governmental and regulatory authorities, including in the United Kingdom, the European Union, the United States and elsewhere, on an ongoing and regular basis regarding operational, systems and control evaluations and issues including those related to compliance with applicable 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 RBSH Group, remediation of systems and controls, public or private censure, restriction of RBSH Group’s business activities or fines. Any of the events or circumstances mentioned below could have a material adverse effect on RBSH Group, its business, authorisations and licences, reputation, results of operations or the price of securities issued by it.

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

## LIBOR, other trading rates and foreign exchange trading

On 6 February 2013 RBS Group announced settlements with the Financial Services Authority in the United Kingdom, the United States Commodity Futures Trading Commission and the United States Department of Justice (DOJ) in relation to investigations into submissions, communications and procedures around the setting of the London Interbank Offered Rate (LIBOR). RBS Group agreed to pay penalties of £87.5 million, US$325 million and US$150 million to these authorities respectively to resolve the investigations. As part of the agreement with the DOJ, RBS plc entered into a Deferred Prosecution Agreement in relation to one count of wire fraud relating to Swiss Franc LIBOR and one count for an antitrust violation relating to Yen LIBOR. In addition, on 12 April 2013, RBS Securities Japan Limited entered a plea of guilty to one count of wire fraud relating to Yen LIBOR and on 6 January 2014, the US District Court for the District of Connecticut entered a final judgment in relation to the conviction of RBS Securities Japan Limited pursuant to the plea agreement. On 12 April 2013, RBS Securities Japan Limited received a business improvement order from Japan's Financial Services Agency requiring RBS to take remedial steps to address certain matters, including inappropriate conduct in relation to Yen LIBOR. RBS Securities Japan Limited is taking steps to address the issues raised in compliance with that order. In June 2013, RBS plc was listed amongst the 20 banks found by the Monetary Authority of Singapore (MAS) to have deficiencies in the governance, risk management, internal controls and surveillance systems relating to benchmark submissions following a finding by the MAS that certain traders made inappropriate attempts to influence benchmarks in the period 2007 – 2011. RBS plc was ordered at that time to set aside additional statutory reserves with MAS of SGD1-1.2 billion and to formulate a remediation plan. RBS plc has submitted its remediation plan to the MAS.

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

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

In addition, various governmental and regulatory authorities have commenced investigations into foreign exchange trading activities apparently involving multiple financial institutions. RBS Group has received enquiries from certain of these authorities including the FCA. RBS Group is reviewing communications and procedures relating to certain currency exchange benchmark rates as well as foreign exchange trading activity. At this stage, RBS Group cannot estimate reliably what effect, if any, the outcome of the investigation may have on RBS Group or RBSH Group.

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## 25 Memorandum items continued

### Governance and risk management consent order

On 27 July 2011, RBS 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, RBS 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 RBS Group's U.S. operations on an enterprise-wide and business line basis,
- an enterprise-wide risk management programme for RBS Group's U.S. operations,
- a plan to oversee compliance by RBS 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 the RBS plc 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. RBS 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. RBS Group has created, submitted, and adopted plans and/or programmes to address each of the areas identified above. In connection with RBS 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 RBS Group's U.S. operations. RBS Group continues to test the effectiveness of the remediation efforts undertaken by RBS Group to ensure they are sustainable and meet regulators' expectations. Furthermore, RBS 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.

RBS 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. RBS Group's activities in the United States may be subject to significant limitations and/or conditions.

### US dollar processing consent order

RBS Group’s operations include businesses outside the United States that are responsible for processing US dollar payments. On 11 December 2013 RBS Group and RBS plc announced that they had reached a settlement with the Board of Governors of the Federal Reserve System (Fed), the New York State Department of Financial Services (DFS), and the Office of Foreign Assets Control (OFAC) with respect to RBS plc's historical compliance with US economic sanction regulations outside the US. In settlement with the above authorities, RBS plc agreed to pay US$100 million in total, including US$50 million to the Fed, of which US$33 million was deemed to satisfy the OFAC penalty, and US$50 million to DFS.

As part of the settlement, RBS Group and RBS plc entered into a consent Cease and Desist Order with the Fed (the Order) indicating, among other things, that: (a) RBS Group and RBS plc lacked adequate risk management and legal review policies and procedures to ensure that activities conducted outside the United States comply with applicable OFAC regulations; (b) from at least 2005 to 2008, certain business lines within RBS plc developed and implemented policies and procedures for processing U.S. dollar-denominated funds transfers through unaffiliated U.S. financial institutions involving parties subject to OFAC Regulations that omitted relevant information from payment messages necessary for the U.S. financial institutions to determine whether these transactions were carried out in a manner consistent with U.S. law; and (c) RBS Group continues to implement improvements in its oversight and compliance programme for activities involving offices outside the United States that impact the ability of U.S. financial institutions to comply with applicable OFAC sanctions. In the Order (which is publicly available), RBS Group agreed to create an OFAC compliance programme to ensure compliance with OFAC regulations by the RBS Group's global business lines outside of the United States, and to adopt, implement, and comply with the programme. The programme has now been submitted to the Federal Reserve Bank of Boston (Reserve Bank) for approval.

Sixty days after approval of the programme, RBS Group is to complete a global OFAC risk assessment and submit it to the Reserve Bank and the FCA. RBS Group also agreed in the Order to hire an independent consultant (subject to approval by the Reserve Bank and the FCA) to conduct an annual OFAC compliance review involving a review of compliance policies and their implementation and an appropriate risk-focused sampling of U.S. dollar payments. The Order further requires RBS Group to submit quarterly written progress reports to the Reserve Bank detailing the form and manner of all actions taken to secure compliance with the Order.

It was also announced that the US Department of Justice and the New York County District Attorney's Office had concluded their parallel criminal investigations and do not intend to take any action against RBS plc.



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Notes on the consolidated accounts

| **26 Changes in operating assets and liabilities** | | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | €m | €m | €m |
| Decrease in loans and advances to banks and customers | 5,885 | 31,865 | 7,945 |
| Decrease in securities | 789 | 4,796 | 20,289 |
| (Increase)/decrease in other assets | (32) | 6,644 | 5,540 |
| Decrease in derivative assets | 4,464 | 10,402 | 8,395 |
| Changes in operating assets | 11,106 | 53,707 | 42,169 |
| (Decrease)/increase in deposits by banks and customers | (12,418) | (40,615) | 918 |
| Decrease in debt securities in issue | (1,337) | (14,175) | (35,697) |
| Decrease in other liabilities | (289) | (1,065) | (2,784) |
| Decrease in derivative liabilities | (5,328) | (9,366) | (14,753) |
| Decrease in settlement balances and short positions | (7) | (3,662) | (1,400) |
| Changes in operating liabilities | (19,379) | (68,883) | (53,716) |
| Charges in operating assets and liabilities | (8,273) | (15,176) | (11,547) |

| **27 Interest received and paid** | | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | €m | €m | €m |
| Interest received | 502 | 1,320 | 2,589 |
| Interest paid | (582) | (1,162) | (1,930) |
| | (80) | 158 | 659 |

| **28 Analysis of cash and cash equivalents** | | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | €m | €m | €m |
| At 1 January | | | |
| - cash | 8,660 | 17,252 | 17,203 |
| - cash equivalents | 1,370 | 9,792 | 9,855 |
| | 10,030 | 27,044 | 27,058 |
| Net cash outflow | (4,672) | (17,014) | (14) |
| At 31 December | 5,358 | 10,030 | 27,044 |
| | | | |

| | | | |
|---|---|---|---|
| Comprising: | | | |
| Cash and balances at central banks | 3,199 | 5,859 | 12,915 |
| Loans and advances to banks (1) | 2,145 | 4,132 | 11,711 |
| Treasury bills and debt securities | 14 | 39 | 2,418 |
| Cash and cash equivalents | 5,358 | 10,030 | 27,044 |

Note:

(1) Includes cash collateral posted with bank counterparties in respect of derivative liabilities of €804 million (2012 - €1,510 million).

RBSH Group had mandatory reserve deposits with central banks of €73 million (2012 - €165 million; 2011 - €1,439 million).

Notes on the consolidated accounts

## 29 Segmental analysis

### (a) Divisions

The directors manage RBSH Group by class of business and present the segmental analysis on that basis. This includes the review of net interest income for each class of business - interest receivable and payable for all reportable segments is therefore presented net. Segments charge market prices for services rendered to other parts of RBSH Group. The segment measure is operating profit/(loss).

RBSH Group's reportable segments are as follows:

**Markets** is an origination, sales and trading business across debt finance, fixed income and currencies. The division offers a unified service to RBSH Group's corporate and institutional clients. The Markets' origination, 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.

**International Banking** provides financing, transaction services and risk management. It serves as the delivery channel for Markets products to international corporate clients.

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

**Non-Core** managed separately assets that RBSH Group intended to run off or dispose of. It also includes the remaining assets and liabilities in RBS N.V. that have not yet been sold, wound down or transferred to the Consortium Members, referred to as 'Shared Assets', in which each of the consortium shareholders has a joint and indirect interest.

| 2013 | Net interest income | Non-interest income | Total income | Operating expenses | Depreciation and amortisation | Impairment losses | Operating profit/(loss) before tax |
|---|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m | €m |
| Markets | 35 | 239 | 274 | (189) | (4) | (58) | 23 |
| International Banking | 77 | 87 | 164 | (176) | (12) | 6 | (18) |
| Central items | (12) | (233) | (245) | (68) | — | (46) | (359) |
| Core | 100 | 93 | 193 | (433) | (16) | (98) | (354) |
| Non-Core | 138 | 106 | 244 | (83) | (5) | 56 | 212 |
| | 238 | 199 | 437 | (516) | (21) | (42) | (142) |

| 2012 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Markets | 142 | 70 | 212 | (668) | (12) | (35) | (503) |
| International Banking | 280 | 444 | 724 | (533) | (33) | 24 | 182 |
| Central items | (34) | (396) | (430) | (82) | — | (23) | (535) |
| Core | 388 | 118 | 506 | (1,283) | (45) | (34) | (856) |
| Non-Core | 217 | (15) | 202 | (194) | (8) | (31) | (31) |
| | 605 | 103 | 708 | (1,477) | (53) | (65) | (887) |

| 2011 | | | | | | | |
|---|---|---|---|---|---|---|---|
| Markets | 66 | 2,589 | 2,655 | (1,199) | (61) | (53) | 1,342 |
| International Banking | 490 | 548 | 1,038 | (665) | (80) | (212) | 81 |
| Central items | (110) | 407 | 297 | (104) | — | (1,463) | (1,270) |
| Core | 446 | 3,544 | 3,990 | (1,968) | (141) | (1,728) | 153 |
| Non-Core | 242 | (226) | 16 | (291) | (27) | (37) | (339) |
| | 688 | 3,318 | 4,006 | (2,259) | (168) | (1,765) | (186) |

Notes on the consolidated accounts

| **29 Segmental analysis** continued | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | | 2011 | | |
| | External | Inter segment | Total | External | Inter segment | Total | External | Inter segment | Total |
| **Total income** | €m | €m | €m | €m | €m | €m | €m | €m | €m |
| Markets | 320 | (46) | 274 | 35 | 177 | 212 | 2,689 | (34) | 2,655 |
| International Banking | 255 | (91) | 164 | 752 | (28) | 724 | 1,102 | (64) | 1,038 |
| Central items | (376) | 131 | (245) | (319) | (111) | (430) | 139 | 158 | 297 |
| Core | 199 | (6) | 193 | 468 | 38 | 506 | 3,930 | 60 | 3,990 |
| Non-Core | 238 | 6 | 244 | 240 | (38) | 202 | 76 | (60) | 16 |
| | 437 | — | 437 | 708 | — | 708 | 4,006 | — | 4,006 |

| | 2013 | | | 2012 | | | 2011 | | |
|---|---|---|---|---|---|---|---|---|---|
| | Assets | Liabilities | Cost to acquire fixed assets and intangible assets | Assets | Liabilities | Cost to acquire fixed assets and intangible assets | Assets | Liabilities | Cost to acquire fixed assets and intangible assets |
| **Total assets** | €m | €m | €m | €m | €m | €m | €m | €m | €m |
| Markets | 14,801 | 14,585 | 1 | 30,363 | 30,363 | 14 | 71,665 | 71,645 | 53 |
| International Banking | 1,586 | 1,863 | 3 | 4,312 | 4,312 | 33 | 23,900 | 23,899 | 18 |
| Central items | 16,106 | 13,567 | 5 | 28,492 | 26,693 | — | 38,648 | 35,884 | 27 |
| Core | 32,493 | 30,015 | 9 | 63,167 | 61,368 | 47 | 134,213 | 131,428 | 98 |
| Non-Core | 6,717 | 6,379 | — | 7,179 | 7,179 | 7 | 12,034 | 11,552 | 9 |
| | 39,210 | 36,394 | 9 | 70,346 | 68,547 | 54 | 146,247 | 142,980 | 107 |
| *Reconciling items* | | | | | | | | | |
| Dutch State acquired businesses/private equity | 598 | 472 | — | 608 | 608 | — | 529 | 380 | — |
| | 39,808 | 36,866 | 9 | 70,954 | 69,155 | 54 | 146,776 | 143,360 | 107 |

### (b) Geographical segments

The geographical analyses in the tables below have been compiled on the basis of location of office where the transactions are recorded.

| 2013 | Netherlands €m | UK €m | RoW €m | Total €m |
|---|---|---|---|---|
| Net interest income | (1) | 2 | 237 | 238 |
| Net fees and commissions | (24) | 18 | 76 | 70 |
| Income from trading activities | (127) | 33 | 140 | 46 |
| Other operating (loss)/income | (115) | 29 | 169 | 83 |
| Total income | (267) | 82 | 622 | 437 |
| | | | | |
| Operating (loss)/profit before tax | (363) | 11 | 210 | (142) |
| Total assets | 17,704 | 6,183 | 15,921 | 39,808 |
| Total liabilities | 14,762 | 6,183 | 15,921 | 36,866 |
| Net assets attributable to equity owners | 2,942 | — | — | 2,942 |
| Contingent liabilities and commitments | 7,024 | 59 | 2,345 | 9,428 |
| Cost to acquire property, plant and equipment and intangible assets | — | — | 9 | 9 |

Notes on the consolidated accounts

| **29 Segmental analysis** continued | | | | |
|---|---|---|---|---|
| | Netherlands | UK | RoW | Total |
| 2012 | €m | €m | €m | €m |
| Net interest income | 36 | (6) | 575 | 605 |
| Net fees and commissions | 8 | (58) | 321 | 271 |
| Income from trading activities | (51) | 14 | 86 | 49 |
| Other operating (loss)/income | (89) | (446) | 318 | (217) |
| Total income | (96) | (496) | 1,300 | 708 |
| | | | | |
| Operating (loss)/profit before tax | (531) | (484) | 128 | (887) |
| Total assets | 37,138 | 16,723 | 17,093 | 70,954 |
| Total liabilities | 35,339 | 16,723 | 17,093 | 69,155 |
| Net assets attributable to equity owners | 1,799 | — | — | 1,799 |
| Contingent liabilities and commitments | 6,953 | 11 | 9,821 | 16,785 |
| Cost to acquire property, plant and equipment and intangible assets | 14 | — | 40 | 54 |

| 2011 | | | | |
|---|---|---|---|---|
| Net interest income | (185) | 40 | 833 | 688 |
| Net fees and commissions | 1 | 39 | 632 | 672 |
| Income from trading activities | 62 | 362 | 222 | 646 |
| Other operating income | 503 | 1,321 | 176 | 2,000 |
| Total income | 381 | 1,762 | 1,863 | 4,006 |
| | | | | |
| Operating (loss)/profit before tax | (1,224) | 1,242 | (204) | (186) |
| Total assets | 57,087 | 37,569 | 52,120 | 146,776 |
| Total liabilities | 53,692 | 37,569 | 52,099 | 143,360 |
| Net assets attributable to equity owners and non-controlling interests | 3,395 | — | 21 | 3,416 |
| Contingent liabilities and commitments | 17,927 | 396 | 27,252 | 45,575 |
| Cost to acquire property, plant and equipment and intangible assets | 41 | 28 | 38 | 107 |

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Explanation of Responses:

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## 30 Remuneration of the Managing and Supervisory Board of RBS Holdings N.V.

### Remuneration of Managing Board

The table below provides information on the remuneration of the Managing Board. The Managing Board throughout the year comprised of the following members:

(1) J. de Ruiter

(2) J. Kremers (resigned 1 April 2014)

(3) R. Hemsley (resigned 1 September 2013)

(4) M. Geslak

(5) P. van der Harst (resigned 18 July 2013)

(6) C. Visscher (appointed 18 July 2013)

All current members of the Managing Board also perform roles in their respective fields elsewhere within RBS Group. As a consequence the following table only summarises total remuneration of the members of the Managing Board paid directly by RBS Holdings N.V. in respect of their functions in RBS Holdings N.V. The total remuneration has increased due to termination benefits. All other remuneration items have decreased reflecting the reduced time spent by the members on matters relating to RBS Holdings N.V. following the transfers to RBS plc from 2011 onwards and the reduction of the average pay of the Board members .

The remuneration of the Managing Board is presented in aggregate. RBSG and its subsidiaries adhere to relevant statutory requirements and RBS Group discloses individual remuneration of RBS Group executive directors, compliant with the UK PRA Remuneration Code.

| | 2013 | 2012 |
|---|---|---|
| | €000 | €000 |
| Salaries and short-term benefits | 722 | 1,285 |

| | | |
|---|---|---|
| Pensions | 231 | 233 |
| Termination benefits (4) | 1,177 | — |
| Profit sharing and bonus payments | 196 | 559 |
| Long term incentive plan (5) | 255 | 375 |
| Total | 2,581 | 2,452 |

Notes:

(1) There are no loans from RBSH Group to the Managing Board members.

(2) RBS Holdings N.V. is no longer a Dutch open N.V.

(3) One of the tax measures introduced by the Dutch Government is the Dutch wage tax of 16% ('crisisheffing'), payable by the employer for taxable wages above €150,000 per employee.

This wage tax amounted to a total of €105,000 for the Managing Board members.

(4) This includes the termination benefits for Mr van der Harst and Mr Kremers. The benefits are in line with the requirements of the Dutch Banking Code.

(5) Long-Term Incentive Plans: the vesting of awards in the form of shares in RBS Group, will normally be subject to the satisfaction of performance conditions which will be set by the RBS Group Performance and Remuneration Committee for each award. In addition, awards will only vest if the Committee is satisfied that risk management during the performance period has been effective and that financial and non-financial performance has been satisfactory, in line with RBS Group's Strategic Plan.

## Remuneration of Supervisory Board

The table below provides information on the remuneration of the Supervisory Board and related committees. Members of the Supervisory Board are not entitled to emoluments in the form of RBS Group shares or options on RBS Group shares.

The Supervisory Board throughout the year consisted of the following members:

(1) B. Van Saun (resigned 30 September 2013)

(2) R. Teerlink (resigned 30 September 2013)

(3) C. Campbell

(4) S. Hepkema (resigned with effect from 1 May 2014)

(5) H. Rottinghuis (resigned with effect from 1 May 2014)

(6) N. Bostock (appointed 30 September 2013)

(7) J. Cummins (appointed 30 September 2013)

The Board included some members employed elsewhere within RBS Group. The Supervisory Board members from RBS Group were not remunerated for time spent on matters relating to RBS Holdings N.V.

The table below presents the total remuneration of the Supervisory Board in aggregate.

| | 2013 | 2012 |
|---|---|---|
| | €000 | €000 |
| Remuneration | 140 | 170 |

Notes:

(1) There are no loans from RBSH Group to the Supervisory Board members.

(2) RBS Holdings N.V. is no longer a Dutch open N.V.

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## 31 Related parties

RBSH Group has a related party relationship with associates, joint ventures, key management and shareholders of its parent company, RFS Holdings. The shareholders of RFS Holdings are RBSG, Santander and the Dutch State. The UK Government became a shareholder of RBSG on 1 December 2008. As RBSG is the ultimate consolidating company of RBSH Group, both the UK Government and the Dutch State are therefore related parties.

Parties are considered to be related if one party has the ability to control or exercise significant influence over the other party in making financial or operational decisions. RBSH Group enters into a number of banking transactions with related parties in the normal course of business. These transactions, which include loans, deposits and foreign currency transactions, have taken place on an arm's length basis. These transactions are carried out on commercial terms and at market rates. Employees are offered preferential terms for certain banking products. No allowances for loan losses have been recognised in respect of loans to related parties in 2013, 2012 and 2011.

### Balances with Consortium Members

The transfer of eligible business carried out in the UK, including certain securities issued by RBS N.V. was completed during the last quarter of 2011, the 'UK Transfer', pursuant to Part VII of the UK Financial Services and Markets Act 2000. The UK Transfer moved a large part of the UK Equities & Structured Retail, Markets, Lending and the former GTS businesses as well as part of the UK Non-Core portfolio.

In the first half of 2012, assets and liabilities largely relating to businesses in Singapore, Hong Kong and Kazakhstan were transferred to RBS plc by a combination of local schemes of arrangement, novations and subsidiary share sales.

On 8 August 2012 the Court of Session in Scotland approved the planned transfer of eligible RBS N.V. businesses, including the transfers of certain securities issued by RBS N.V., in the Netherlands and certain EMEA countries to RBS plc on 10 September 2012. The transfer was executed by way of a Dutch statutory demerger (the Demerger) from RBS N.V. into RBS II B.V. (the acquiring company); then onto RBS plc by way of a cross-border merger from RBS II B.V. into RBS plc (the Merger, and together with the Demerger, the Dutch Scheme), after which RBS II B.V. ceased to exist. The Dutch Scheme related largely to

Transaction Services business and Lending deals. The Markets business included most Dutch, German and Italian law governed Securitised Products and a number of Over the Counter transactions (OTCs).

Also in the later half of 2012, other eligible businesses in the Netherlands and certain EMEA countries, and businesses in Malaysia, Turkey and the United Arab Emirates were transferred via novations, market mechanisms and subsidiary share sales.

In 2013, assets and liabilities relating to businesses in Russia, Romania, Korea and North America were transferred to RBS plc by a combination of local schemes of arrangement, cross-border merger novations and subsidiary share sales.

RBSH Group has also entered into two agreements with RBS plc under which it has bought credit protection over the exposures held by RBSH Group that were subject to RBS Group’s Asset Protection Scheme agreement with HM Treasury (HMT). These agreements cover 100% of losses on these assets. One agreement provides protection over a portfolio that includes significant exposure in the form of derivatives; the other covers assets that are measured at amortised cost. The former agreement is accounted for as a credit derivative. The second agreement meets the definition of a financial guarantee contract and is accounted for as such. RBS exited the APS effective 18 October 2012. The agreements are not impacted by RBS plc’s exit from APS and as a result, there has been no change to these agreements for the year ended the 31 December 2013.

With effect from 1 January 2013, the Managing Board of RBS Holdings N.V. agreed with RBS plc to reduce the number of covered assets included in the agreements as a result of the progress made with the transfers to RBS plc during 2011 and 2012. Unamortised fees relating to the assets previously covered will be reimbursed by RBS plc. The assets covered under the agreement at 31 December 2013 was €1.0 billion (2012 - €2.4 billion; 2011 - €10.9 billion), with an average remaining maturity of four years. At 31 December 2013 the carrying value of the prepaid fee for the financial guarantee contract was €20 million (2012-€145 million; 2011 - €323 million).

Financial assets and liabilities positions held-for-trading with RBS Group include positions of which risks have been transferred to RBS plc. The assets and liabilities can not be offset under IFRS, however master netting agreements are in place that reduce the credit risk in the assets.

| | RBS | Santander | RBS | Santander | RBS | Santander |
|---|---|---|---|---|---|---|
| | 2013 | 2013 | 2012 | 2012 | 2011 | 2011 |
| | €m | €m | €m | €m | €m | €m |
| Securities and derivatives | 2,569 | — | 4,624 | — | 11,384 | — |
| Loans and advances | 5,603 | 33 | 11,887 | 41 | 14,858 | 49 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Other assets | 42 | — | 12 | — | 4,006 | — |
| | | | | | | |
| Derivatives | 3,806 | — | 6,970 | — | 11,713 | — |
| Due to banks | 17,688 | 33 | 28,458 | 41 | 34,404 | — |
| Other liabilities | 122 | — | 531 | — | 2,944 | — |
| | | | | | | |
| Contingent liabilities and commitments | 1,361 | — | 1,974 | — | 1,270 | — |

**RBS Holdings N.V.**
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Notes on the consolidated accounts

## 31 Related parties continued

### Balances with the Dutch State

Transactions conducted directly with the Dutch State and UK Government are limited to normal banking transactions, taxation and other administrative relationships with the exception of the mandatory convertible securities and guarantee of the Dutch State. In addition RBSH Group participates in the Dutch State treasuries market and utilises the liquidity support made available to all banks regulated by DNB.

There may be other significant transactions with entities under the common control of or subject to significant influence by the Dutch and/or the UK Government. These would include, amongst others, loans, deposits, guarantees, fee based relationships, or equity holdings. Disclosure is made of any significant transactions with these entities.

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | €m | €m | €m |
| Assets | | | |
| Balances at central banks | 2,007 | 2,064 | 9,161 |
| Debt securities | 668 | 714 | 763 |
| | | | |
| Liabilities | | | |
| Deposits by banks | — | 3,573 | 136 |

## 32 Post balance sheet events

There have been no other significant events between the year end and the date of approval of these accounts which would require a change to or disclosure in the accounts.

## 33 Condensed consolidating financial information

RBS N.V. is a 100% owned subsidiary of RBS Holdings N.V. and is able to offer and sell certain securities in the US from time to time pursuant to a registration statement on Form F-3 filed with the SEC. RBS Holdings N.V. has fully and unconditionally guaranteed the obligations of RBS N.V. that have been incurred: this guarantee includes all securities issued by RBS N.V.

RBS N.V. utilises an exemption in Rule 3-10 of regulation S-X and therefore does not file its financial statements with SEC. In accordance with the requirement to qualify for the exception, presented in the tables below is condensed consolidating financial information for:

- RBS Holdings N.V. on a standalone basis as guarantor;
- RBS N.V. on a standalone basis as issuer;
- other subsidiaries of RBS Holdings N.V. on a combined basis;
- consolidation adjustments; and
- RBSH Group consolidated amounts.

The condensed consolidated financial information is prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the EU and IFRS as issued by the IASB, where RBSH Group has applied Rule 3-10 of Regulation S-X which requires a company to account for its investments in subsidiaries using the equity method, differing from IAS 27 which requires RBSH Group to account for investments in their subsidiaries at cost subject to impairment.

The following consolidating information presents condensed balance sheets at 31 December 2013, 2012 and 2011 and condensed income statements, statements of comprehensive income and cash flow statements for the years ended 31 December 2013, 2012 and 2011 of RBSH, RBS N.V. and its subsidiaries.

Notes on the consolidated accounts

| **33 Condensed consolidating financial information** continued | | | | | |
|---|---|---|---|---|---|
| **Condensed consolidating income statement for the year ended 31 December 2013** | | | | | |
| | | | | Consolidation | |
| | RBSH | RBS N.V. | Subsidiaries | adjustments | RBSH Group |
| | €m | €m | €m | €m | €m |
| Net interest income | — | 102 | 136 | — | 238 |
| Results from Group undertakings | (152) | 58 | — | 94 | — |
| Non-interest income | — | (18) | 217 | — | 199 |
| Total income | (152) | 142 | 353 | 94 | 437 |
| Operating expenses | (2) | (376) | (161) | 2 | (537) |
| Impairment recoveries/(losses) | — | 45 | (87) | — | (42) |
| Operating (loss)/profit before tax | (154) | (189) | 105 | 96 | (142) |
| Tax credit/(charge) | — | 35 | (47) | — | (12) |
| (Loss)/profit from continuing operations | (154) | (154) | 58 | 96 | (154) |
| Profit from discontinued operations, net of tax | 19 | 19 | — | (19) | 19 |
| (Loss)/profit for the year | (135) | (135) | 58 | 77 | (135) |
| *Attributable to:* | | | | | |
| Controlling interests | (135) | (135) | 58 | 77 | (135) |

| **Condensed consolidating statement of comprehensive income for the year ended 31 December 2013** | | | | | |
|---|---|---|---|---|---|
| | | | | Consolidation | |
| | RBSH | RBS N.V. | Subsidiaries | adjustments | RBSH Group |
| | €m | €m | €m | €m | €m |
| Loss for the year | (135) | (135) | 58 | 77 | (135) |
| Group undertakings reserve | 1,448 | 55 | — | (1,503) | — |
| Available-for-sale financial assets | — | 1,596 | (5) | — | 1,591 |

| | | | | | |
|---|---|---|---|---|---|
| Currency translation | — | (69) | 2 | — | (67) |
| Tax credit | — | 1 | — | — | 1 |
| Other comprehensive income after tax | 1,448 | 1,583 | (3) | (1,503) | 1,525 |
| Total comprehensive income after tax | 1,313 | 1,448 | 55 | (1,426) | 1,390 |
| *Attributable to:* | | | | | |
| Controlling interests | 1,313 | 1,448 | 55 | (1,426) | 1,390 |

| | | | | | |
|---|---|---|---|---|---|
| **Condensed consolidated income statement for the year ended 31 December 2012** | | | | | |
| | | | | Consolidation | |
| | RBSH | RBS N.V. | Subsidiaries | adjustments | RBSH Group |
| | €m | €m | €m | €m | €m |
| Net interest income | — | 407 | 198 | — | 605 |
| Results from Group undertakings | (1,016) | (16) | — | 1,032 | — |
| Non-interest income | — | (289) | 392 | — | 103 |
| Total income | (1,016) | 102 | 590 | 1,032 | 708 |
| Operating expenses | — | (1,145) | (385) | — | (1,530) |
| Impairment losses | — | (34) | (31) | — | (65) |
| Operating (loss)/profit before tax | (1,016) | (1,077) | 174 | 1,032 | (887) |
| Tax credit/(charge) | — | 61 | (190) | — | (129) |
| Loss from continuing operations | (1,016) | (1,016) | (16) | 1,032 | (1,016) |
| Profit from discontinued operations, net of tax | 17 | 17 | — | (17) | 17 |
| Loss for the year | (999) | (999) | (16) | 1,015 | (999) |
| *Attributable to:* | | | | | |
| Controlling interests | (999) | (999) | (16) | 1,015 | (999) |

Notes on the consolidated accounts

**33 Condensed consolidating financial information** continued

**Condensed consolidating statement of comprehensive income for the year ended 31 December 2012**

| | RBSH | RBS N.V. | Subsidiaries | Consolidation adjustments | RBSH Group |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Loss for the year | (999) | (999) | (16) | 1,015 | (999) |
| Group undertakings reserve | 275 | 6 | — | (281) | — |
| Available-for-sale financial assets | — | 448 | — | — | 448 |
| Cash flow hedges | — | 20 | 2 | — | 22 |
| Currency translation | — | (195) | 3 | — | (192) |
| Tax (charge)/credit | — | (4) | 1 | — | (3) |
| Other comprehensive income after tax | 275 | 275 | 6 | (281) | 275 |
| Total comprehensive loss after tax | (724) | (724) | (10) | 734 | (724) |
| *Attributable to:* | | | | | |
| Controlling interests | (724) | (724) | (10) | 734 | (724) |

**Condensed consolidating income statement for the year ended 31 December 2011**

| | RBSH | RBS N.V. | Subsidiaries | Consolidation adjustments | RBSH Group |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Net interest income | — | 501 | 187 | — | 688 |
| Results from Group undertakings | (635) | (119) | — | 754 | — |
| Non-interest income | — | 3,013 | 305 | — | 3,318 |
| Total income | (635) | 3,395 | 492 | 754 | 4,006 |
| Operating expenses | — | (1,830) | (597) | — | (2,427) |
| Impairment losses | — | (1,740) | (25) | — | (1,765) |
| Operating loss before tax | (635) | (175) | (130) | 754 | (186) |
| Tax (charge)/credit | — | (460) | 11 | — | (449) |

| | | | | | |
|---|---|---|---|---|---|
| Loss from continuing operations | (635) | (635) | (119) | 754 | (635) |
| Profit from discontinued operations, net of tax | 40 | 40 | — | (40) | 40 |
| Loss for the year | (595) | (595) | (119) | 714 | (595) |
| *Attributable to:* | | | | | |
| Controlling interests | (595) | (595) | (119) | 714 | (595) |

| **Condensed consolidating statement of comprehensive income for the year ended 31 December 2011** | | | | | |
|---|---|---|---|---|---|
| | | | | Consolidation | |
| | RBSH | RBS N.V. | Subsidiaries | adjustments | RBSH Group |
| | €m | €m | €m | €m | €m |
| Loss for the year | (595) | (595) | (119) | 714 | (595) |
| Group undertakings reserve | (963) | (33) | — | 996 | — |
| Available-for-sale financial assets | — | 287 | (13) | — | 274 |
| Cash flow hedges | — | 6 | 3 | — | 9 |
| Currency translation | — | (442) | (31) | — | (473) |
| Tax (charge)/credit | — | (781) | 5 | — | (776) |
| Other comprehensive loss after tax | (963) | (963) | (36) | 996 | (966) |
| Total comprehensive loss after tax | (1,558) | (1,558) | (155) | 1,710 | (1,561) |
| *Attributable to:* | | | | | |
| Non-controlling interests | — | — | (3) | — | (3) |
| Controlling interests | (1,558) | (1,558) | (152) | 1,710 | (1,558) |

Notes on the consolidated accounts

| **33 Condensed consolidating financial information** continued | | | | | |
|---|---|---|---|---|---|
| **Condensed consolidating balance sheet as at 31 December 2013** | | | | | |
| | | | | Consolidation | |
| | RBSH | RBS N.V. | Subsidiaries | adjustments | RBSH Group |
| | €m | €m | €m | €m | €m |
| Assets | | | | | |
| Cash and balances at central banks | — | 2,946 | 247 | — | 3,193 |
| Loans and advances to banks | 35 | 8,328 | 3,954 | (6,622) | 5,695 |
| Loans and advances to customers | — | 2,708 | 1,076 | — | 3,784 |
| Amounts due from ultimate holding company | — | 2,820 | — | — | 2,820 |
| Debt securities | — | 13,982 | 1,306 | — | 15,288 |
| Equity shares | — | 236 | 59 | — | 295 |
| Settlement balances | — | 7 | 3 | — | 10 |
| Derivatives | — | 5,067 | 109 | (394) | 4,782 |
| Deferred taxation | — | 28 | 12 | — | 40 |
| Prepayments, accrued income and other assets | 2,939 | 2,257 | 1,513 | (4,856) | 1,853 |
| Assets of disposal groups | — | 1,006 | 1,042 | — | 2,048 |
| Total assets | 2,974 | 39,385 | 9,321 | (11,872) | 39,808 |
| | | | | | |
| Liabilities and equity | | | | | |
| Deposits by banks | 32 | 20,880 | 4,653 | (6,622) | 18,943 |
| Customer accounts | — | 2,885 | 1,266 | — | 4,151 |
| Debt securities in issue | — | 818 | 501 | — | 1,319 |
| Settlement balances and short positions | — | 105 | — | — | 105 |
| Derivatives | — | 5,725 | 531 | (394) | 5,862 |
| Accruals, deferred income and other liabilities | — | 736 | 329 | — | 1,065 |
| Deferred taxation | — | 1 | 62 | — | 63 |
| Subordinated liabilities | — | 4,951 | — | — | 4,951 |

| | | | | | |
|---|---|---|---|---|---|
| Liabilities of disposal groups | — | 345 | 62 | — | 407 |
| Controlling interests | 2,942 | 2,939 | 1,917 | (4,856) | 2,942 |
| Total liabilities and equity | 2,974 | 39,385 | 9,321 | (11,872) | 39,808 |

Notes on the consolidated accounts

**33 Condensed consolidating financial information** continued

**Condensed consolidating balance sheet as at 31 December 2012**

| | RBSH | RBS N.V. | Subsidiaries | Consolidation adjustments | RBSH Group |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Assets | | | | | |
| Cash and balances at central banks | — | 2,068 | 226 | — | 2,294 |
| Loans and advances to banks | 35 | 17,920 | 7,827 | (13,576) | 12,206 |
| Loans and advances to customers | — | 3,793 | 2,587 | — | 6,380 |
| Amounts due from ultimate holding company | — | 2,949 | — | — | 2,949 |
| Debt securities | — | 20,678 | 1,977 | — | 22,655 |
| Equity shares | — | 1,065 | 62 | — | 1,127 |
| Settlement balances | — | 26 | 5 | — | 31 |
| Derivatives | — | 8,268 | 63 | (776) | 7,555 |
| Deferred taxation | — | 409 | 11 | — | 420 |
| Prepayments, accrued income and other assets | 1,796 | 3,321 | 507 | (4,091) | 1,533 |
| Assets of disposal groups | — | 10,904 | 2,900 | — | 13,804 |
| Total assets | 1,831 | 71,401 | 16,165 | (18,443) | 70,954 |
| | | | | | |
| Liabilities and equity | | | | | |
| Deposits by banks | 32 | 41,271 | 6,738 | (13,576) | 34,465 |
| Customer accounts | — | 1,667 | 971 | — | 2,638 |
| Debt securities in issue | — | 1,672 | 930 | — | 2,602 |
| Settlement balances and short positions | — | 107 | — | — | 107 |
| Derivatives | — | 9,586 | 834 | (776) | 9,644 |
| | — | 1,487 | 295 | — | 1,782 |

| | | | | | |
|---|---|---|---|---|---|
| Accruals, deferred income and other liabilities | | | | | |
| Deferred taxation | — | 36 | 4 | — | 40 |
| Subordinated liabilities | — | 4,417 | 2,434 | — | 6,851 |
| Liabilities of disposal groups | — | 9,362 | 1,664 | — | 11,026 |
| Controlling interests | 1,799 | 1,796 | 2,295 | (4,091) | 1,799 |
| Total liabilities and equity | 1,831 | 71,401 | 16,165 | (18,443) | 70,954 |
| | | | | | |

**RBS Holdings N.V.**
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Notes on the consolidated accounts

**33 Condensed consolidating financial information** continued

**Condensed consolidating balance sheet as at 31 December 2011**

| | RBSH | RBS N.V. | Subsidiaries | Consolidation adjustments | RBSH Group |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Assets | | | | | |
| Cash and balances at central banks | — | 11,812 | 797 | — | 12,609 |
| Loans and advances to banks | — | 52,614 | 29,684 | (56,381) | 25,917 |
| Loans and advances to customers | — | 24,979 | 4,599 | — | 29,578 |
| Amounts due from ultimate holding company | — | 1,136 | — | — | 1,136 |
| Debt securities | — | 38,211 | 1,697 | (263) | 39,645 |
| Equity shares | — | 2,955 | 138 | — | 3,093 |
| Settlement balances | — | 2,576 | 32 | — | 2,608 |
| Derivatives | — | 18,606 | 532 | — | 19,138 |
| Deferred taxation | — | 395 | 49 | — | 444 |
| Prepayments, accrued income and other assets | 3,401 | 7,848 | 928 | (6,264) | 5,913 |
| Assets of disposal groups | — | 4,264 | 2,431 | — | 6,695 |
| Total assets | 3,401 | 165,396 | 40,887 | (62,908) | 146,776 |
| | | | | | |
| Liabilities and equity | | | | | |
| Deposits by banks | 5 | 76,911 | 25,985 | (56,381) | 46,520 |
| Customer accounts | — | 33,469 | 6,132 | — | 39,601 |
| Debt securities in issue | — | 17,473 | 504 | (263) | 17,714 |
| Settlement balances and short positions | — | 3,386 | 23 | — | 3,409 |
| Derivatives | — | 19,323 | 545 | — | 19,868 |
| Accruals, deferred income and other liabilities | 1 | 2,996 | 898 | — | 3,895 |
| Deferred taxation | — | 132 | 69 | — | 201 |

| | | | | | |
|---|---|---|---|---|---|
| Subordinated liabilities | — | 4,449 | 2,410 | — | 6,859 |
| Liabilities of disposal groups | — | 3,856 | 1,437 | — | 5,293 |
| Controlling interests | 3,395 | 3,401 | 2,863 | (6,264) | 3,395 |
| Non-controlling interests | — | — | 21 | — | 21 |
| Total liabilities and equity | 3,401 | 165,396 | 40,887 | (62,908) | 146,776 |

Notes on the consolidated accounts

| 33 Condensed consolidating financial information continued | | | | | |
|---|---|---|---|---|---|
| **Condensed consolidating cash flow statement for the year ended 31 December 2013** | | | | | |
| | | | | Consolidation | |
| | RBSH | RBS N.V. | Subsidiaries | adjustments | RBSH Group |
| | €m | €m | €m | €m | €m |
| Total net cash flows from operating activities | — | (5,747) | (2,049) | (63) | (7,859) |
| Net cash flows from investing activities | — | 3,626 | 1,640 | — | 5,266 |
| Net cash flows from financing activities | — | (2,119) | (63) | 63 | (2,119) |
| Effects of exchange rate changes on cash and cash equivalents | — | 31 | 9 | — | 40 |
| Net decrease in cash and cash equivalents | — | (4,209) | (463) | — | (4,672) |
| Cash and cash equivalents at the beginning of the year | — | 8,893 | 1,137 | — | 10,030 |
| Cash and cash equivalents at the end of the year | — | 4,684 | 674 | — | 5,358 |

| **Condensed consolidating cash flow statement for the year ended 31 December 2012** | | | | | |
|---|---|---|---|---|---|
| | | | | Consolidation | |
| | RBSH | RBS N.V. | Subsidiaries | adjustments | RBSH Group |
| | €m | €m | €m | €m | €m |
| Total net cash flows from operating activities | — | (15,663) | (1,519) | (142) | (17,324) |
| Net cash flows from investing activities | — | 374 | 280 | — | 654 |
| Net cash flows from financing activities | — | (190) | (298) | 142 | (346) |

| | | | | | |
|---|---|---|---|---|---|
| Effects of exchange rate changes on cash and cash equivalents | — | 13 | (11) | — | 2 |
| Net decrease in cash and cash equivalents | — | (15,466) | (1,548) | — | (17,014) |
| Cash and cash equivalents at the beginning of the year | — | 24,359 | 2,685 | — | 27,044 |
| Cash and cash equivalents at the end of the year | — | 8,893 | 1,137 | — | 10,030 |

| **Condensed consolidating cash flow statement for the year ended 31 December 2011** | | | | | |
|---|---|---|---|---|---|
| | | | | Consolidated | |
| | RBSH | RBS N.V. | Subsidiaries | adjustments | RBSH Group |
| | €m | €m | €m | €m | €m |
| Total net cash flows from operating activities | — | (8,085) | (752) | (311) | (9,148) |
| Net cash flows from investing activities | — | 8,625 | 724 | — | 9,349 |
| Net cash flows from financing activities | — | (248) | (403) | 311 | (340) |
| Effects of exchange rate changes on cash and cash equivalents | — | 148 | (23) | — | 125 |
| Net increase/(decrease) in cash and cash equivalents | — | 440 | (454) | — | (14) |
| Cash and cash equivalents at the beginning of the year | — | 23,919 | 3,139 | — | 27,058 |
| Cash and cash equivalents at the end of the year | — | 24,359 | 2,685 | — | 27,044 |

**Other information**

The parent company financial statements are included in this condensed consolidating footnote. The number of ordinary shares in issue at 31 December 2013 was 89,287 (2012 - 89,287; 2011 - 3,306,843,332). The total number of authorised ordinary shares amounts to 400,000.

Proposed profit appropriation of RBS Holdings N.V., pursuant to articles 37.2 and 37.3 of the articles of association, is as follows:

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | €m | €m | €m |
| Release from reserves | (135) | (999) | (595) |

## Trust preferred securities

The Group has issued trust preferred securities through trusts (RBS Capital Funding Trust V, RBS Capital Funding Trust VI, RBS Capital Funding Trust VII), 100% owned by The Royal Bank of Scotland N.V. a wholly owned subsidiary of RBS Holdings N.V., which meet the definition in Regulation S-X, Rule 3-10 of a finance subsidiary. The securities represent undivided beneficial interests in the assets of the trusts, which consist of preferred securities issued by Delaware limited liability companies (LLCs). RBS Holdings NV has provided subordinated guarantees for the benefit of the holders of the trust preferred securities and the LLC preferred securities. Under the terms of the guarantees, the Group has fully and unconditionally guaranteed on a subordinated basis, payments on such trust preferred securities and the LLC preferred securities, to the extent they are due to be paid and have not been paid by, or on behalf of the trusts and the LLCs, as the case may be. Following implementation of IFRS 10 the trusts and LLCs are no longer consolidated by the Group. The Group's outstanding instruments with the trusts are classified as subordinated liabilities.

Other information





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Other information

## Report of independent registered public accounting firm

To: the Shareholder, Supervisory Board and Managing Board of RBS Holdings N.V.

We have audited the accompanying consolidated balance sheets of RBS Holdings N.V. and subsidiaries (the "RBSH Group") as of 31 December 2013 and the related consolidated income statement, consolidated statement of comprehensive income, consolidated statement of change in equity and consolidated cash flow statement for the year ended 31 December 2013, the notes 1 to 33 and the audited sections of the Business review: Risk and balance sheet management on pages 25 to 77. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The RBSH Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the RBSH Group’s internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of RBS Holdings N.V. and subsidiaries at 31 December 2013, and the results of their operations and their cash flows for the period ended 31 December 2013, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ Deloitte LLP

30 April 2014

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Other information

## Report of independent registered public accounting firm

To: the Shareholder, Supervisory Board and Managing Board of RBS Holdings N.V.

We have audited the accompanying consolidated balance sheets of RBS Holdings N.V. and subsidiaries (the "RBSH Group") as of 31 December 2012 and 2011, and the related consolidated income statements, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated cash flow statements for each of the two years in the period ended 31 December 2012 and the notes 1 to 37 and the audited sections of the Business review: Risk and balance sheet management on pages 25 to 77. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The RBSH Group is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the RBSH Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of RBS Holdings N.V. and subsidiaries at 31 December 2012 and 2011, and the results of their operations and their cash flows for each of the two years in the period ended 31 December 2012, in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

As discussed in Note 2 to the consolidated financial statements, the accompanying consolidated financial statements for the years ended 31 December 2012 and 2011 have been retrospectively adjusted for the implementation of International Financial Reporting Standards 10, Consolidated Financial Statements.

/s/ Deloitte Accountants B.V.

Amsterdam

27 March 2013

(30 April 2014 as to note 2)

Other information

## Articles of association

The description set out below is a summary of the material information relating to the Company's share capital, including summaries of certain provisions of the Articles of Association and applicable Dutch law in effect at the relevant date. The Articles of Association of RBS Holdings N.V. were last amended by a notarial deed executed by Mr B.J. Kuck, civil law notary in Amsterdam on 5 April 2013, under register entry number 33220369.

As stated in the Articles of Association the object of the Company is:

- The participation in, collaboration with and financing, administration and management of other enterprises and companies and the performance of all acts, activities and services which are related or may be conducive thereto.

- The engagement in banking and stockbroking activities, the management of third party assets, acting as trustee, administrator, executor of wills and executive director, non-executive director or liquidator of companies or other organisations, the provision of insurances and the performance of all other acts and activities which are related or may be conducive thereto, all in the broadest possible sense.

- The fostering of the direct and indirect interests of all those who are involved in any way in the Company and the safeguarding of the continuity of the Company and its affiliated enterprise(s).

### Profit appropriation

Profit is appropriated in accordance with article 37 of the articles of association. The main stipulations with respect to shares currently in issue are as follow:

The Managing Board may decide to make appropriations to reserves, subject to the approval of the Supervisory Board (article 37.2.a.).

The allocation of the amount remaining after these appropriations shall be determined by the General Meeting of Shareholders. The Managing Board, subject to the approval of the Supervisory Board, shall make a proposal to that effect. A proposal to pay a dividend shall be dealt with as a separate agenda item at the General Meeting of Shareholders (article 37.2.a.).

RBS Holdings' policy on reserves and dividends shall be determined and can be amended by the Supervisory Board, upon the proposal of the Managing Board. The adoption of and each subsequent amendment to the policy on reserves and dividends shall be discussed and accounted for at the General Meeting of Shareholders under a separate agenda item (article 37.2.b.).

Subject to approval of the Supervisory Board, the Managing Board may make the dividend or interim dividend on the shares payable, at the discretion of the holders, either in cash or, provided it is authorised to issue shares, partly or wholly in shares in the Company's capital or in a combination thereof, such combination to be determined by the Managing Board (article 37.3.).

Subject to the approval of the Supervisory Board, the Managing Board shall be authorised, in so far as such is permitted by the profit as evidenced by an interim balance sheet drawn up with due observance of the provisions of Section 105, Subsection 4 of Book 2 of the Netherlands Civil Code, to make payable an interim dividend on the shares once or more frequently in the course of any financial year and prior to the approval of the Annual Accounts by the General Meeting of Shareholders (article 37.4.).

Subject to the approval of the Supervisory Board, the Managing Board may decide on a distribution charged against reserves in cash or, if the Board is authorised to issue shares, in the form of shares (article 37.5.).

## Proposed profit appropriation

Appropriation of net profit pursuant to articles 37.2 and 37.3 of the articles of association:

| | | | |
|---|---|---|---|
| | 2013 | 2012 | 2011 |
| | €m | €m | €m |
| Release from reserves | (135) | (999) | (595) |

Other information

### Shares and voting rights

Each ordinary share of €0.56 face value in the capital of the Company entitles the holder to cast one vote (art 32.1). Subject to certain exceptions provided for by law or in the Articles of Association, resolutions are passed by an absolute majority of the votes cast (art. 32.4).

When shares are issued, each holder of shares shall have pre-emptive right, in proportion to the aggregate amount of their shares, except in the case of an issue of shares for a consideration other than in cash or an issue of shares to employees of the company or of a group company (art.9).

In the event of the dissolution and liquidation of the Company, the assets remaining after payment of all debts will be distributed to the shareholders of ordinary shares on a pro-rata basis (art 39.3).

## Relations with shareholders

### Rights of shareholders

Any resolution to amend the Articles of Association or dissolve RBS Holdings may only be passed by the General Meeting of Shareholders following a proposal by the Managing Board which has been approved by the Supervisory Board. A copy of the proposal containing the literal text of the proposed amendments shall be made available for inspection by the holders of shares of RBS Holdings at the offices of RBS Holdings and at the offices stated in the convocation to the meeting, from the day of convocation to the end of the Meeting. Each Shareholder may obtain a full copy of the proposal free of charge.

### Meetings of shareholders and convocation

General meetings of shareholders shall be held in Amsterdam, or in The Hague, Rotterdam, Utrecht or Haarlemmermeer (Schiphol). Annual General Meeting of Shareholders must be held within six months of the end of each financial year. In addition, General meetings of shareholders shall be held as frequently as deemed necessary by the Managing Board or the Supervisory Board and when required by law or by the Articles of Association. General meetings of shareholders shall be convened by the Managing Board or the Supervisory Board, without prejudice to the provisions of Sections 110, 111 and 112 of Book 2 of the Netherlands Civil Code. Convocation shall take place not later than on the fifteenth day prior to the day of the meeting. Convocation shall state the items to be discussed or alternatively notice shall be given that such items may be inspected at the company’s offices.

Proposals to amend the Articles of Association or proposals relating to a reduction of the company's capital shall always be included in the actual convocation.

## Post balance sheet events

There have been no significant events between the year end and the date of approval of these accounts which would require a change to or disclosure in the accounts.

## Incorporation and registration

RBS Holdings N.V. is the parent company of the RBS Holdings N.V. consolidated group of companies. RBS Holdings is a public limited liability company, incorporated under Dutch law on 30 May 1990, and registered at Gustav Mahlerlaan 350, 1082 ME Amsterdam, the Netherlands and is entered in the Trade Register of the Amsterdam Chamber of Commerce under no. 33220369.

## Code of conduct

The code of conduct applies to everyone who works for RBSH Group.

It promotes honest and ethical conduct, including the handling of actual or apparent conflicts of interest between personal and professional relationships. RBSH Group recognises that personal conduct, business integrity and the Group's security are crucial, and the code of conduct serves to inform those who work for us of the Group's expectations of their behaviour and practices.

The code of conduct is available on the RBS Group's website www.rbs.com and will be provided to any person without charge, upon request, by contacting Company Secretariat at the telephone number listed on page 204.

## Additional information

Additional information

## Financial summary

RBSH Group's financial statements are prepared in accordance with IFRS. Selected data under IFRS for each of the last five years ended 31 December are presented below.

| Summary consolidated income statement | 2013 €m | 2012 €m | 2011 €m | 2010 €m | 2009 €m |
|---|---|---|---|---|---|
| Net interest income | 238 | 605 | 688 | 1,427 | 1,834 |
| Non-interest income | 199 | 103 | 3,318 | 2,463 | (437) |
| Total income | 437 | 708 | 4,006 | 3,890 | 1,397 |
| Operating expenses | (537) | (1,530) | (2,427) | (3,380) | (4,621) |
| (Loss)/profit before impairment losses | (100) | (822) | 1,579 | 510 | (3,224) |
| Impairment losses | (42) | (65) | (1,765) | (67) | (1,623) |
| Operating (loss)/profit before tax | (142) | (887) | (186) | 443 | (4,847) |
| Tax | (12) | (129) | (449) | (310) | 465 |
| (Loss)/profit from continuing operations | (154) | (1,016) | (635) | 133 | (4,382) |
| Profit/(loss) from discontinued operations, net of tax | 19 | 17 | 40 | 985 | (18) |
| (Loss)/profit for the year | (135) | (999) | (595) | 1,118 | (4,400) |
| | | | | | |
| (Loss)/profit attributable to: | | | | | |
| Non-controlling interests | — | — | — | (2) | (1) |
| Controlling interests | (135) | (999) | (595) | 1,120 | (4,399) |

| Summary consolidated balance sheet | 2013 €m | 2012 €m | 2011 €m | 2010 €m | 2009 €m |
|---|---|---|---|---|---|
| Loans and advances | 12,299 | 21,535 | 56,631 | 71,201 | 257,677 |
| Debt securities and equity shares | 15,583 | 23,782 | 42,738 | 74,894 | 102,036 |
| Derivatives and settlement balances | 4,792 | 7,586 | 21,746 | 31,845 | 60,790 |
| Other assets | 7,134 | 18,051 | 25,661 | 22,517 | 48,842 |
| Total assets | 39,808 | 70,954 | 146,776 | 200,457 | 469,345 |
| | | | | | |
| Controlling interests | 2,942 | 1,799 | 3,395 | 4,958 | 18,880 |
| Non-controlling interests | — | — | 21 | 24 | 36 |
| Subordinated liabilities | 4,951 | 6,851 | 6,859 | 6,894 | 14,666 |
| Deposits | 23,094 | 37,103 | 86,121 | 86,890 | 246,046 |
| Derivatives, settlement balances and short positions | 5,967 | 9,751 | 23,277 | 40,875 | 70,462 |
| Other liabilities | 2,854 | 15,450 | 27,103 | 60,816 | 119,255 |
| Total liabilities and equity | 39,808 | 70,954 | 146,776 | 200,457 | 469,345 |

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| Other financial data | % | % | % | % | % |
| Dividend payout ratio (1) | — | — | — | 1,389.4 | — |
| Return on average total assets (2) | — | — | — | 0.4 | — |
| Return on average ordinary shareholders' equity (3) | — | — | — | 17.8 | — |
| Average owners' equity as a percentage of average total assets | 10.9 | 3.3 | 2.4 | 2.2 | 3.0 |
| Capital ratio – Tier 1 | 23.2 | 13.9 | 12.0 | 11.0 | 19.9 |
| Total | 26.1 | 19.8 | 17.5 | 15.8 | 25.5 |
| Ratio of earnings to fixed charges only (4) | | | | | |
| – including interest on deposits | 0.81 | 0.13 | 0.89 | 1.27 | — |
| – excluding interest on deposits | 0.35 | — | 0.57 | 1.89 | — |

Notes:

(1) Dividend payout ratio represents dividends paid and current year final dividends proposed as a percentage of net profit attributable to ordinary shareholders.

(2) Return on average total assets represents profit for the year as a percentage of average total assets. Negative ratios have been excluded.

(3) Return on average ordinary shareholders' equity represents profit attributable to ordinary shareholders expressed as a percentage of average ordinary shareholders' equity. Negative ratios have been excluded.

(4) For this purpose, earnings consist of income before tax plus fixed charges. Fixed charges consist of total interest expense, including or excluding interest on deposits. Deposits include banks and total customer accounts. The coverage deficiency for total fixed charges excluding interest on deposits for the year ended 31 December 2013 is €142 million (31 December 2012 - €887 million and 31 December 2011 - €186 million). The earnings for the year ended 31 December 2009 was inadequate to cover total fixed charges excluding interest on deposits and total fixed charges including interest on deposits.

Additional information

**Financial summary** continued

## Analysis of loans and advances to customers

The following table analyses loans and advances to customers before impairment provisions by remaining maturity, geographical area and type of customer.

| | Within 1 year | After 1 but within 5 years | After 5 years | 2013 Total | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m | €m | €m | €m |
| Netherlands | | | | | | | | |
| Central and local government | — | — | 53 | 53 | 58 | 120 | 372 | 1,659 |
| Manufacturing | 1 | — | 10 | 11 | 233 | 806 | 1,745 | 7,437 |
| Construction | — | — | — | — | 19 | 551 | 388 | 865 |
| Finance | 174 | — | 15 | 189 | 174 | 1,190 | 1,668 | 12,506 |
| Service industries and business activities | 18 | 85 | 148 | 251 | 891 | 2,201 | 3,640 | 16,788 |
| Agriculture, forestry and fishing | — | — | — | — | — | — | 65 | 4,951 |
| Property | — | — | — | — | 7 | 301 | 290 | 3,949 |
| Other business activities | — | — | — | — | — | 781 | 1,148 | 7,724 |
| Residential mortgages | 37 | 97 | 89 | 223 | 282 | 431 | 449 | 102,308 |
| Personal lending | — | — | — | — | — | — | 6 | 169 |
| Accrued interest | (4) | 1 | 2 | (1) | 8 | 22 | 73 | 763 |
| Total domestic | 226 | 183 | 317 | 726 | 1,672 | 6,403 | 9,844 | 159,119 |
| | | | | | | | | |
| Overseas | | | | | | | | |
| US | — | 28 | 9 | 37 | — | 970 | 1,668 | 4,357 |
| Rest of the World | 2,002 | 584 | 629 | 3,215 | 5,049 | 23,732 | 34,511 | 62,118 |
| Loans and advances to customers - gross | 2,228 | 795 | 955 | 3,978 | 6,721 | 31,105 | 46,023 | 225,594 |
| Loan impairment provisions | | | | (194) | (341) | (1,527) | (1,527) | (5,636) |
| Loans and advances to customers - net | | | | 3,784 | 6,380 | 29,578 | 44,496 | 219,958 |

Note:

(1) RBSH Group provides credit facilities at variable rates to its corporate customers and retail customers. Variable rate credit extended to RBSH Group's corporate and commercial customers includes bullet and instalment loans, finance lease agreements and overdrafts; interest is generally charged at a margin over a bench mark rate such as EURIBOR, LIBOR or base rate. Interest on variable rate retail loans may also be based on EURIBOR, LIBOR or base rate. RBSH Group does not provide interest only loans to its retail customers.



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Additional information

**Financial summary** continued

## Loan impairment provisions

For a discussion of the factors considered in determining the amount of the provisions, refer to 'Impairment of financial assets' on pages 99 and 100 and 'Critical Accounting policies and key sources of estimation uncertainty' on pages 103 and 104. The following table shows the movements in loan impairment provisions.

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Provisions at the beginning of the year | | | | | |
| Domestic | 155 | 242 | 223 | 4,085 | 2,792 |
| Foreign | 186 | 1,330 | 1,349 | 1,626 | 1,772 |
| | 341 | 1,572 | 1,572 | 5,711 | 4,564 |
| Transfer from/(to) disposal groups | | | | | |
| Domestic | 29 | — | — | (2,155) | 994 |
| Foreign | 7 | (171) | — | (222) | (238) |
| | 36 | (171) | — | (2,377) | 756 |
| Currency translation and other adjustments | | | | | |
| Domestic | 46 | — | 78 | (261) | 183 |
| Foreign | (5) | (74) | 49 | 335 | (32) |
| | 41 | (74) | 127 | 74 | 151 |
| (Disposals)/acquisitions of businesses | | | | | |
| Domestic | (38) | (50) | 5 | — | — |
| Foreign | (53) | (512) | (50) | — | (73) |
| | (91) | (562) | (45) | — | (73) |
| Amounts written-off | | | | | |
| Domestic | (70) | (50) | (43) | (1,506) | (543) |
| Foreign | (33) | (403) | (354) | (437) | (732) |
| | (103) | (453) | (397) | (1,943) | (1,275) |
| Recoveries of amounts previously written-off | | | | | |
| Domestic | 1 | 7 | — | 21 | 8 |
| Foreign | 8 | 5 | 22 | 38 | 2 |
| | 9 | 12 | 22 | 59 | 10 |
| Charged to income statement – continuing operations (1) | | | | | |
| Domestic | (35) | 6 | (20) | 39 | 651 |
| Foreign | (3) | 11 | 322 | 21 | 970 |
| | (38) | 17 | 302 | 60 | 1,621 |
| Unwind of discount (recognised in interest income) | | | | | |
| Foreign | — | — | (8) | (12) | (43) |

| | | | | | |
|---|---|---|---|---|---|
| | — | — | (8) | (12) | (43) |
| Provisions at the end of the year (2) | | | | | |
| Domestic | 88 | 155 | 242 | 223 | 4,085 |
| Foreign | 107 | 186 | 1,330 | 1,349 | 1,626 |
| | 195 | 341 | 1,572 | 1,572 | 5,711 |
| Gross loans and advances to customers | | | | | |
| Domestic | 726 | 1,672 | 6,403 | 9,844 | 159,119 |
| Foreign | 3,252 | 5,049 | 24,702 | 36,179 | 66,475 |
| | 3,978 | 6,721 | 31,105 | 46,023 | 225,594 |

## Additional information

| **Financial summary** continued | | | | | |
|---|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | €m | €m | €m | €m | €m |
| Closing customer provisions as a % of gross loans and advances | | | | | |
| to customers (3) | | | | | |
| Domestic | 12.1% | 9.3% | 3.8% | 2.3% | 2.6% |
| Foreign | 3.3% | 3.7% | 5.4% | 3.6% | 2.3% |
| Total | 4.9% | 5.1% | 4.9% | 3.3% | 2.5% |
| | | | | | |
| Customer charge to income statement for continuing operations | | | | | |
| as a % of gross loans and advances to customers | | | | | |
| Domestic | (4.8%) | 0.4% | (0.3%) | 0.4% | 0.4% |
| Foreign | (0.1%) | (0.1%) | 1.3% | 0.1% | 1.5% |
| Total | (0.9%) | 0.2% | 1.0% | 0.1% | 0.7% |

Notes:

(1) Includes nil relating to loans and advances to banks (2012 - €2 million; 2011 - nil; 2010 - €(15) million; 2009 - €30 million). Net of recoveries/recharges under the APS back-to-back agreement.

(2) Includes provisions against loans and advances to banks - see table below.

(3) Excludes provisions against loans and advances to banks.

| The following table shows additional information in respect of the loan impairment provisions. | | | | | |
|---|---|---|---|---|---|
| | | | | | |
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | €m | €m | €m | €m | €m |
| Loan impairment provisions at end of year: | | | | | |
| Customers | 194 | 341 | 1,527 | 1,527 | 5,636 |
| Banks | 1 | — | 45 | 45 | 75 |
| | 195 | 341 | 1,572 | 1,572 | 5,711 |
| | | | | | |
| | 6,476 | 18,913 | 38,564 | 135,809 | 251,311 |

| | | | | | |
|---|---|---|---|---|---|
| Average loans and advances to customers (gross) | | | | | |
| | | | | | |
| As a % of average loans and advances to customers during the year: | | | | | |
| Total customer provisions charged to income statement | | — | — | 1.0% | 0.1% | 1.1% |
| Amounts written-off (net of recoveries) - customers | 1.6% | 2.2% | 1.1% | 1.5% | 0.5% |

**RBS Holdings N.V.**
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Additional information

**Financial summary** continued

**Analysis of closing customer loan impairment provisions**

The following table analyses loan impairment provisions by geographical area and type of domestic customer.

| | 2013 | | 2012 | | 2011 | | 2010 | | 2009 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Closing provision | % of loans to total loans | Closing provision | % of loans to total loans | Closing provision | % of loans to total loans | Closing provision | % of loans to total loans | Closing provision | % of loans to total loans |
| | €m | % | €m | % | €m | % | €m | % | €m | % |
| Domestic | | | | | | | | | | |
| Central and local government | — | 1.3 | — | 0.9 | — | 0.4 | — | 0.8 | 1 | 0.7 |
| Manufacturing | — | 0.3 | (3) | 3.5 | — | 4.4 | — | 3.8 | 1,967 | 3.3 |
| Construction | — | — | — | 0.3 | — | 1.8 | — | 0.8 | 17 | 0.4 |
| Finance | 14 | 4.8 | 14 | 2.6 | 32 | 3.8 | 119 | 3.6 | 643 | 5.5 |
| Service industries and business activities | 53 | 6.3 | 118 | 13.3 | 126 | 7.1 | 43 | 10.4 | 775 | 10.9 |
| Agriculture, forestry and fishing | — | — | — | — | — | — | — | 0.1 | 137 | 2.2 |
| Property | — | — | — | 0.1 | 68 | 1.0 | 45 | 0.6 | 110 | 1.8 |
| Individuals | | | | | | | | | | |
| – home mortgages | 22 | 5.6 | 24 | 4.2 | 21 | 2.5 | 21 | 1.0 | — | 45.4 |
| – other | — | — | 7 | — | 3 | 1.4 | 45 | — | — | 0.1 |
| Accrued interest | — | — | — | 0.1 | — | 0.1 | — | 0.2 | — | 0.3 |
| Total domestic | 89 | 18.3 | 160 | 24.9 | 250 | 22.5 | 273 | 21.3 | 3,650 | 70.6 |
| Foreign | 92 | 81.7 | 146 | 75.1 | 1,216 | 77.5 | 1,183 | 78.7 | 1,466 | 29.4 |
| Impaired book provisions | 181 | 100.0 | 306 | 100.0 | 1,466 | 100.0 | 1,456 | 100.0 | 5,116 | 100.0 |

| | | | | | |
|---|---|---|---|---|---|
| Latent book provisions | 13 | 35 | 106 | 116 | 595 |
| Total provisions | 194 | 341 | 1,572 | 1,572 | 5,711 |

| **Analysis of write-offs** | | | | | |
|---|---|---|---|---|---|
| The following table analyses amounts written-off by geographical area and type of domestic customer. | | | | | |
| | | | | | |
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | €m | €m | €m | €m | €m |
| Domestic | | | | | |
| Central and local government | — | — | — | — | 12 |
| Manufacturing | 7 | — | — | 1,469 | 185 |
| Construction | — | — | — | — | 13 |
| Finance | — | 1 | 32 | 31 | 6 |
| Service industries and business activities | 63 | 10 | 11 | 6 | 208 |
| Agriculture, forestry and fishing | — | — | — | — | 14 |
| Property | — | 39 | — | — | 17 |
| Personal lending | — | — | — | — | 59 |
| Finance leases and instalment credit | — | — | — | — | 29 |
| Total domestic | 70 | 50 | 43 | 1,506 | 543 |
| Foreign | 33 | 403 | 354 | 437 | 732 |
| Total write-offs | 103 | 453 | 397 | 1,943 | 1,275 |

## Additional information

| **Financial summary** continued | | | | | |
|---|---|---|---|---|---|
| **Analysis of recoveries** | | | | | |
| The following table analyses recoveries of amounts written-off by geographical area and type of domestic customer. | | | | | |
| | | | | | |
| | 2013 | 2012 | 2011 | 2010 | 2009 |
| | €m | €m | €m | €m | €m |
| Domestic | | | | | |
| Manufacturing | — | 7 | — | — | — |
| Service industries and business activities | 1 | — | — | — | — |
| Personal lending | — | — | — | 21 | 8 |
| Total domestic | 1 | 7 | — | 21 | 8 |
| Foreign | 8 | 5 | 22 | 38 | 2 |
| Total recoveries | 9 | 12 | 22 | 59 | 10 |

### Renegotiated loans

The table below shows loans whose terms were renegotiated during the year that are unimpaired: either the loan was performing both before and after the renegotiation or it was non-performing before renegotiation and subsequently transferred to the performing book. Renegotiated loans with impairment provisions continue to be reported as impaired loans.

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Renegotiated loans (1) | — | — | 194 | 438 | 101 |

Note:

(1) Renegotiated loans data include only those arrangements above thresholds set individually by the divisions, ranging from nil to €10 million.

### Risk elements in lending and potential problem loans

Risk elements in lending (REIL) comprises impaired loans and accruing loans past due 90 days or more as to principal or interest.

Impaired loans are all loans (including renegotiated loans and forbearance loans) for which an impairment provision has been established; for collectively assessed loans, impairment loss provisions are not allocated to individual loans and the entire portfolio is included in impaired loans.

Accruing loans past due 90 days or more comprise loans past due 90 days where no impairment loss is expected and those awaiting individual assessment. A latent loss provision is established for the latter.

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Impaired loans (1) | | | | | |
| Domestic | 178 | 253 | 339 | 445 | 5,398 |
| Foreign | 132 | 253 | 1,591 | 1,719 | 2,691 |
| Total | 310 | 506 | 1,930 | 2,164 | 8,089 |
| | | | | | |
| Accruing loans which are contractually overdue 90 days or more as to principal or interest | | | | | |
| Domestic | — | — | 78 | 51 | 92 |
| Foreign | — | — | 89 | 9 | 61 |
| Total | — | — | 167 | 60 | 153 |
| Total risk elements in lending | 310 | 506 | 2,097 | 2,224 | 8,242 |
| | | | | | |
| Closing provisions for impairment as a % of total risk elements in lending | 62.6% | 67.4% | 75.0% | 70.7% | 69.3% |
| Risk elements in lending as a % of gross lending to customers | 7.9% | 7.5% | 6.8% | 4.8% | 3.7% |

Note:

(1) The write off of impaired loans affects the closing provisions for impairment as a % of total risk elements in lending (the coverage ratio). The coverage ratio reduces if the loan written off carries a higher than average provision and increases if the loan written off carries a lower than average provision. Impaired loans at 31 December 2013 whose terms were renegotiated were nil (31 December 2012 - €27 million).

Additional information

**Financial summary** continued

| | 2013 | 2012 | 2011 |
|---|---|---|---|
| | €m | €m | €m |
| Gross income not recognised but which would have been recognised under | | | |
| the original terms of impaired loans | | | |
| Domestic | 24 | 20 | 80 |
| Foreign | 22 | 34 | 85 |
| | 46 | 54 | 165 |
| | | | |
| Interest on impaired loans included in net interest income | | | |
| Domestic | — | — | 69 |
| Foreign | — | — | 32 |
| | — | — | 101 |

## Potential problem loans

Potential problem loans (PPL) are loans for which an impairment event has taken place but no impairment loss is expected. This category is used for advances which are not past due 90 days or revolving credit facilities where identification as 90 days overdue is not feasible.

| | 2013 | 2012 | 2011 | 2010 | 2009 |
|---|---|---|---|---|---|
| | €m | €m | €m | €m | €m |
| Potential problem loans | 9 | 27 | 220 | 133 | 532 |

Both REIL and PPL are reported gross and take no account of the value of any security held which could reduce the eventual loss should it occur, nor of any provision marked. Therefore impaired assets which are highly collateralised, such as mortgages, will have a low coverage ratio of provisions held against the reported impaired balance.

## Cross border exposures

Cross border exposures are loans and advances including finance leases and instalment credit receivables and other monetary assets, such as debt securities and net derivatives, including non-local currency claims of overseas offices on local residents.

RBSH Group monitors the geographical breakdown of these exposures based on the country of domicile of the borrower or guarantor of ultimate risk. Cross border exposures exclude exposures to local residents in local currencies.

The table below sets out RBSH Group's cross border exposures greater than 0.5% of RBSH Group's total assets.

| | 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Government | Banks | Other | Total | 2012 | 2011 |
| | €m | €m | €m | €m | €m | €m |
| Spain | 52 | 3,524 | 1,596 | 5,172 | 6,143 | 8,615 |
| United States | 1,711 | 173 | 442 | 2,326 | 2,703 | 13,986 |
| United Kingdom | — | 1,001 | 579 | 1,580 | 2,019 | — |
| Germany | 400 | 493 | 20 | 913 | 2,805 | 7,008 |
| France | 305 | 241 | 268 | 814 | 1,582 | 4,322 |
| Austria | 340 | 57 | 214 | 611 | 661 | 726* |
| India | 5 | — | 585 | 590 | 1,088 | 5,876 |
| Italy | 514 | 13 | 62 | 589 | 736 | 2,492 |
| Belgium | 531 | — | 3 | 534 | 1,084 | 1,656 |
| Brazil | 253 | — | 83 | 336 | 810 | 1,223 |
| Ireland | 168 | 56 | 89 | 313 | 478 | 595* |
| Indonesia | 53 | 14 | 163 | 230 | 262* | 583* |
| Qatar | — | — | 205 | 205 | 299* | 456* |
| | | | | | | |
| * Less than 0.5% of Group total assets. | | | | | | |

Additional information

| **Financial summary** continued | | | |
| --- | --- | --- | --- |
| **Analysis of deposits – product analysis** | | | |
| The following table shows the distribution of RBSH Group's deposits by type and geographical area. | | | |
| | 2013 | 2012 | 2011 |
| | €m | €m | €m |
| Netherlands | | | |
| Demand deposits – interest-free | 366 | 478 | 388 |
| – interest-bearing | 86 | 68 | 13,195 |
| Time deposits – other | 16,463 | 26,552 | 14,266 |
| Total domestic offices | 16,915 | 27,098 | 27,849 |
| Overseas | | | |
| Demand deposits – interest-free | 1,894 | 2,502 | 7,643 |
| – interest-bearing | 1,417 | 4,919 | 30,488 |
| Time deposits – savings | — | 1 | 629 |
| – other | 2,868 | 2,583 | 19,512 |
| Total overseas offices | 6,179 | 10,005 | 58,272 |
| Total deposits | 23,094 | 37,103 | 86,121 |
| | | | |
| Held for trading | 1,718 | 1,971 | 2,265 |
| Amortised cost | 21,376 | 35,132 | 83,856 |
| Total deposits | 23,094 | 37,103 | 86,121 |
| | | | |
| Overseas | | | |
| US | 482 | 773 | 7,075 |
| Rest of the World | 5,697 | 9,232 | 51,197 |
| Total overseas offices | 6,179 | 10,005 | 58,272 |

| **Certificates of deposit and other time deposits** | | | | | |
| --- | --- | --- | --- | --- | --- |
| The following table shows details of RBSH Group's certificates of deposit and other time deposits over $100,000 or equivalent by remaining maturity. | | | | | |
| | | | | | |
| | | Over 3 | Over 6 | | |
| | | months | months | | |
| | Within | but within | but within | Over | |
| | 3 months | 6 months | 12 months | 12 months | Total |
| 2013 | €m | €m | €m | €m | €m |
| Domestic | | | | | |

| | | | | | |
|---|---|---|---|---|---|
| Other time deposits | 392 | 3,311 | 274 | 233 | 4,210 |
| | | | | | |
| Overseas | | | | | |
| Other time deposits | 1,199 | 460 | 154 | 160 | 1,973 |
| | 1,591 | 3,771 | 428 | 393 | 6,183 |

**RBS Holdings N.V.**
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Additional information

**Financial summary** continued

## Short-term borrowings

The table below shows details of RBSH Group's short-term borrowings. Short-term borrowings comprise repurchase agreements, commercial paper and certificates of deposit.

| | Repurchase agreements | Commercial paper | Certificates of deposit | Total 2013 | Total 2012 | Total 2011 |
|---|---|---|---|---|---|---|
| At year end | | | | | | |
| - balance (€bn) | 12 | — | — | 12 | 13 | 21 |
| - weighted average interest rate | 0.1% | | | 0.1% | 0.5% | 0.8% |
| | | | | | | |
| During the year | | | | | | |
| - maximum balance (€bn) | 15 | — | — | 15 | 22 | 46 |
| - average balance (€bn) | 12 | — | — | 12 | 11 | 18 |
| - weighted average interest rate | 0.1% | 0.4% | 5.6% | 0.3% | 0.6% | 0.9% |

Balances are generally based on monthly data. Average interest rates during the year are computed by dividing total interest expense by the average amount borrowed. Average interest rates at year end are average rates for a single day and as such may reflect one-day market distortions, which may not be indicative of generally prevailing rates.

**Other contractual cash obligations**

The table below summarises RBSH Group's other contractual cash obligations by payment date.

| | 0 – 3 months | 3 – 12 months | 1 – 3 years | 3 – 5 years | 5 – 10 years | 10 – 20 years |
|---|---|---|---|---|---|---|
| 2013 | €m | €m | €m | €m | €m | €m |
| Operating leases | 8 | 19 | 21 | 15 | 26 | — |
| | | | | | | |
| 2012 | | | | | | |
| Operating leases | 8 | 21 | 33 | 16 | 29 | — |
| | | | | | | |

RBSH Group's undrawn formal facilities, credit lines and other commitments to lend were €847 million (2012 - €4,994 million; 2011 - €22,277 million). While RBSH group has given commitments to provide these funds, some facilities may be subject to certain conditions being met by the counterparty. RBSH group does not expect all facilities to be drawn, and some may lapse before drawdown.

## Exchange rates

Except as stated, the following tables show, for the dates or periods indicated, the Noon Buying Rate in New York for cable transfers in euro as certified for customs purposes by the Federal Reserve Bank of New York.

| | March | February | January | December | November | October |
|---|---|---|---|---|---|---|
| US dollars per €1 | 2014 | 2014 | 2014 | 2013 | 2013 | 2013 |
| Noon Buying Rate | | | | | | |
| High | 1.39 | 1.38 | 1.37 | 1.38 | 1.36 | 1.38 |
| Low | 1.37 | 1.35 | 1.35 | 1.36 | 1.34 | 1.35 |
| | | | | | | |
| | | 2013 | 2012 | 2011 | 2010 | 2009 |
| Noon Buying Rate | | | | | | |
| Period end rate | | 1.38 | 1.32 | 1.30 | 1.33 | 1.43 |
| Average rate for the period (1) | | 1.33 | 1.29 | 1.40 | 1.32 | 1.39 |
| | | | | | | |
| Consolidation rate (2) | | | | | | |
| Period end rate | | 1.38 | 1.32 | 1.29 | 1.34 | 1.44 |
| Average rate for the period | | 1.33 | 1.29 | 1.39 | 1.33 | 1.39 |

Notes:

(1) The average of the Noon Buying Rates on the last business day of each month during the period.

(2) The rates used by RBSH Group for translating US dollars into euro in the preparation of its financial statements.

(3) On 25 April 2014, the Noon Buying Rate was €1.00 = $1.38.

Additional information

## Economic and monetary environment

It has been noted before that when economies are emerging from recessions rooted in high levels of debt and stresses in the financial system, growth is slower than in the typical recovery. That was the experience again in 2013 in the major markets in which RBSH Group operates.

Total economic activity in the Netherlands as measured by gross domestic product (GDP) was 1.3% lower in the year to the third quarter of 2013 than in the year to the third quarter of 2012. The falls in investment (-7.3%) and household consumption (-2.3%) were especially steep. The unemployment rate increased from 7.2% to 8.5%. Inflation fell sharply, from 3.2% at the start of the year to 1.4% at the end. Owner occupied house prices declined by 6.4%. However, the consumer confidence index improved during the year, from -36 to -12, although that was still below its long-run average. According to Consensus Economics, GDP will grow by 0.5% in 2014.

In the UK, performance improved. Total economic activity, as measured by GDP, grew by 1.9% compared with growth of 0.3% in 2012. At the start of the year, expectations had been for an increase of only 1.0%. Consumption led the way, despite falling real wages. There were more people in work and households drew down savings to fund spending.

Unemployment fell, from around 7.9% at the start of the year to 7.0% at its end.

Housing market activity accelerated sharply, prompted in part by measures to encourage house purchase such as Help to Buy. According to the Halifax house price index, the average price of a house in the UK increased by 5.8% during the year. Other indices reported stronger price growth. Prices look to have risen in all parts of the UK but inflation was strongest in London, where prices rose by more than 10%.

Inflation ended the year at the 2.0% target having averaged 2.6% for the year as a whole. The Bank of England continued its ultra-loose monetary policy stance. The Bank Rate remained at 0.5%, although market rates increased towards the end of the year on expectations of tighter monetary policy in the United States. There were no additions to the stock of assets purchased through the quantitative easing programme. In August 2013, the Monetary Policy Committee began offering ‘forward guidance’ on its intentions. It said that it will not consider changing the Bank Rate or the stock of assets purchased until the unemployment rate reaches 7.0%, unless inflation threatens to take off or there are concerns about financial stability.

The Funding for Lending Scheme was adjusted during the course of the year to enhance the incentives to banks to lend to small firms and later to withdraw that support for lending to individuals. The Bank of England's Credit Conditions Survey suggested that the supply of credit had expanded towards the end of the year.

In the face of considerable fiscal austerity and continuing disputes about the public finances, which led to a government shutdown in the autumn, GDP growth in the United States was 1.9% compared with 2.8% in 2012. There was encouraging news on the job market, where unemployment had fallen to 6.7% in December 2013, although part of the fall was accounted for by people leaving the job market rather than finding work. The housing market again performed strongly, with prices up 14% in the year to November.

In December, the Federal Reserve took the first formal steps towards tightening monetary policy. It announced that it would reduce the amount of assets purchased under its quantitative easing programme by $10 billion each month, with the programme likely to be ended in the second half of 2014. It maintained its guidance that the Fed Funds Target Rate would remain at 0.25% until the unemployment rate reaches 6.5%.

Entering 2013, the greatest economic concern was how problems related to sovereign debt in the euro zone would be managed. With the exception of Cyprus, there were none of the episodes of concern that had marked previous years. Markets were generally convinced that the European Central Bank would indeed 'do what it takes' to sustain the single currency. Further steps were taken towards a banking union. Nevertheless, the region's economy remained weak. Unemployment averaged 12.1%, a record, and inflation fell to 0.8% at the end of the year.

## Supervision

### Netherlands

RBSH Group is regulated in the Netherlands by De Nederlandsche Bank (DNB) and the Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten (AFM).

RBSH Group's regulatory system in the Netherlands is a comprehensive system based on the provisions of the Financial Supervision Act which came into effect on 1 January 2007. The Financial Supervision Act has replaced, amongst others, the Act on the Supervision of the Credit System 1992 without affecting the existing supervisory system.

The Financial Supervision Act sets out rules regarding prudential supervision by DNB and supervision of conduct by the AFM. Prudential supervision focuses on the solidity of financial undertakings and contributes to the stability of the financial sector. Supervision of conduct focuses on orderly and transparent financial market processes, clear relations between market participants and due care in the treatment of clients (including supervision of the securities and investment businesses).

### Prudential supervision

Prudential supervision of credit institutions in the Netherlands is performed by DNB under the Financial Supervision Act. No enterprise or institution established in the Netherlands may pursue the business of a credit institution unless it has obtained prior authorisation from DNB.

Its supervisory activities under the Financial Supervision Act focus on supervision of solvency, liquidity and administrative organisation, including risk management and internal control.



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Additional information

**Supervision** continued

If, in the opinion of DNB, a credit institution fails to comply with the rules and regulations regarding the above mentioned subjects, DNB will notify the credit institution and may instruct the credit institution to behave in a certain manner. If the credit institution does not respond to any such instructions to the satisfaction of DNB, DNB is allowed to exercise additional supervisory measures that may include the imposition of fines.

Prudential supervision also oversees calculation of significant intra-group agreements, adjusted solvency, calculation of capital adequacy and significant risk concentrations. It also determines the models used by the financial undertakings to report the calculations to DNB. Finally, the regulation lays down reporting rules, for example reporting deadlines and reporting frequency.

**Conduct of business supervision**

The body responsible for carrying out this supervision in the Netherlands is the AFM.

Conduct of business supervision focuses on ensuring orderly and transparent financial market processes, proper relationships between market participants and the exercise of due care by financial undertakings in dealing with clients.

The Financial Supervision Act provides that each supervised credit institution must submit periodic reports to DNB. In accordance with this requirement RBSH Group files quarterly and monthly reports with DNB.

At least one submission for each given year must be certified by an external auditor. The report to be certified is selected by an external auditor at his or her discretion.

On 1 July 2008 a decree pursuant to the Financial Supervision Act was extended to incorporate the requirements for eligibility of covered bonds. Dutch issuers of covered bonds now have the facility to register their programs with DNB. The new legislation is designed to protect the interest of covered bond holders through special supervision by DNB of the recognised covered bond programs. An issuer must comply with several conditions when submitting a program for recognition and demonstrate compliance to these conditions through the provision of specific documentation and information. Once a program is registered, the issuer will have ongoing administration and reporting obligations to adhere to.

## Solvency supervision

### Capital adequacy framework (Basel)

In 2004, the Basel Committee on Banking Supervision endorsed the publication of the ‘International Convergence of Capital Measurement and Capital Standards: a Revised Framework’, commonly referred to as Basel II. The Capital Requirements Directive, representing the translation of Basel II to EU legislation and replacing the Capital Adequacy Directive, was approved by the European Parliament in 2005. This acceptance by the European Parliament cleared the way in Europe for the implementation of the Capital Requirements Directive, with a published compliance date of 1 January 2008.

The implementation process of Basel II into Dutch legislation (Financial Supervision Act) and regulation was completed in December 2006 when DNB published its supervisory rules. The compliance date in the European Union was 1 January 2008.

Basel II provides three approaches of increasing sophistication to the calculation of credit risk capital: the Standardised Approach, the Internal Ratings Based Foundation Approach, and the Internal Ratings Based Advanced Approach. Basel II also introduces capital requirements for operational risk for the first time. Basel II is structured around the three following ‘pillars’.

Pillar 1 sets out minimum regulatory capital requirements, that is, the minimum amount of capital banks must hold against credit, operational and market risks.

Pillar 2 sets out the key principles for supervisory review of an institution’s risk management framework and, ultimately, its capital adequacy. It sets out specific oversight responsibilities for the Board and senior management, thus reinforcing principles of internal control and other corporate governance practices. Pillar 2 requires that the institutions conduct an internal capital adequacy assessment process.

Pillar 3 aims to bolster market discipline through enhanced disclosure by banks.

With effect from 30 June 2010, RBSH Group migrated to Basel II status. For the majority of credit risk, RBSH Group uses the advanced internal ratings based approach for calculating RWAs. For operational risk, RBSH Group uses the basic indicator approach, which calculates operational risk capital charge RWA equivalent on the average operating income for three years times a fixed percentage of 15%.

In addition to the calculation of minimum capital requirements for credit, market and operational risk, banks are required to undertake an Individual Capital Adequacy Assessment Process (ICAAP) for other risks. RBSH Group’s ICAAP, in particular, focuses on concentration risk, stress VaR, pension fund risk, interest rate risk in the banking book, FX translation risk together with stress tests to assess the adequacy of capital over two years.

RBSH Group is consolidated for regulatory reporting within the RBS Group. Pillar 3 information for RBSH Group is included within the RBS Group Pillar 3 disclosures. RBS Group publishes its Pillar 3 (Market disclosures) on its website www.rbs.com, providing a range of additional information relating to Basel II risk, liquidity and capital management across the RBS Group. The disclosures focus on capital resources and adequacy, discuss a range of credit risk approaches and their associated RWAs under various Basel II approaches. Detailed disclosures are also made on credit risk mitigation, counterparty credit risk, interest rate risk in the banking book, provisions, equity, securitisation, operational and market risk.

RBSH Group operates in multiple jurisdictions and is subject to a number of regulatory regimes.

Additional information

## **Supervision** continued

RBSH Group's lead regulator in the Netherlands is DNB. RBSH Group are direct and indirect subsidiaries of the RBS Group whose lead regulatory in the UK is the Prudential Regulation Authority (PRA). In the US, RBSH Group's operations are required to meet liquidity requirements set out by the US Federal Reserve Bank, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation and Financial Industry Regulatory Authority.

### Exposure supervision

DNB has issued specific rules with respect to large exposures to a single borrower or group of interconnected borrowers, or in relation to certain other businesses that involve a concentration of risk. Large exposures generally include all assets and off-balance sheet items of a credit institution with respect to a single borrower or group of interconnected borrowers which exceed 10% of a credit institution's total capital. Large exposures must be reported once every quarter to DNB.

There is a limit of 25% of total capital for a single large exposure as part of the banking book. Trading book positions may exceed this limit subject to additional solvency requirements.

### Liquidity supervision

Banks are required to report on a consolidated level on their liquidity position to DNB monthly, on the basis of the liquidity supervision directive. The liquidity directive seeks to ensure that banks are in a position to cope with an acute short term liquidity shortage under the assumption that banks would remain solvent. In principle, DNB liquidity directive covers all direct domestic and foreign establishments (subsidiaries/branches), including majority participations. The regulatory report also takes into consideration the liquidity effects of derivatives and the potential drawings under committed facilities.

The directive places emphasis on the short term in testing the liquidity position over a period of up to one month with a separate test of the liquidity position in the first week. For observation purposes, several additional maturity bands are included in the liquidity report (one to three months, three to six months, six months to one year and beyond one year).

Available liquidity must always exceed required liquidity. Available liquidity and required liquidity are calculated by applying weighting factors to the relevant on- and off-balance sheet items, i.e. irrevocable commitments. The liquidity test includes all currencies. A surplus in a non convertible or non transferable currency however needs to be ignored or explicitly taken out. Compliance reports concerning liquidity requirements of foreign subsidiaries are submitted to the appropriate foreign regulatory authorities as required. At a consolidated level, and in every country in which RBSH Group operates, RBSH Group adheres to the liquidity standards imposed by the applicable regulatory authorities.

In accordance with the principles of the European Banking Authority (EBA) and the Basel Committee on Banking Supervision (BCBS) and as articulated in DNB's Liquidity Policy Rule (Beleidsregel liquiditeit Wft 2011) RBSH Group is required to regularly carry out an Internal Liquidity Adequacy Assessment Process (ILAAP). The ILAAP covers RBSH Group's assessment of liquidity risks under the severe ILAAP stress test scenarios, the adequacy of liquidity resources and liquidity management systems and controls. The liquidity risks run by RBSH Group are quantified through severe but plausible stress testing scenarios. Key to the ILAAP stress testing process is the benefit of actual experience during the financial crisis and the access to historic data to support the ILAAP outflow assumptions which are key inputs into the ‘Quantitative Liquidity Stress Testing’ (QLST) process. QLST is an essential part of RBSH Group’s risk management process and enables RBSH Group to model the impact of the different stress scenarios on the liquidity position.

## Structural supervision

Pursuant to the Financial Supervision Act, banks are prohibited to hold, acquire or increase a qualifying holding or exercise any control relating to a qualifying holding in a bank in the Netherlands, except if it has obtained a Declaration of No Objection (DNO) from DNB (or in certain specified cases from the Dutch Minister of Finance). Qualifying holding means a participation of at least 10% in the issued share capital of the related voting rights or similar influence. The DNO would be issued unless the qualifying holding in the bank concerned would lead to an influence which might jeopardise sound and prudent operations or the qualifying holding could or would lead to an undesirable development of the financial sector.

DNB or the Dutch Minister of Finance can, on request, grant so-called bandwidths, umbrella and group-DNOs in respect of qualifying holdings. A DNO is not required in case of a qualifying holding by a bank in a company whose assets consist of more than 90% liquid assets.

According to Dutch regulation, a DNO will not be issued regarding qualifying holding by a bank in a non-financial institution if the value of the equity participation would exceed 15% of a bank’s regulatory capital and if the participation would cause the value of the bank’s aggregate qualifying holdings in non-financial institutions to exceed 60% of its regulatory capital. Certain types of participations will be approved in principle, although in certain circumstances a DNO will have a limited period of validity, such as in the case of a debt rescheduling or rescue operation or when the participation is acquired and held as part of an issue underwriting operation. Generally the approval will be given where the value of the non-financial institution concerned or the value of the participation does not exceed certain threshold amounts.

## Supervision of the securities and investment businesses

RBSH Group is also subject to supervision of its activities in the securities business. The Financial Supervision Act, which has replaced the Act on the Supervision of the Securities Trade 1995 together with the decrees and regulations promulgated thereunder, provides a comprehensive framework for the conduct of securities trading in or from the Netherlands. The AFM is charged by the Dutch Minister of Finance with supervision of the securities industry.

Additional information

## **Supervision** continued

### United States

RBSH is both a bank holding company and a financial holding company within the meaning of the US Bank Holding Company Act of 1956. As such, it is subject to the regulation and supervision of the Board of Governors of the Federal Reserve System (’the Federal Reserve’). Among other things, RBSH Group's direct and indirect activities and investments in the United States are limited to those that are 'financial in nature' or 'incidental' or 'complementary' to a financial activity, as determined by the Federal Reserve.

RBSH Group is also required to obtain the prior approval of the Federal Reserve before acquiring directly or indirectly, the ownership or control of more than 5% of any class of the voting shares of any US bank or holding company. Under current Federal Reserve policy, RBSH Group is required to act as a source of financial strength for its US bank subsidiaries. Among other things, this source of strength obligation could require RBSH Group to inject capital into any of its US bank subsidiaries if any of them became undercapitalised.

Anti-money laundering, anti-terrorism and economic sanctions regulations are a major focus of the US government for financial institutions and are rigorously enforced by US government agencies.

### United Kingdom

The PRA is the consolidated supervisor of RBS Group. In the UK, RBS Group is subject to extensive regulations that impose obligations on financial institutions to maintain appropriate policies, procedures and controls to ensure compliance with the rules and regulations to which they are subject.

### Other jurisdictions

RBSH Group operates in over 12 countries through a network of branches, local banks and non-bank subsidiaries and these activities are subject to supervision in most cases by a local regulator or central bank.

## **Major shareholders**

On 17 October 2007, RFS Holdings B.V. (RFS Holdings), a company incorporated by RBS Group, Fortis and Santander acquired 85.6% of RBS Holdings N.V. Through subsequent purchases RFS Holdings increased its stake in RBSH Group to 99.3% as at 31 December 2007. RFS Holdings started squeeze-out proceedings in order to acquire the remainder of the shares in RBSH Group from minority shareholders and this procedure was completed on 22 September 2008. As a result RFS Holdings is from that date the sole shareholder of RBS Holdings N.V. RFS Holdings is controlled by The Royal Bank of Scotland Group plc, which is incorporated in the UK and registered at 36 St. Andrew Square, Edinburgh, Scotland and The Royal Bank of Scotland Group plc is the ultimate parent company of RBSH Group Holding N.V.

On 3 October 2008, the Dutch State fully acquired all Fortis' businesses in the Netherlands, including the Fortis share in RFS Holdings. On 24 December 2008, the Dutch State purchased from Fortis Bank Nederland (Holding) N.V. its investment in RFS Holdings, to become a direct shareholder in RFS Holdings. On 31 December 2010, RBS Group increased its shareholding in RFS Holdings to 97.72%. As of that date, the Dutch State has a 1.25% shareholding and Santander has a 1.03% shareholding. On 7 November 2012 the Dutch State transferred its investment to Stichting Administratiekantoor Beheer Financiële Instellingen.

### Stock exchange listings

None of the shares in RBSH Group are listed.

### Issued share capital

The issued share capital of RBS Holdings N.V. consists of 89,287 ordinary shares with a nominal value of €0.56 each.

### Material contracts

RBSH Group are party to various contracts in the ordinary course of business. Material contracts include the following:

### Participation in UK Government's Asset Protection Scheme

In 2009, RBS plc, entered into an agreement (the Asset Protection Scheme (APS)) with HM Treasury (HMT), acting on behalf of the UK Government, under which it purchased credit protection over a portfolio of specified assets and exposures (covered assets) from HMT

Although the portfolio of covered assets included assets recorded on RBSH Group's balance sheet, RBSH Group was not entitled to benefit under this contract.

However, RBSH Group entered into credit protection agreements in 2009 in the form of a financial guarantee contract and a credit derivative contract with RBS plc that provides full principal protection over those covered assets attributable to RBSH Group for their remaining life.

Under the terms of these contracts on impairment of a covered asset RBSH Group is entitled to receive from RBS plc the present value of the difference between contractual and expected cash flows from the asset; subsequent reductions in the estimated lost cash flows are paid by RBSH Group to RBS plc and increases paid by RBS plc to RBSH Group.

Although the RBS Group's participation in the APS ceased in October 2012, these arrangements between RBSH Group and RBS plc remain in place.

## **Material contracts** continued

### EC Remedy

On 26 November 2009, RBS Group entered into a State Aid Commitment Deed with HM Treasury of the United Kingdom government, containing commitments and undertakings given by RBS Group to HM Treasury that are designed to ensure that HM Treasury is able to comply with the commitments given by it to the European Commission for the purpose of obtaining approval for the State aid provided to RBS Group. As part of these commitments, RBS Group agreed that RBS Holdings would not pay investors any coupons on, or exercise any call rights in relation to, the hybrid capital instruments issued by RBS N.V. listed below, unless in any such case there was a legal obligation to do so, for an effective period of two years.

The two-year distribution restriction period in relation to the hybrid capital instruments commenced on 1 April 2011 and ended on 1 April 2013.

- 5.90% Non-cumulative Guaranteed Trust Preferred Securities of Funding Trust V (US74928K2087)

- 6.25% Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Funding Trust VI (US74928M2044)

- 6.08% Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Funding Trust VII (US74928P2074)

RBSH Group was also subject to restrictions on the exercise of call rights in relation to its other hybrid capital instruments.

### Dividends

RBSH Group's policy is to pay dividends on ordinary shares taking account the capital position and prospects. For further information on the payment of dividends, see page 111.

## Off-balance sheet arrangements

RBSH Group has no off-balance sheet exposures that have or are reasonably likely to have an adverse effect on its financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources.

For a discussion of the impact of off-balance sheet commitments and contingent liabilities see Note 25 to the Financial Statements.

## Additional information

## Risk factors

Set out below are  risk factors which could have a material adverse effect on the business, operations, financial condition or prospects of RBSH Group and cause RBSH Group's future results to be materially different from expected results. RBSH Group's results could also be affected by competition and other factors. RBSH Group is a principal subsidiary of RBSG and accordingly, risk factors which relate to RBSG and RBS Group will also be of relevance to RBSH Group. The factors discussed in this report should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties.

### RBSH Group is reliant on the RBS Group

RBSH Group is part of the RBS Group and receives capital, liquidity and funding support from the RBS Group. At 31 December 2013, RBSH Group funding included €17.7 billion (2012 - €28.5 billion) due to companies in the RBS Group of which €11.7 billion (2012 - €12.6 billion) was secured. RBSH Group also obtained capital support through its credit protection agreements with RBS. At 31 December 2013, these agreements reduced RBSH Group's regulatory capital requirement by €238 million (2012 - €338 million). In 2009, in connection with the agreement (the Asset Protection Scheme (APS)) between RBS and HM Treasury (HMT), acting on behalf of the UK Government, under which RBS purchased credit protection over a portfolio of specified assets and exposures (covered assets) from HMT, including certain assets recorded on RBSH Group's balance sheet, RBSH Group entered into back-to-back credit protection agreements with RBS (the Contracts) that provide full principal protection over those covered assets attributable to RBSH Group for their remaining life. In addition, much of RBSH Group's banking operations function on the RBS Group's integrated global infrastructure. These operations include: sales and marketing; customer recognition; transaction processing and execution; recordkeeping; settlement services; compliance monitoring; risk management; treasury management; accounting and financial reporting; taxation advice; information technology services; purchasing; office accommodation and administration; human resources management; and internal audit.

The reduction or cessation of the ability of the RBS Group, pursuant to the Contracts or otherwise, to provide intra-group funding, capital injections, liquidity or other support directly or indirectly to RBSH Group may result in funding or capital pressures and liquidity stress for RBSH Group and may have a material adverse effect on the operations, financial condition and results of operations of RBSH Group. As a result of the transfers of a substantial part of the business activities from RBS N.V. to RBS as discussed in the risk factor below headed 'The execution and/or any delay in the execution (or non-completion) of the approved proposed transfers of a substantial part of the business activities of RBS N.V. to RBS may have a material adverse effect on RBSH Group; the residual Group will become more reliant on the RBS Group for capital, liquidity and funding support than it is currently. Accordingly, risk factors which relate to RBSG or the RBS Group will also be of relevance to prospective investors.

## RBSH 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 RBSH Group’s operating results or reputation

RBSH Group’s operations are diverse and complex and it operates in legal and regulatory environments that expose it to potentially significant litigation, regulatory and governmental investigations and other regulatory risk. As a result, RBSH Group is, and may in the future be, involved in a number of legal and regulatory proceedings and investigations in the Netherlands, the United Kingdom, other parts of the EU, the United States and other jurisdictions.

RBSH Group is involved in ongoing class action litigation, continuing rate setting related litigation and investigations, securitisation and securities related litigation, and anti-money laundering, sanctions and compliance related investigations, in addition to a number of other matters. For more detail on RBSH Group’s ongoing legal and regulatory proceedings, see pages 149 to 152. In addition to these ongoing legal and regulatory proceedings, RBS Group has recently settled a number of legal and regulatory investigations including a settlement reached on 6 February 2013, with the Financial Services Authority, the Commodity Futures Trading Association and the United States Department of Justice and on 4 December 2013 in respect of the LIBOR investigations. In addition, RBSG and the Royal Bank reached a settlement with the Board of Governors of the Federal Reserve System, the New York State Department of Financial Services and the Office of Foreign Assets Control with respect to the Royal Bank’s historical compliance with US economic sanction regulations outside the United States. RBS Group continues to cooperate with these and other governmental and regulatory authorities in connection with ongoing investigations and the probable outcome is that it will incur additional financial penalties which may be material. Legal, governmental and regulatory proceedings and investigations are subject to many uncertainties, and their outcomes, including the timing and amount of fines or settlements, which may be material, are often difficult to predict, particularly in the early stages of a case or investigation.

Adverse regulatory proceedings or adverse judgments in litigation could result in restrictions or limitations on RBSH Group’s operations or have a significant effect on RBSH Group’s reputation, results of operations and capital position. It is expected that RBSH Group will continue to have a material exposure to legacy litigation and regulatory matter proceedings in the medium term.

RBSH Group may be required to increase provisions in relation to ongoing legal proceedings, investigations and regulatory matters. Significant increases in provisions may harm RBSH Group’s reputation and may have an adverse effect on RBSH Group’s financial condition and results of operations.

Explanation of Responses:

Additional information

## **Risk factors** continued

RBSH 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 historical, 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. Past or current failure to comply with any one or more of these laws or regulations could have a significant adverse effect on RBSH Group's reputation, financial condition and results of operations.

### RBSH Group could fail to attract or retain senior management, which may include members of RBSH Group's Supervisory Board and Managing Board, or other key employees, and it may suffer losses if it does not maintain good employee relations

RBSH 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 members of RBSH Group's Supervisory Board and Managing Board or 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 RBS Group).

In addition to the effects of such measures on RBSH 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 RBSH Group at a significant competitive disadvantage and prevent RBSH Group from successfully implementing its strategy, which could have a material adverse effect on RBSH Group's financial condition and results of operations.

A number of the members of senior management of the RBS Group are also members of RBSH Group's supervisory board. During 2013, the RBS Group replaced its Chief Executive Officer, Chief Financial Officer and Chief Risk Officer and in October 2013 its newly appointed Chief Financial Officer resigned. A new CFO was appointed with effect from 19 May 2014. Because of the overlap between the members of RBS Group management and RBSH's supervisory board, these changes impacted RBSH, resulting in successive changes of the chairman of the supervisory board. The lack of continuity of senior management and the loss of important personnel within RSBG could have an adverse impact on the implementation of RBSH's strategic objectives and regulatory commitments.

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

### The execution and/or any delay in the execution (or non-completion) of the approved transfers of a substantial part of the business activities of RBS N.V. to RBS plc may have a material adverse effect on RBSH Group

As part of the restructuring of the RBS Group businesses, operations and assets, on 19 April 2011, the RBS Group announced the proposed transfers of a substantial part of the business activities of RBS N.V. to RBS plc (the Transfers). The Transfers have been carried out through 2011, 2012 and 2013 with the transfer of the eligible UK businesses completed during the last quarter of 2011, transfers relating to businesses in Singapore, Hong Kong and Kazakhstan, RBS N.V. businesses and other eligible businesses in the Netherlands, certain EMEA countries, Malaysia, Turkey and the United Arab Emirates completed in 2012 and transfers of businesses in Russia, Romania, Korea and North America completed in 2013. RBSH concluded that it would not be possible to transfer its businesses in China, India, Thailand and Indonesia during 2013. The intention is to transfer the remainder of these businesses to RBS plc.

The process for implementing the Transfers has been and is complex and any failure to satisfy any conditions or complete any preliminary steps to each Transfer may cause a delay in its completion (or result in its non-completion). If any of the remaining Transfers are further delayed (or are not completed) for any reason, such as a failure to secure required regulatory approvals, it is possible that the relevant regulatory authorities could impose sanctions which could adversely impact the minimum regulatory requirements for capital and liquidity of RBS N.V. A delay in implementation of (or any failure to implement) any of the Transfers may therefore adversely impact RBS N.V.'s capital and liquidity resources and requirements, with consequential adverse impacts on its funding resources and requirements, resulting in an increase in its reliance on the RBS Group.

### Operational risks are inherent in RBSH Group's businesses

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. RBSH 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 regimes), equipment failures, business continuity and data security system failures, natural disasters or the inadequacy or failure of systems and controls, including those of RBSH Group's suppliers or counterparties. Although RBSH 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 RBSH Group. Ineffective management of operational risks could have a material adverse effect on RBSH Group's business, financial condition and results of operations.

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Additional information

## **Risk factors** continued

### RBSH 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 Netherlands, the United Kingdom, the United States 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. 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 RBSH Group operates, is likely to increase competitive pressures on RBSH Group.

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

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

RBSH 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 is for steady growth. Risks to growth and stability stem mainly from continued imbalances – among and within countries – and from uncertainty about how economies will respond as the extraordinary monetary policy measures implemented during the crisis are unwound. RBSH Group's businesses and performance are also affected by financial market conditions. Capital and credit markets around the world have been relatively stable since 2012. Although the risk of sovereign default relating to certain EU member states diminished during 2013, a number of EU countries had their credit ratings downgraded, and the lingering risk of a sovereign default continues to pose a threat to capital and credit markets. In addition, in response to actions of central banks, in particular the US Federal Reserve's actions with respect to tapering of its debt purchase program, there have been short periods of rapid movements in interest rates and significant sharp falls on equity markets and further market volatility is likely as tapering continues.

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

- reduced activity levels, additional write-downs and impairment charges and lower profitability, which may restrict the ability of RBSH Group to access funding and liquidity;
- 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 RBSH Group's interest earning assets; and
- the risk of increased volatility in yields and asset valuations as central banks start/accelerate the process of tightening or unwinding historically unprecedented loose monetary policy or extraordinary measures. The resulting environment of uncertainty for the market and consumers will lead to challenging trading and market conditions.

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

### RBSH Group has significant exposure to a weakening of the nascent economic recovery 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 continued to decline in 2013 due to the continuing actions of the European Central Bank (ECB) and the EU, the risk of default remains and yields on the sovereign debt of many EU member states have remained well above pre-crisis levels. This default risk raises concerns, and the possibility remains that the contagion effect spreads to other EU economies, 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 European Monetary Union ("EMU"). This would lead to the re-introduction of individual currencies in one or more EMU member states.

The effects on the European and global economies of any 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 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 would have a material adverse effect on RBSH Group’s financial condition, results of operations and prospects.



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Additional information

## **Risk factors** continued

### RBSH Group is subject to other global risks

By virtue of RBSH Group's global presence, RBSH 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 RBSH Group's business, financial condition and results of operations.

### RBSH 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 RBSH Group's capital is critical to its ability to operate its businesses and to pursue its strategy. RBSH Group is required by regulators in the Netherlands and other jurisdictions in which it undertakes regulated activities to maintain adequate capital resources. The maintenance of adequate capital is also necessary for RBSH Group's financial flexibility in the face of continuing turbulence and uncertainty in the global economy.

The Basel Committee on Banking Supervision's package of reforms to the regulatory capital framework raises the quantity and quality of capital required to be held by a financial institution with an emphasis on common equity Tier 1 ("CET1") capital and introduces an additional requirement for both a capital conservation buffer and a countercyclical buffer to be met with CET1 capital. The Basel Committee also has proposed that global systemically important banks ("GSIBs") be subject to an additional CET1 capital requirement, depending on a bank's systemic importance.

The RBS Group has been identified by the Financial Stability Board ("FSB") as a GSIB. The FSB list of G-SIBs is updated annually, based on new data and changes to methodology. The November 2013 update placed the RBS Group in the second from bottom bucket of G-SIBs, subjecting to more intensive oversight and supervision and requiring it to have additional loss absorption capacity of 1.5% in CET1, to be phased in from the beginning of 2016.

The Basel III rules are dependent on local implementation. The EU legislative package of proposals to implement the changes with a new Directive and Regulation (collectively known as "CRD IV") was finalised in June 2013 paving the way for implementation of Basel III in the EU from 1 January 2014, subject to a number of transitional provisions and clarifications. A number of the requirements introduced under CRD IV will be further supplemented through the Regulatory and Implementing Technical Standards (RTSs/ITSs) produced by the European Banking Authority ("EBA") which are not yet finalised. The EU rules deviate from the Basel III rules in certain aspects (e.g. in imposing an additional systemic risk buffer), and provide national flexibility to apply more stringent prudential requirements than set in the EU (or Basel) framework. Since 1 January 2014, RBSH has been required to comply with the requirements of CRD IV, the EBA's RTSs and ITSs.

In addition, RBS N.V. is among the selected banks that are subject to the comprehensive assessment conducted by the European Central Bank (ECB) and the national competent authorities. The comprehensive assessment is an essential element of the preparations for the Single Supervisory Mechanism (SSM), providing the necessary clarity on the banks that may be subject to the ECB's direct supervision. The comprehensive assessment is expected to be concluded in October 2014 prior to the start of the SSM in November 2014. The outcome of the comprehensive assessment may lead to a range of follow-up actions, possibly including enhanced provisioning, as well as recapitalisation, asset separation and sales, and other measures.

The UK government's implementation of the Independent Commission on Banking's recommendations through the Financial Services (Banking Reform) Act 2013 (the "Banking Reform Act 2013") which became law in the United Kingdom on 18 December 2013 and will be implemented through secondary legislation due to be completed by May 2015, will introduce mechanisms requiring systemically important UK banks and building societies to hold loss absorbing capacity, in addition to the capital held to satisfy their capital requirements under CRD IV, as implemented by the PRA. These requirements, as well as the other recommendations of the ICB, including ring-fencing and other customer protection measures, are to be established through secondary legislation and 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 RBSH Group that may affect the capital requirements of RBSH Group's operations in the US. As the implementation of the ICB recommendations is the subject of secondary legislation not yet adopted and the Federal Reserve's recent proposals are in a comment period, RBSH Group cannot predict the impact such rules will have on the RBS Group's (including RBSH Group's) overall capital requirements or how they will affect the RBS Group's (including RBSH Group's) compliance with applicable capital and loss absorbency requirements.

To the extent RBSH Group has estimated the indicative impact that CRD IV rules 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 RBSH Group (such as deleveraging of legacy positions and securitisations, including the RBS Capital Resolution Group, 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 Netherlands and in other jurisdictions in which RBSH Group operates, including any application of increasingly stringent stress case scenarios by the regulators in the Netherlands and other jurisdictions in which RBSH Group undertakes regulated activities, may require RBSH Group to raise additional Tier 1 (including CET1) and Tier 2 capital by way of further issuances of securities and may result in existing Tier 1 and Tier 2 securities issued by RBSH Group ceasing to count towards RBSH Group's regulatory capital, either at the same level as at present or at all. If RBSH 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 certain additional core and non-core businesses and asset portfolios, which may not occur on a timely basis or achieve prices which would otherwise be attractive to RBSH Group.

Additional information

## **Risk factors** continued

As at 31 December 2013, RBSH Group's Tier 1 and Core Tier 1 capital ratios were 23.2 per cent. and 20.5 per cent., respectively, calculated in accordance with Dutch Central Bank (De Nederlandsche Bank N.V.) requirements.

Any change that limits RBSH 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), to implement its capital plan or to access funding sources, could have a material adverse effect on its financial condition and regulatory capital position.

### An extensive restructuring and balance sheet reduction programme of the RBS Group is ongoing and may adversely affect RBSH Group's business, results of operations, financial condition, capital ratios and liquidity

As part of the restructuring by RBSG of its businesses, operations and assets and RBSH Group's refocus on its disposal programme, RBSH Group was restructured into core and non-core components. Following the creation of the RBS Capital Resolution Group in 2013 resulting from a review of RBSG carried out by HM Treasury, a number of RBSH Group's businesses and asset portfolios previously managed as part of its non-core division were transferred to the RBS Capital Resolution Group. RBS Group has announced its aspiration to remove most if not all of these assets from its balance sheet in three years. RBSH Group expects to further run down or dispose substantially of the remainder of the businesses, assets and portfolios previously managed under its non-core division and not transferred to the RBS Capital Resolution Group.

Because the ability to dispose of businesses and 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 RBSH 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 RBSH Group or at all. Material tax or other contingent liabilities could arise on the disposal of businesses or 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.

RBSH Group may be exposed to 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, RBSH Group may be exposed to certain risks until completion, 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 RBSH Group's ability to implement its strategic plan and could have a material adverse effect on RBSH Group’s business, results of operations, financial condition, capital ratios and liquidity.

## RBSH Group’s borrowing costs, its access to the debt capital markets and its liquidity depend significantly on its credit ratings

The credit rating of RBS N.V. has been subject to change and may change in the future, which could impact its cost of, access to and sources of financing and liquidity. A number of European financial institutions, including RBS N.V. and other RBS Group members, have been downgraded multiple times during the last three years in connection with rating methodology changes, a review of systemic support assumptions incorporated into bank ratings and the likelihood, in the case of UK banks, that the UK Government is more likely in the future to make greater use of its resolution tools to allow burden sharing with debt holders, and in connection with a general review of rating agencies’ methodologies. Most recently credit ratings of RBSG, the Royal Bank, RBSH and other Group members were downgraded in connection with RBSG’s creation of the RBS Capital Resolution Group, coupled with concerns about execution risk, litigation risk and the potential for conduct related fines. Furthermore, subject to any mitigating factors, uncertainties resulting from an affirmative vote in favour of Scottish independence would be likely to have a negative impact on the credit ratings of RBSG and the Royal Bank, and therefore RBSH Group and RBS N.V.

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. Were RBSG’s credit ratings to be further downgraded, this would likely result in a simultaneous downgrade of RBSH Group and RBS N.V. Any further reductions in the long-term or short-term credit ratings of RBS N.V. would increase RBSH Group’s borrowing costs, require RBSH Group to replace funding lost due to the downgrade, which may include the loss of customer deposits, and may also limit RBSH Group’s access to capital and money markets and trigger additional collateral requirements in derivatives contracts and other secured funding arrangements. At 31 December 2013, a simultaneous one notch long-term and associated short-term downgrade in the credit ratings of RBS N.V. by the three main rating agencies would have required RBSH Group to post estimated additional collateral of €239 million, without taking account of mitigating action by management.

The credit ratings of RBS N.V. are also important to RBSH Group when competing in certain markets. As a result, any further reductions in RBS N.V.’s long-term or short-term credit ratings could adversely affect RBSH Group’s access to liquidity and its competitive position, increase its funding costs and have a material adverse impact on RBSH Group’s earnings, cash flow and financial condition.

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**Risk factors** continued

### RBSH Group's ability to meet its obligations including its funding commitments depends on RBSH Group's ability to access sources of liquidity and funding

Liquidity risk is the risk that a bank will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of factors, including an over reliance on a particular source of wholesale funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters.

Credit markets worldwide, including interbank markets, have experienced severe reductions in liquidity and term-funding during prolonged periods in recent years. Although credit markets continued to improve during 2013 (in part as a result of measures taken by central banks around the world, including the ECB), and RBSH 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. Although the measures taken by central banks have had a positive impact, the risk of volatility returning to the global credit markets remains.

The market 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 RBSH Group's access to traditional sources of funding or increase the costs of accessing such funding.

RBSH Group's liquidity and funding management focuses, among other things, on maintaining a diverse and appropriate funding strategy for its assets in line with RBSH Group's wider strategic plan. RBSH 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. Under certain circumstances, RBSH Group may need to seek funds from alternative sources, potentially at higher costs than has previously been the case and/or with higher collateral or may be required to consider disposals of other assets not previously identified for disposal to reduce its funding commitments.

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

### Each of RBSH Group's businesses is subject to substantial regulation and oversight. Significant regulatory developments and changes in the approach of RBSH Group's key regulators has had and is likely to continue to have a material adverse effect on how RBSH Group conducts its business and on its results of operations and financial condition

RBSH 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 have been changing and are subject to further change, particularly in the current regulatory and market environment, where there have been unprecedented levels of government intervention (including nationalisations and injections of 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 RBSH 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 RBS Group's participation in government or regulator-led initiatives), RBSH Group is facing greater regulation and scrutiny in the Netherlands, the United Kingdom, the United States 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 all of the recent regulatory changes, developments and heightened levels of public and regulatory scrutiny will have on RBSH Group, the enactment of legislation and regulations in the Netherlands and other jurisdictions in which RBSH Group operates (such as new liquidity rules in the Netherlands in anticipation of the implementation of, and other changes required by, the EU Capital Requirements Directives, the bank levy and Banking Reform Act 2013 in the United Kingdom, the RRD and CRD IV or the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States) has resulted in increased capital and liquidity requirements, changes in other regulatory requirements and increased operating costs and has impacted, and will continue to impact, products offerings and business models. Such changes may also result in an increased number of regulatory investigations and proceedings. Any of these developments could have an impact on how RBSH Group conducts its business, applicable authorisations and licences, the products and services it offers, its reputation, the value of its assets, and a material adverse effect on its funding costs and its results of operations and financial condition.

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

- 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;

Additional information

## **Risk factors** continued

- restructuring certain of non-retail banking activities 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 and/or related fines and sanctions with respect to lending to small and medium sized businesses 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 RBSH 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 RBSH Group’s profitability, such as the imposition of onerous compliance obligations, further restrictions on business growth, capital, liquidity or pricing;

- the introduction of, and changes to, taxes, levies or fees applicable to RBSH Group's operations (such as the imposition of a financial transaction tax 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 United States).

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations, including contradictory laws, rules or regulations by key regulators in different jurisdictions, may have a material adverse effect on RBSH 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 RBSH Group's ability to engage in effective business, capital and risk management planning.

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

RBSH 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 RBSH 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 RBSH 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 RBSH Group's ability to service its clients, could result in a loss of customers and significant compensation costs, could breach regulations under which RBSH Group operates and could cause long term damage to RBSH Group's business and brand. For example, failure to protect RBSH Group's operations from cyber attacks could result in the loss of customer data or other sensitive information. Although RBSH has been implementing measures to improve its resilience to the increasing intensity and sophistication of cyber-attacks, RBSH expects to be the target of cyber-attacks in the future and there can be no assurance that RBSH will be able to prevent all threats.

## RBSH Group's operations have inherent reputational risk

Reputational risk, meaning the risk of brand damage and/or financial loss due to a failure to meet stakeholders' expectations of RBSH's conduct and performance, is inherent in RBSH's business. Stakeholders include customers, investors, rating agencies, employees, suppliers, government, politicians, regulators, special interest groups, consumer groups, media and the general public. Brand damage can be detrimental to the business of RBSH in a number of ways, including its ability to build or sustain business relationships with customers, low staff morale, regulatory censure or reduced access to, or an increase in the cost of, funding. In particular, negative public opinion resulting from the actual or perceived manner in which RBSH Group conducts its business activities, RBSH Group's financial performance, the level of direct and indirect government support or actual or perceived practices in the banking and financial industry may adversely impact RBSH's ability to keep and attract customers, and in particular, corporate and retail depositors. 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. RBSH 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 RBSH Group's financial condition, results of operations and prospects.

Additional information

## **Risk factors** continued

### RBSH Group may suffer losses due to employee misconduct

RBSH 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 RBSH Group. In recent years, a number of multinational financial institutions have suffered material losses due to the actions of employees. It is not always possible to deter employee misconduct and the precautions RBSH Group takes to prevent and detect this activity may not always be effective.

### The financial performance of RBSH Group has been, and continues to be, materially affected by counterparty credit quality and deteriorations could arise due to prevailing economic and market conditions and legal and regulatory developments

RBSH 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 RBSH Group’s businesses. In particular, RBSH Group has significant exposure to certain individual counterparties in weakened business sectors and geographic markets and also has concentrated country exposure in a limited number of countries in Europe, the United States and Asia. For a discussion of RBSH Group’s exposure to country risk, see pages 57 to 62.

The credit quality of RBSH 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 RBSH Group’s ability to enforce contractual security rights. In addition, RBSH 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 RBSH Group, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced in recent years. Any such losses could have an adverse effect on RBSH 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 RBSH Group. This ‘systemic’ risk may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which RBSH Group interacts on a daily basis, all of which could have a material adverse effect on RBSH Group’s access to liquidity or could result in losses which could have a material adverse effect on

RBSH Group's financial condition, results of operations and prospects.

The EU, the ECB, the International Monetary Fund and various national authorities have proposed and implemented certain measures intended to address systemic financial stresses in the Eurozone, including the creation of a European Banking Union which, through a Single Resolution Mechanism (SRM) will apply the substantive rules of bank recovery and resolution set out in the Recovery and Resolution Directive (RRD). Current expectations are that the RRD, which is intended to provide supervisory authorities with common tools and powers to address banking crises pre-emptively in order to safeguard financial stability and minimize taxpayers' exposure to losses, will be finalized early in 2014. The effectiveness of these and other actions proposed and implemented at both the EU and national level to address systemic stresses in the Eurozone is not assured.

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

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

Some of the most significant market risks RBSH Group faces are interest rate, foreign exchange, credit spread, bond, equity and commodity prices and basis, volatility and correlation risks. Changes in interest rate levels (or extended periods of low interest rates such as experienced over the past several years), yield curves (which remain depressed) and spreads may affect the interest rate margin realised between lending and borrowing costs, the effect of which may be heightened during periods of liquidity stress. Changes in currency rates, particularly in the euro-sterling and euro-US dollar exchange rates, affect the value of assets, liabilities, income and expenses denominated in non-euro currencies and the reported earnings of RBS Holding's non-eurozone incorporated subsidiaries and may affect RBS Holdings' reported consolidated financial condition or RBSH Group's income from foreign exchange dealing. For accounting purposes, RBSH 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 RBSH 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 RBSH Group's investment and trading portfolios. As part of its ongoing derivatives operations, RBSH Group also faces significant basis, volatility and correlation risks, the occurrence of which are also impacted by the factors noted above. While RBSH Group has implemented risk management methods to mitigate and control these and other market risks to which it is exposed, it is difficult to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on RBSH Group's financial performance and business operations.

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Additional information

**Risk factors** continued

### 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 as adopted by the EU (IFRS), RBSH 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, RBSH 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, RBSH Group’s internal valuation models require RBSH 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 RBSH Group’s earnings and financial condition.

### RBSH 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 RBSH Group recording large write-downs on its credit market exposures in recent years. 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 RBSH Group’s exposures. Valuations in future periods, reflecting, among other things, then prevailing market conditions and changes in the credit ratings of certain of RBSH Group’s assets, may result in significant changes in the fair values of RBSH Group’s exposures, including in respect of exposures, such as credit market exposures, for which RBSH Group has previously recorded write-downs. In addition, the value ultimately realised by RBSH Group may be materially different from the current or estimated fair value. As part of the RBSH Group’s strategy it has materially reduced the size of its balance sheet mainly through the sale and run-off of non-core assets. In addition, certain of RBSH Group’s assets that were part of its non-core division together with additional assets identified as part of a HM Treasury review in 2013, form part of RBS Capital Resolution Group as of 1 January 2014. In connection with the establishment of RBS Capital Resolution Group, the RBS Group has indicated its clear aspiration to remove the vast majority, if not all of these assets within three years which has led to increased impairments of £4.5 billion which were recognised in Q4 2013, none of which related to RBSH Group. Despite these impairments, these assets may be difficult to sell and could be subject to further write-downs or, when sold, realised losses. Any of these factors could require RBSH Group to recognise further 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 in recent years 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 regulatory capital treatment of certain deferred tax assets recognised by RBSH Group depends on there being no adverse changes to regulatory requirements

While there was no restriction on the recognition of deferred tax assets at 31 December 2013, the Capital Requirements Regulation, which took effect from 1 January 2014, requires the deduction in full from CET1 capital of deferred tax assets that rely on future profitability and do not arise from temporary differences (for example, deferred tax assets related to trading losses). Other deferred tax assets which rely on future profitability and arise from temporary differences are subject to a threshold test and only the amount in excess of the threshold is deducted from CET1 capital. The Dutch regulator has adopted transitional provisions in relation to the change in the treatment of deferred tax assets. This entails that starting in 2014, a 20% discount will be applied to the deferred tax assets on future profits. Starting from 1 January 2014, deferred tax assets will be fully deducted.

### The recoverability of certain deferred tax assets recognised by RBSH Group depends on RBSH Group’s ability to generate sufficient future taxable profits and there being no adverse changes to tax legislation or accounting standards

In accordance with IFRS, RBSH 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.

Explanation of Responses:

Additional information

## **Risk factors** continued

### The legal demerger of ABN AMRO Bank N.V. (as it was then named) has resulted in a cross liability that changes the legal recourse available to investors

On 6 February 2010, ABN AMRO Bank N.V. (as it was then named) was demerged into two entities, being RBS N.V. (the former ABN AMRO Bank N.V.) and the new ABN AMRO Bank.

In principle, investors now only have recourse to the entity to which the relevant assets and liabilities have been transferred for payments in respect of the appropriate securities. Under the Dutch Civil Code, however, each entity remains liable to creditors for the monetary obligations of the other entity that existed at the date of the legal demerger in the event that the other entity cannot meet its obligations to those creditors. In each case, the liability relates only to obligations existing at the date of the legal demerger.

The liability of RBS N.V. is limited to the equity retained at legal demerger. At the time of the legal demerger, this liability amounted to €4.0 billion and this liability will reduce over time. The liability of the new ABN AMRO Bank N.V. is limited to the amount of equity acquired at legal demerger, which amounted to €1.8 billion, which will also reduce over time.

RBS N.V. has made arrangements to mitigate the risks of liability to the creditors which transferred to the new ABN AMRO Bank upon legal demerger. The new ABN AMRO Bank has also made arrangements to mitigate the risks of liability to the creditors that remain in RBS N.V. Both of these entities hold the level of regulatory capital agreed upon with the Dutch Central Bank for purposes of covering any residual risks.



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## Additional information

## Iran sanctions and related disclosures

### Disclosure pursuant to section 13(r) of the Securities Exchange Act

Section 219 of the Iran Threat Reduction and Syria Human Rights Act of 2012 added a new Section 13(r) to the Exchange Act, requiring an issuer to disclose in its annual or quarterly reports, as applicable, whether, during the period covered by the report, it or any of its affiliates knowingly engaged in specified activities or transactions relating to Iran or with individuals or entities designated under Executive Order 13382 or 13224. Disclosure is required of certain activities conducted outside the United States by non-U.S. entities in compliance with local law, whether or not the activities are sanctionable under U.S. law. In order to comply with this requirement, the following activities of our affiliate RBSG Group are disclosed in response to section 13(r).

### Licensed Payments

During 2013, in full compliance with applicable sanctions and under applicable licenses granted by appropriate authorities, RBS Group facilitated a small number of payments that were remitted by a financial institution designated under Executive Order 13382. The payments related to amounts due to a provider for the provision of medical supplies to a non-designated entity.

RBS Group also facilitated several payments from or to frozen accounts of Iranian government-owned financial institutions and/or financial institutions designated under Executive Order 13382 or 13224 maintained at other financial institutions. These payments related to amounts due to third parties for legal services and IT services provided to such entities, and the refund of payments made following the termination of services. All payments were made or received in full compliance with applicable sanctions and under applicable licences.

During 2013, RBS Group also received a number of payments related to entities identified as part of the Government of Iran and/or entities designated under Executive Order 13382 or 13324. These payments related to amounts due to providers for legal services provided to such entities. All such payments were received in compliance with applicable laws and regulations, and where appropriate, RBS Group made or obtained the required notification, authorisation and/or licence from the applicable regulator.

The transactions described in the above paragraphs resulted in less than the equivalent of £30 in gross revenue to RBS Group for each such transaction. RBS Group intends to continue to engage in transactions similar to those described in this paragraph as long as such transactions are licensed by the proper authorities.

### Account Closure Payments

During 2013, RBS Group maintained a banking relationship with an entity in the UK that became designated under Executive Order 13382 in 2013. Following the designation of the entity, RBS Group terminated the banking relationship and paid the balance of the account to a non-RBS Group account held by the customer. The closure and subsequent payment were made in compliance with applicable rules and regulations. The transactions described in the above resulted in less than the equivalent of £30 in gross revenue to RBS Group for each such transaction.

### Legacy Guarantees

In 2013, in full compliance with applicable sanctions and under general license from the appropriate authorities, RBS Group exited two legacy guarantees (performance bonds) that were originally entered into in 2003 and 2007 in compliance with applicable law. In connection with exiting these guarantees, RBS Group made a payment into a frozen account of one Iranian government-owned financial institution that is designated under Executive Order 13382 maintained at another financial institution. The other guarantee was exited without any payment as the Iranian Government-owned financial institution agreed to waive an existing charge under the guarantee.

Under appropriate license from the applicable authorities, RBS Group holds eight additional legacy guarantees entered into between 1995 and 2005 which support arrangements entered into lawfully by RBS Group customers with Iranian counterparties. These performance bonds are in favour of Iranian government-owned financial institutions that are also designated under Executive Order 13382. RBS Group has made considerable efforts to exit and formally cancel the guarantees. It has been unable to do so to date but intends to terminate these legacy guarantees if changes to the applicable law are made to allow it to terminate them. One of these legacy guarantees was disclosed in RBS Group's Form 20-F for the year ended December 31, 2012. The other seven guarantees were only recently identified as part of a migration of RBS Holdings NV business to the books of another Group affiliate. The affiliate that originally held these guarantees previously sought permission from its regulator to exit these guarantees, but has not yet received a license to do so.

RBS Group received revenue of £3018 in the reporting period in respect of these legacy guarantees. No other payments were made under these guarantees in 2013. If any payments are required to be made under the performance bonds while the beneficiaries remain the targets of EU sanctions, RBS Group intends to make the payments under applicable licence into frozen bank accounts.

### Clearing System

RBS Group participates in local government-run clearing and settlement exchange systems in a number of countries in compliance with applicable laws and regulations. Iranian government-owned banks, including certain banks designated under Executive Order 13382 or 13224, also participate in some of these clearing systems, which creates the risk that RBS Group could participate in transactions in which such Iranian banks are involved. Where legally permissible, RBS Group has instituted procedures to screen and halt any outgoing and incoming payments to and from Iranian banks in these clearing systems prior to settlement. RBS Group has obtained a license from Her Majesty's Treasury to participate in local payment and settlement systems in the United Arab Emirates (UAE). RBS Group intends to continue to participate in the clearing and settlement exchange systems in various countries and will continue to seek to limit the risk of participating in transactions involving Iranian government-owned financial institutions in accordance with applicable laws and regulations. It intends to participate in transactions involving such entities only pursuant to licenses from the appropriate authorities.



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## Additional information

### Documents on Display

We are subject to the information requirements of the US Securities Exchange Act of 1934, as amended, except that as a foreign issuer, we are not subject to the proxy rules or the short-swing profit disclosure rules of the Exchange Act. In accordance therewith, we file or furnish reports and other information with the SEC. For further information about RBSH Group, we refer you to the filings we have made with the SEC. Statements contained in this Annual Report concerning the contents of any document are not necessarily complete. If a document has been filed as an exhibit to any filing we have made with the SEC, we refer you to the copy of the document that has been filed. Each statement in this Annual Report relating to a document filed as an exhibit is qualified in all respects by the filed exhibit.

Reports and other information filed or furnished by us with the SEC may be inspected and copied at the public reference facilities maintained by the SEC at Room 1024, 100 F Street, N.E., Washington D.C. 20549, and at the SEC's regional offices at 233 Broadway, New York, New York 10279 and Northwestern Atrium Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of these materials can also be obtained by mail at prescribed rates from the Public Reference Section of the SEC, 100 F Street, N.E., Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website that contains information filed electronically with the SEC, which can be accessed at www.sec.gov. Some, but not all, of our registration statements and reports are available at the SEC's website.



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Additional information

## Glossary of terms

*Arrears* - the aggregate of contractual payments due on a debt that have not been met by the borrower. A loan or other financial asset is said to be 'in arrears' when payments have not been made.

*Asset-backed securities (ABS)* - securities that represent interests in specific portfolios of assets. They are issued by a special purpose entity following a securitisation. The underlying portfolios commonly comprise residential or commercial mortgages but can include any class of asset that yields predictable cash flows. Payments on the securities depend primarily on the cash flows generated by the assets in the underlying pool and other rights designed to assure timely payment, such as guarantees or other credit enhancements. Collateralised bond obligations, collateralised debt obligations, collateralised loan obligations, commercial mortgage backed securities and residential mortgage backed securities are all types of ABS.

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

*Back-testing* - statistical techniques that assess the performance of a model, and how that model would have performed had it been applied in the past.

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

*Basel III* - in December 2010, the Basel Committee on Banking Supervision issued final rules: ‘Basel III: A global regulatory framework for more resilient banks and banking systems’ and ‘Basel III: International framework for liquidity risk measurement, standards and monitoring’.

*Basis point* - one hundredth of a per cent i.e. 0.01 per cent. 100 basis points is 1 per cent. Used when quoting movements in interest rates or yields on securities.

*Capital requirements regulation (CRR)* - see CRD IV.

*Certificates of deposit (CDs)* - bearer negotiable instruments acknowledging the receipt of a fixed term deposit at a specified interest rate.

*Collateralised debt obligations (CDOs)* - asset-backed securities for which the underlying asset portfolios are debt obligations: either bonds (collateralised bond obligations) or loans (collateralised loan obligations) or both. The credit exposure underlying synthetic CDOs derives from credit default swaps. The CDOs issued by an individual vehicle are usually divided in different tranches: senior tranches (rated AAA), mezzanine tranches (AA to BB), and equity tranches (unrated). Losses are borne first by the equity securities, next by the junior securities, and finally by the senior securities; junior tranches offer higher coupons (interest payments) to compensate for their increased risk.

*Collateralised loan obligations (CLOs)* - asset-backed securities for which the underlying asset portfolios are loans, often leveraged loans.

*Collectively assessed loan impairment provisions* - impairment loss provisions in respect of impaired loans, such as credit cards or personal loans, that are below individual assessment thresholds. Such provisions are established on a portfolio basis, taking account of the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends.

*Commercial mortgage backed securities (CMBS)* - asset-backed securities for which the underlying asset portfolios are loans secured on commercial real estate.

*Commercial paper (CP)* - unsecured obligations issued by a corporate or a bank directly or secured obligations (asset-backed CP), often issued through a commercial paper conduit, to fund working capital. Maturities typically range from two to 270 days. However, the depth and reliability of some CP markets means that issuers can repeatedly roll over CP issuance and effectively achieve longer term funding. CP is issued in a wide range of denominations and can be either discounted or interest-bearing.

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

*Commercial real estate* - freehold and leasehold properties used for business activities. Commercial real estate includes office buildings, industrial property, medical centres, hotels, retail stores, shopping centres, agricultural land and buildings, warehouses, garages etc.

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

*Contractual maturity* - the date in the terms of a financial instrument on which the last payment or receipt under the contract is due for settlement.

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

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

*Cost:income ratio* - operating expenses as a percentage of total income.

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

*Coverage ratio* - impairment provisions as a percentage of impaired loans.

Additional information

**Glossary of terms** continued

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

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

*Credit derivative product company (CDPC)* - a structured entity that sells credit protection under credit default swaps or certain approved forms of insurance policies. Sometimes they can also buy credit protection. CDPCs are similar to monoline insurers. However, unlike monoline insurers, they are not regulated as insurers.

*Credit derivatives* - contractual agreements that provide protection against a credit event on one or more reference entities or financial assets. The nature of a credit event is established by the protection buyer and protection seller at the inception of a transaction, and such events include bankruptcy, insolvency or failure to meet payment obligations when due. The buyer of the credit derivative pays a periodic fee in return for a payment by the protection seller upon the occurrence, if any, of a credit event. Credit derivatives include credit default swaps, total return swaps and credit swap options.

*Credit enhancements* - techniques that improve the credit standing of financial obligations; generally those issued by a structured entity in a securitisation. External credit enhancements include financial guarantees and letters of credit from third-party providers. Internal enhancements include excess spread - the difference between the interest rate received on the underlying portfolio and the coupon on the issued securities; and over-collateralisation - on securitisation, the value of the underlying portfolio is greater than the securities issued.

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

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

*Credit risk assets* - loans and advances (including overdraft facilities), instalment credit, finance lease receivables and other traded instruments across all customer types.

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

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

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

*Currency swap* - an arrangement in which two parties exchange specific principal amounts of different currencies at inception and subsequently interest payments on the principal amounts. Often, one party will pay a fixed rate of interest, while the other will pay a floating rate (though there are also fixed-fixed and floating-floating arrangements). At the maturity of the swap, the principal amounts are usually re-exchanged.

*Customer accounts* - money deposited with RBSH Group by counterparties other than banks and classified as liabilities. They include demand, savings and time deposits; securities sold under repurchase agreements; and other short term deposits. Deposits received from banks are classified as deposits by banks.

*Debt securities* - transferable instruments creating or acknowledging indebtedness. They include debentures, bonds, certificates of deposit, notes and commercial paper. The holder of a debt security is typically entitled to the payment of principal and interest, together with other contractual rights under the terms of the issue, such as the right to receive certain information. Debt securities are generally issued for a fixed term and redeemable by the issuer at the end of that term. Debt securities can be secured or unsecured.

*Debt securities in issue* - unsubordinated debt securities issued by RBSH Group. They include commercial paper, certificates of deposit, bonds and medium-term notes.

*Deferred tax asset* - income taxes recoverable in future periods as a result of deductible temporary differences (temporary differences between the accounting and tax base of an asset or liability that will result in tax deductible amounts in future periods) and the carry-forward of tax losses and unused tax credits.

*Deferred tax liability* - income taxes payable in future periods as a result of taxable temporary differences (temporary differences between the accounting and tax base of an asset or liability that will result in taxable amounts in future periods).

*Defined benefit obligation* - the present value of expected future payments required to settle the obligations of a defined benefit plan resulting from employee service.

Additional information

**Glossary of terms** continued

*Defined benefit plan/scheme* - pension or other post-retirement benefit plan other than a defined contribution plan.

*Defined contribution plan/scheme* - pension or other post-retirement benefit plan where the employer's obligation is limited to its contributions to the fund.

*Deposits by banks* - money deposited with RBSH Group by banks and recorded as liabilities. They include money-market deposits, securities sold under repurchase agreements, federal funds purchased and other short term deposits. Deposits received from customers are recorded as customer accounts.

*Derivative* - a contract or agreement whose value changes with changes in an underlying index such as interest rates, foreign exchange rates, share prices or indices and which requires no initial investment or an initial investment that is smaller than would be required for other types of contracts with a similar response to market factors. The principal types of derivatives are: swaps, forwards, futures and options.

*Discontinued operation* - a component of RBSH Group that either has been disposed of or is classified as held for sale. A discontinued operation is either: a separate major line of business or geographical area of operations or part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations; or a subsidiary acquired exclusively with a view to resale.

*Dutch State* - refers to the State of the Netherlands.

*Economic capital* - an internal measure of the capital required by the RBSH Group to support the risks to which it is exposed

*Effective interest rate method* - the effective interest method is a method of calculating the amortised cost of a financial asset or financial liability (or group of financial assets or liabilities) and of allocating the interest income or interest expense over the expected life of the asset or liability. The effective interest rate is the rate that exactly discounts estimated future cash flows to the instrument's initial carrying amount. Calculation of the effective interest rate takes into account fees payable or receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. All contractual terms of a financial instrument are considered when estimating future cash flows.

*Encumbrance* - an interest in an asset by another party. Encumbrance usually impacts the transferability of the asset and can restrict its free use until the encumbrance is removed.

*Equity risk* - the risk of changes in the market price of the equities or equity instruments arising from positions, either long or short, in equities or equity-based financial instruments.

*Eurozone* - the 17 European Union countries that have adopted the euro: Austria, Belgium, Cyprus, Estonia, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Malta, The Netherlands, Portugal, Slovakia, Slovenia and Spain.

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

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

*Forbearance* - forbearance takes place when changes to the contractual payment terms of a retail loan are agreed in response to the borrower’s financial difficulties.

*Forward contract* - a contract to buy (or sell) a specified amount of a physical or financial commodity, at an agreed price, at an agreed future date.

*Fully loaded Basel III basis* - capital ratios based on the rules that will apply at the end of the Basel III transition period.

*Futures contract* - a contract which provides for the future delivery (or acceptance of delivery) of some type of financial instrument or commodity under terms established at the outset. Futures differ from forward contracts in that they are traded on recognised exchanges and rarely result in actual delivery; most contracts are closed out prior to maturity by acquisition of an offsetting position.

*G10* - Group of Ten comprises the eleven industrial countries (Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, Switzerland, the United Kingdom and the United States) that have agreed to participate in the International Monetary Fund's (IMF's) General Arrangements to Borrow.

*Gross yield* - the interest rate earned on average interest-earning assets i.e. interest income divided by average interest-earning assets.

*Hedge funds* - pooled investment vehicles that are not widely available to the public; their assets are managed by professional asset managers who participate in the performance of the fund.

*Impaired loans* - all loans for which an impairment provision has been established; for collectively assessed loans, impairment loss provisions are not allocated to individual loans and the entire portfolio is included in impaired loans.

*Impairment allowance* - see Loan impairment provisions.

*Impairment losses* - (a) for impaired financial assets measured at amortised cost, impairment losses - the difference between carrying value and the present value of estimated future cash flows discounted at the asset's original effective interest rate - are recognised in profit or loss and the carrying amount of the financial asset reduced by establishing a provision (allowance) (b) for impaired available-for-sale financial assets, the cumulative loss that had been recognised directly in equity is removed from equity and recognised in profit or loss as an impairment loss.



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Additional information

**Glossary of terms** continued

*Individually assessed loan impairment provisions* - impairment loss provisions for individually significant impaired loans assessed on a case-by-case basis, taking into account the financial condition of the counterparty and any guarantor and the realisable value of any collateral held.

*Interest rate swap* - a contract under which two counterparties agree to exchange periodic interest payments on a predetermined monetary principal, the notional amount.

*Interest spread* - the difference between the gross yield and the interest rate paid on average interest-bearing liabilities.

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

*Internal funding of trading business* - the internal funding of the trading book comprises net banking book financial liabilities that fund financial assets in RBSH Group's trading portfolios. Interest payable on these financial liabilities is charged to the trading book.

*International Accounting Standards Board (IASB)* - the independent standard-setting body of the IFRS Foundation. Its members are responsible for the development and publication of International Financial Reporting Standards (IFRSs) and for approving Interpretations of IFRS as developed by the IFRS Interpretations Committee.

*International Swaps and Derivatives Association (ISDA) master agreement* - a standardised contract developed by ISDA for bilateral derivatives transactions. The contract grants legal rights of set-off for derivative transactions with the same counterparty.

*Investment grade* - generally represents a risk profile similar to a rating of BBB-/Baa3 or better, as defined by independent rating agencies.

*Key management* - members of the Managing Board of RBSH Group.

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

*Level 1* - level 1 fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.

*Level 2* - level 2 fair value measurements use inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly.

*Level 3* - level 3 fair value measurements use one or more unobservable inputs for the asset or liability.

*Leverage ratio* - a measure prescribed under Basel III. It is the ratio of tier 1 capital to total exposures. Total exposures include on-balance sheet items, off-balance sheet items and derivatives, and generally follow the accounting measure of exposure.

*Leveraged finance* - funding (leveraged finance) provided to a business resulting in an overall level of debt in relation to cash flow that exceeds that which would be considered usual for the business or for the industry in which it operates. Leveraged finance is commonly employed to achieve a specific, often temporary, objective: to make an acquisition, to effect a buy-out or to repurchase shares.

*Liquidity and funding risk* - the risk that RBSH Group does not have sufficient financial resources to meet its commitments when they fall due, or can secure them only at excessive cost.

*Liquidity coverage ratio (LCR)* - the ratio of the stock of high quality liquid assets to expected net cash outflows over the following 30 days. High-quality liquid assets should be unencumbered, liquid in markets during a time of stress and, ideally, be central bank eligible. These include, for example, cash and claims on central governments and central banks. The Basel III rules require this ratio to be at least 100% and it is expected to apply from 2015.

*Liquidity enhancements* - make funds available to ensure that the issuer of securities, usually a commercial paper conduit, can redeem the securities at maturity. They typically take the form of a committed facility from a third-party bank.

*Loan-to-deposit ratio* - the ratio of loans and advances to customers net of provision for impairment losses and excluding reverse repurchase agreements to customer deposits excluding repurchase agreements.

*Loan impairment provisions* - loan impairment provisions are established to recognise incurred impairment losses on a portfolio of loans classified as loans and receivables and carried at amortised cost. It has three components: individually assessed loan impairment provisions, collectively assessed loan impairment provisions and latent loss provisions.

*Loan-to-value ratio* - the amount of a secured loan as a percentage of the appraised value of the security e.g. the outstanding amount of a mortgage loan as a percentage of the property's value.

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

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

*Master netting agreement* - an agreement between two counterparties that have multiple derivative contracts with each other that provides for the net settlement of all contracts through a single payment, in a single currency, in the event of default on, or termination of, any one contract.

Additional information

**Glossary of terms** continued

*Medium term notes (MTNs)* - debt securities usually with a maturity of five to ten years, but the term may be less than one year or as long as 50 years. They can be issued on a fixed or floating coupon basis or with an exotic coupon; with a fixed maturity date (non-callable) or with embedded call or put options or early repayment triggers. MTNs are generally issued as senior unsecured debt.

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

*Mortgage-backed securities* - asset-backed securities for which the underlying asset portfolios are loans secured on property. See Residential mortgage backed securities and Commercial mortgage backed securities.

*Net interest income* - the difference between interest receivable on financial assets classified as loans and receivables or available-for-sale and interest payable on financial liabilities carried at amortised cost.

*Net interest margin* - net interest income as a percentage of average interest-earning assets.

*Net stable funding ratio (NSFR)* - the ratio of available stable funding to required stable funding over a one year time horizon, assuming a stressed scenario. Available stable funding includes items such as equity capital, preferred stock with a maturity of over one year and liabilities with an assessed maturity of over one year.

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

*Option* - an option is a contract that gives the holder the right but not the obligation to buy (or sell) a specified amount of the underlying physical or financial commodity, at a specific price, at an agreed date or over an agreed period. Options can be exchange-traded or traded over-the-counter.

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

*Own credit adjustment (OCA)* - the effect of RBSH Group’s own credit standing on the fair value of financial liabilities.

*Past due* - a financial asset such as a loan is past due when the counterparty has failed to make a payment when contractually due.

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

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

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

*Potential problem loans (PPL)* - loans for which an impairment event has taken place but no impairment loss is expected. This category is used for advances which are not past due 90 days or revolving credit facilities where identification as 90 days overdue is not feasible.

*Private equity investments* - equity investments in operating companies not quoted on a public exchange. Capital for private equity investment is raised from retail or institutional investors and used to fund investment strategies such as leveraged buyouts, venture capital, growth capital, distressed investments and mezzanine capital.

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

*Regular way purchase or sale* - a purchase or sale of a financial asset under a contract whose terms require delivery of the asset within the time frame established generally by regulation or convention in the marketplace concerned.

*Regulatory capital* - the amount of capital that RBSH Group holds, determined in accordance with rules established by the DNB for the RBSH Group and by local regulators for individual Group companies.

*Repurchase agreement (Repo)* - see Sale and repurchase agreements.

*Residential mortgage* - a loan to purchase a residential property where the property forms collateral for the loan. The borrower gives the lender a lien against the property and the lender can foreclose on the property if the borrower does not repay the loan per the agreed terms. Also known as a home loan.

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

*Retail loans* - loans made to individuals rather than institutions. The loans may be for car purchases, home purchases, medical care, home repair, holidays and other consumer uses.

*Reverse repurchase agreement (Reverse repo)* - see Sale and repurchase agreements.

*Risk appetite* - an expression of the maximum level of risk that RBSH Group is prepared to accept to deliver its business objectives.

*Risk elements in lending (REIL)* - impaired loans and accruing loans which are contractually overdue 90 days or more as to principal or interest.

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

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Additional information

**Glossary of terms** continued

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

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

*Settlement balances* - payables and receivables that result from purchases and sales of financial instruments recognised on trade date.  Asset settlement balances are amounts owed to RBSH Group in respect of sales and liability settlement balances are amounts owed by RBSH Group in respect of purchases.

*Sovereign exposures* - exposures to governments, ministries, departments of governments and central banks.

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

*Standstill* - is an agreement, usually for a specified period of time, not to enforce the Bank's rights as a result of a customer breaching the terms and conditions of their facilities. This is a concession to the customer. A standstill is most commonly used in a complex restructuring of a company's debts, where a group of creditors agree to delay enforcement action to give the company time to gather information and formulate a strategy with a view to establishing a formal restructuring.

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

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

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

*Structured notes* - securities that pay a return linked to the value or level of a specified asset or index. Structured notes can be linked to equities, interest rates, funds, commodities and foreign currency.

*Subordinated liabilities* - liabilities which, in the event of insolvency or liquidation of the issuer, are subordinated to the claims of depositors and other creditors of the issuer.

*Super senior CDO* - the most senior class of instrument issued by a CDO vehicle. They benefit from the subordination of all other instruments, including AAA rated securities, issued by the CDO vehicle.

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

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

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

*Unaudited* - financial information that has not been subjected to the audit procedures undertaken by RBSH Group's auditor to enable them to express an opinion on RBSH Group's financial statements.

*US Federal Agencies* - are independent bodies established by the US Government for specific purposes such as the management of natural resources, financial oversight or national security. A number of agencies, including, the Government National Mortgage Association, issue or guarantee publicly traded debt securities.

*Value-at-risk (VaR)* - a technique that produces estimates of the potential change in the market value of a portfolio over a specified time horizon at given confidence levels.

*Wholesale funding* - wholesale funding comprises Deposits by banks, Debt securities in issue and Subordinated liabilities.

*Write-down* - a reduction in the carrying value of an asset to record a decline in its fair value or value in use.



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## Important addresses

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Registered office

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1082 ME Amsterdam

PO Box 12925

The Netherlands

Website

www.rbs.nl

**INDEX TO EXHIBITS**

| Exhibit No. | Description |
|---|---|
| 1.1 [(1)] | English translation of the amended Articles of Association of RBS Holdings N.V. |
| 7.1 | Explanation of ratio calculations |
| 12.1 | CEO certification required by Rule 13a-14(a) |
| 12.2 | CFO certification required by Rule 13a-14(a) |
| 13.1 | Certification required by Rule 13a-14(b) |
| 15.1 | Consent of Deloitte LLP, independent registered public accounting firm |
| 15.2 | Consent of Deloitte Accountants B.V., independent registered public accounting firm |
| 15.3 [(2)] | Risk factors of The Royal Bank of Scotland Group plc |

(1) Previously filed as exhibit 1.1 to our annual report on Form 20-F for the year ended December 31, 2010, filed on March 30, 2011 (File No 001-14624).

(2) Incorporated herein by reference to pages 513 to 526 of the annual report on Form 20-F of The Royal Bank of Scotland Group plc for the year ended December 31, 2013, filed on April 30, 2014 (File No 001-10306).

## Signatures

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

| | | | | |
|---|---|---|---|---|
| | **RBS HOLDINGS N.V.** | | | |
| | (Registrant) | | | |
| April 30, 2014 | By: | /s/ Jan de Ruiter | | |
| | | Name: | Jan de Ruiter | |
| | | Title: | Chairman of the Managing Board | |
| | By: | /s/ Cornelis Visscher | | |
| | | Name: | Cornelis Visscher | |
| | | Title: | Chief Financial Officer | |