

Dated 15 July 2013

**RBS HOLDINGS N.V.**  
and  
**THE ROYAL BANK OF SCOTLAND N.V.**

**REGISTRATION DOCUMENT**

## Table of Contents

	Page
INTRODUCTION .....	1
CERTAIN DEFINITIONS .....	3
RISK FACTORS .....	4
DESCRIPTION OF RBS HOLDINGS N.V. AND THE ROYAL BANK OF SCOTLAND N.V. ....	39
CORPORATE GOVERNANCE .....	47
GUARANTEE GIVEN BY RBS HOLDINGS N.V. IN RESPECT OF DEBT OBLIGATIONS OF THE ROYAL BANK OF SCOTLAND N.V. ....	54
SUMMARY CONSOLIDATED FINANCIAL INFORMATION RELATING TO RBS HOLDINGS N.V. .....	55
DELOITTE ASSURANCE REPORT - UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION RELATING TO RBS HOLDINGS N.V. ....	57
GENERAL INFORMATION .....	60
FORWARD-LOOKING STATEMENTS .....	62
DOCUMENTS INCORPORATED BY REFERENCE .....	64

## INTRODUCTION

This document constitutes a registration document (“**Registration Document**”) for the purposes of Article 5.3 of Directive 2003/71/EC (and amendments thereto, including Directive 2010/73/EU, to the extent that such amendments have been implemented in the relevant Member State of the European Economic Area) (the “**Prospectus Directive**”) and has been prepared for the purpose of giving information with respect to RBS Holdings N.V. (previously named ABN AMRO Holding N.V.) (“**RBS Holdings**”) and The Royal Bank of Scotland N.V. (previously named ABN AMRO Bank N.V.) (“**RBS N.V.**”), each of whose registered office address appears on the last page of this Registration Document, and their respective consolidated subsidiaries which, according to the particular nature of RBS Holdings and RBS N.V. and the securities which they may offer to the public or apply to have admitted to trading on a regulated market, is necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profit and losses and prospects of RBS Holdings and RBS N.V.

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

This Registration Document was approved by The Netherlands Authority for the Financial Markets (*Autoriteit Financiële Markten*, the “**AFM**”) for the purposes of the Prospectus Directive on 15 July 2013.

RBS N.V. has been assigned a “bbb” rating by Standard & Poor’s Credit Market Services Europe Limited (“**Standard & Poor’s**”) and a “baa3” rating by Moody’s Investors Service Limited (“**Moody’s**”).

As defined by Standard & Poor’s, a “bbb” rating indicates that RBS N.V. has adequate capacity to meet its financial commitment. However, adverse economic conditions or changing circumstances are more likely to lead to a weakened capacity to meet its financial commitments. As defined by Moody’s, a “baa3” rating means the ability of RBS N.V. to meet its financial obligations is judged to be medium-grade and subject to moderate credit risk and as such may possess certain speculative characteristics. As defined by Moody’s, the addition of a “3” indicates that the obligation ranks in the lower end of its generic rating category.

The rating definitions set out above constitute third-party information and were obtained in the English language from (i) the publication entitled “Standard & Poor’s Ratings Definitions — 30 May 2013” published by Standard & Poor’s (available at [www.standardandpoors.com](http://www.standardandpoors.com)) and (ii) the publication entitled “Rating Symbols and Definitions — June 2013” published by Moody’s (available at [www.moodys.com](http://www.moodys.com)). The information found at the websites referred to in the previous sentence does not form part of and is not incorporated by reference into this Registration Document. The rating definitions set out above have been accurately reproduced from the sources identified above and, so far as RBS N.V. is aware and is able to ascertain from information published by the third parties referred to above, no facts have been omitted which would render the ratings definitions set out above inaccurate or misleading.

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

The credit ratings included and referred to in this Registration Document have been issued by Standard & Poor’s Credit Market Services Europe Limited and Moody’s Investors Service Limited, each of which is established in the European Union and is registered under Regulation (EC) No

1060/2009 of the European Parliament and of the Council of 16 September 2009 on credit rating agencies.

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

## CERTAIN DEFINITIONS

Throughout this Registration Document, the “**Group**” refers to RBS Holdings and its consolidated subsidiaries. The term “**RBSG**” refers to The Royal Bank of Scotland Group plc and the term “**RBSG Group**” refers to RBSG and its subsidiaries consolidated in accordance with International Financial Reporting Standards. The term “**RBS**” refers to The Royal Bank of Scotland plc.

The terms “**Consortium**” and “**Consortium Members**” refer to RBSG, Fortis N.V. and Fortis S.A./N.V. (together “**Fortis**”) and Banco Santander S.A. (“**Santander**”) who jointly acquired RBS Holdings on 17 October 2007 through RFS Holdings B.V. (“**RFS Holdings**”). On 3 October 2008, the State of The Netherlands (the “**Dutch State**”) acquired Fortis Bank Nederland (Holding) N.V., including the interest in RFS Holdings that represents the acquired activities of ABN AMRO Holding N.V. (prior to legal separation, as discussed below) and effectively became the successor of Fortis in the Consortium Shareholder Agreement entered into between RBSG, Fortis, Fortis Bank Nederland (Holding) N.V. and Santander on 28 May 2007.

The term “**legal demerger**” refers to the legal demerger (*juridische splitsing*) under Title 7, Section 4 of Book 2 of the Dutch Civil Code of ABN AMRO Holding N.V. into RBS N.V. and the new ABN AMRO Bank as effected by the transfer of the Dutch State acquired businesses to the new ABN AMRO Bank from RBS N.V. with effect from 6 February 2010 and includes, for the avoidance of doubt, certain subsidiaries and assets and liabilities that were separately transferred to the new ABN AMRO Bank ahead of the execution of the legal demerger and some further assets and liabilities that may separately be transferred to the new ABN AMRO Bank after the execution of the legal demerger.

The term “**legal separation**” refers to the legal separation of ABN AMRO Bank N.V. that occurred on 1 April 2010, with the shares in that entity being transferred by RBS Holdings to a holding company called ABN AMRO Group N.V., which is owned by the Dutch State.

The term “**new ABN AMRO Bank**” means ABN AMRO Bank N.V. (previously named ABN AMRO II N.V.) and its consolidated subsidiaries.

## RISK FACTORS

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

*Set out below are certain risk factors which could have a material adverse effect on the business, operations, financial condition or prospects of the Group and cause the Group's future results to be materially different from expected results. The Group's results could also be affected by competition and other factors. Risk factors below which relate to RBSG or to the RBSG Group will also be of relevance to prospective investors making an investment decision with respect to the securities issued by RBS Holdings and RBS N.V. Specifically, the section headed "Risk Factors" on pages 3 to 23 of the RBSG Registration Document (the "**RBSG Risk Factors**") is incorporated by reference into this Registration Document.*

### **Risks relating to the Group**

#### **Macro-economic and geopolitical risks**

##### **The Group is reliant on the RBSG Group**

The Group is part of the RBSG Group and receives capital, liquidity and funding support from the RBSG Group. At 31 December 2012, the Group funding included €28.5 billion (31 December 2011 –€34.4 billion) due to companies in the RBSG Group of which €12.6 billion (31 December 2011 – €15.7 billion) was secured. The Group also obtained capital support through its credit protection agreements with RBS (for further information see page 99 of the 2012 Annual Report). At 31 December 2012, these agreements reduced the Group's regulatory capital requirement by €338 million (31 December 2011 –€654 million).

In 2009, in connection with the agreement (the Asset Protection Scheme (the "**APS**")) between RBS and HM Treasury, acting on behalf of the UK Government, under which RBS purchased credit protection over a portfolio of specified assets and exposures (covered assets) from HM Treasury, including certain assets recorded on the Group's balance sheet, the Group entered into back-to-back credit protection agreements with RBS (the "**Contracts**") that provide full principal protection over those covered assets attributable to the Group for their remaining life. The exit by RBS from the APS on 18 October 2012 has not impacted the Contracts and as a result, there has been no change to these contracts for the year ended 31 December 2012.

In addition, much of the Group's banking operations function on the RBSG Group's integrated global infrastructure. These operations include: sales and marketing; customer recognition; transaction processing and execution; record-keeping; 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 RBSG Group, pursuant to the Contracts or otherwise, to provide intra-group funding, capital injections, liquidity or other support directly or indirectly to the Group may result in funding or capital pressures and liquidity stress for the Group and may have a material adverse effect on the operations, financial condition and results of operations of the 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 transfers of a substantial part of the business activities of RBS N.V. to RBS may have a material adverse effect on the Group', the residual Group will become more reliant on the RBSG Group for capital, liquidity and funding support than it is currently. Accordingly, risk factors which relate to RBSG or the RBSG Group will also be of relevance to prospective investors. These are described below under the heading "Risk Factors relevant to RBSG and/or the RBSG Group".

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

The Group's businesses and performance are affected by local and global economic conditions, perceptions of those conditions and future economic prospects. The outlook for the global economy over the near to medium-term remains challenging and many forecasts predict at best only stagnant or modest levels of gross domestic product ("GDP") growth across a number of the Group's key markets over that period including, in particular, the US, Asia and Europe.

Weak GDP is also expected in the European Monetary Union ("EMU") where a relatively robust German economy has been offset by austerity measures in many EMU countries, initiated in response to increased sovereign debt risk, which have resulted in weak economic and GDP growth, particularly in Spain, Italy and France. The Group's businesses and performance are also affected by financial market conditions. Although capital and credit markets around the world were more stable during 2012, they remained volatile and subject to intermittent and prolonged disruptions. In particular, increasingly during the second and third quarters of 2012, continuing risk of sovereign default relating to certain EU member states had a negative impact on capital and credit markets.

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

- downward pressure on asset prices and on credit availability and upward pressure on funding costs, and such conditions continue to impact asset recovery rates and the credit quality of the Group's businesses, customers and counterparties, including sovereigns;
- alone or in combination with regulatory changes or actions of market participants, reduced activity levels, additional write-downs and impairment charges and lower profitability, and may restrict the ability of the Group to access funding and liquidity; and
- central bank actions to engender economic growth which have resulted in a prolonged period of low interest rates constraining, through margin compression and low returns on assets, the interest income earned on the Group's interest earning assets.

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

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

In Europe, countries such as Ireland, Italy, Greece, Portugal and Spain have been particularly affected by the recent macroeconomic and financial conditions. Although the risk of sovereign default reduced in 2012 due to actions of the European Central Bank ("ECB") and the EU, the risk of default remains. This default risk raises concerns, particularly about the contagion effect such a default would have on other EU economies, as well as the ongoing viability of the euro currency and the EMU. As a result, yields on the sovereign debt of many EU member states have remained

volatile. The EU, the ECB, the International Monetary Fund and various national authorities have implemented measures intended to address systemic stresses in the Eurozone. The effectiveness of these actions is not assured and the possibility remains that the contagion effect spreads, that the euro could be abandoned as a currency by one or more countries that have already adopted its use, or in an extreme scenario, that the abandonment of the euro could result in the dissolution of the EMU. This would lead to the re-introduction of individual currencies in one or more EMU member states.

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

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

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

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

The competitive landscape for banks and other financial institutions in the 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 the Group operates, is likely to increase competitive pressures on the Group.

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

### **The Group is subject to other global risks**

By virtue of the Group's global presence, the Group is exposed to risks arising out of geopolitical events, such as the existence of trade barriers, the implementation of exchange controls and other measures taken by sovereign governments that can hinder economic or financial activity levels. Furthermore, unfavourable political, military or diplomatic events, armed conflict, pandemics and terrorist acts and threats, and the response to them by governments could also adversely affect

levels of economic activity and have an adverse effect upon the Group's business, financial condition and results of operations.

### **Market and credit related risks**

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

Severe market events have resulted in the Group recording large write-downs on its credit market exposures in recent years particularly early in the financial crisis. Any deterioration in economic and financial market conditions or continuing weak economic growth could lead to further impairment charges and write-downs. Moreover, market volatility and illiquidity (and the assumptions, judgements and estimates in relation to such matters that may change over time and may ultimately not turn out to be accurate) make it difficult to value certain of the Group's exposures. Valuations in future periods, reflecting, among other things, then prevailing market conditions and changes in the credit ratings of certain of the Group's assets, may result in significant changes in the fair values of the Group's exposures, even in respect of exposures, such as credit market exposures, for which the Group has previously recorded write-downs. In addition, the value ultimately realised by the Group may be materially different from the current or estimated fair value. Any of these factors could require the Group to recognise additional significant write-downs or realise increased impairment charges, which may have a material adverse effect on its financial condition, results of operations and capital ratios. In addition, steep falls in perceived or actual asset values have been accompanied by a severe reduction in market liquidity, as exemplified by losses arising out of asset-backed collateralised debt obligations, residential mortgage-backed securities and the leveraged loan market. In dislocated markets, hedging and other risk management strategies may not be as effective as they are in normal market conditions due in part to the decreasing credit quality of hedge counterparties.

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

The Group has exposure to many different industries and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and counterparties are inherent in a wide range of the Group's businesses. In particular, the Group has significant exposure to certain individual counterparties in weakened business sectors and geographic markets and also has concentrated country exposure in a limited number of countries in Europe, the United States and Asia. For a discussion of the Group's exposure to country risk, see pages 76 to 84 of the 2012 Annual Report.

The credit quality of the Group's borrowers and counterparties is impacted by prevailing economic and market conditions and by the legal and regulatory landscape in their respective markets. A further deterioration in economic and market conditions or changes to legal or regulatory landscapes could worsen borrower and counterparty credit quality and also impact the Group's ability to enforce contractual security rights. In addition, the Group's credit risk is exacerbated when the collateral it holds cannot be realised or is liquidated at prices not sufficient to recover the full amount of the loan or derivative exposure that is due to the Group, which is most likely to occur during periods of illiquidity and depressed asset valuations, such as those experienced in recent years. Any such losses could have an adverse effect on the Group's results of operations and financial condition.

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

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

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

Some of the most significant market risks the Group faces are interest rate, foreign exchange, credit spread, bond, equity and commodity prices and basis, volatility and correlation risks. Changes in interest rate levels (or extended periods of low interest rates), yield curves (which remain depressed) and spreads may affect the interest rate margin realised between lending and borrowing costs, the effect of which may be heightened during periods of liquidity stress. Changes in currency rates, particularly in the 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 the Group's income from foreign exchange dealing. For accounting purposes, the Group values some of its issued debt, such as debt securities, at the current market price. Factors affecting the current market price for such debt, such as the credit spreads of the Group, may result in a change to the fair value of such debt, which is recognised in the income statement as a profit or loss.

The performance of financial markets affects bond, equity and commodity prices, which has caused, and may in the future cause, changes in the value of the Group's investment and trading portfolios. As part of its ongoing derivatives operations, the Group also faces significant basis, volatility and correlation risks, the occurrence of which are also impacted by the factors noted above. While the Group has implemented risk management methods to mitigate and control these and other market risks to which it is exposed, it is difficult, particularly in the current environment, to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the Group's financial performance and business operations.

**Funding, liquidity and capital related risks**

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

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

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

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

The Group's liquidity management focuses, among other things, on maintaining a diverse and appropriate funding strategy for its assets in line with the Group's wider strategic plan. The Group has, at times, been required to rely on shorter-term and overnight funding with a consequent reduction in overall liquidity, and to increase its recourse to liquidity schemes provided by central banks. Such schemes require the pledging of assets as collateral and changes to asset valuations or eligibility criteria can negatively impact the available assets and reduce available liquidity access particularly during periods of stress when such lines may be needed most. Although conditions have improved, there have been recent periods where corporate and financial institution counterparties have reduced their credit exposures to banks and other financial institutions, limiting the availability of these sources of funding. Increased competition for funding during 2013 due to the significant levels of refinancing expected to be required by financial institutions, may also reduce the level of funding available from these sources. Under certain circumstances, the Group may need to seek funds from alternative sources, potentially at higher costs than has previously been the case or may be required to consider disposals of other assets not previously identified for disposal to reduce its funding commitments.

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

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

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

The Basel Committee has proposed that global systemically important financial institutions (“**GSIFs**”) be subject to an additional common equity Tier 1 capital requirement, depending on a bank’s systemic importance.

RBSG Group has been identified by the Financial Stability Board as a GSIFI. As a result, the RBSG Group was required to meet resolution planning requirements by the end of 2012 as well as have additional loss absorption capacity. In addition, GSIFIs will be subjected to more intensive and effective supervision. The additional capital requirements are to be applied to GSIFIs identified in 2014 (the Financial Stability Board will update its list every three years) and phased in beginning in 2016.

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

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

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

The Basel Committee changes and other future changes to capital adequacy and liquidity requirements in the Netherlands and in other jurisdictions in which the Group operates, including any application of increasingly stringent stress case scenarios by the regulators in the Netherlands and other jurisdictions in which the Group undertakes regulated activities, may require the Group to raise additional Tier 1 (including Core Tier 1) and Tier 2 capital by way of further issuances of securities and will result in existing Tier 1 and Tier 2 securities issued by the Group ceasing to count towards the Group’s regulatory capital, either at the same level as present or at all. If the Group is unable to raise the requisite Tier 1 and Tier 2 capital, it may be required to reduce further the amount of its risk-weighted assets and engage in the disposal of core and other non-core businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to the Group.

As at 31 December 2012, the Group's Tier 1 and Core Tier 1 capital ratios were 13.9 per cent. and 11.7 per cent., respectively, calculated in accordance with Dutch Central Bank (De Nederlandsche Bank N.V.) requirements.

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

**The Group's borrowing costs, its access to the debt capital markets and its liquidity depend significantly on its 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 RBSG Group members, were downgraded during the course of 2011 and 2012 in connection with a review of systemic support assumptions incorporated into bank ratings and the likelihood, in the case of UK banks, that the UK Government is more likely in the future to make greater use of its resolution tools to allow burden sharing with bondholders, and in connection with a general review of rating agencies' methodologies. Rating agencies continue to evaluate the rating methodologies applicable to UK and European financial institutions and any change in such rating agencies' methodologies could materially adversely affect the credit ratings of Group companies. Any further reductions in the long-term or short-term credit ratings of RBS N.V. would increase the Group's borrowing costs, require the Group to replace funding lost due to the downgrade, which may include the loss of customer deposits, and may also limit the Group's access to capital and money markets and trigger additional collateral requirements in derivatives contracts and other secured funding arrangements. At 31 December 2012, a simultaneous one notch long-term and associated short-term downgrade in the credit ratings of RBS N.V. by the three main rating agencies would have required the Group to post estimated additional collateral of €732 million, without taking account of mitigating action by management.

The credit ratings of RBS N.V. are also important to the 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 the Group's access to liquidity and its competitive position, increase its funding costs and have a material adverse impact on the Group's earnings, cash flow and financial condition.

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

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

## **Risks to implementation of the Group's strategy**

### **An extensive restructuring and balance sheet reduction programme of the RBSG Group is ongoing and may adversely affect the 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 the Group's refocus on its disposal programme, the Group has been restructured into Core and Non-Core components. The Group expects to further run down or dispose of substantially all of the businesses, assets and portfolios within the Non-Core division by the end of 2013.

Because the ability to dispose of assets and the price achieved for such disposals will be dependent on prevailing economic and market conditions, which remain challenging, there is no assurance that the Group will be able to sell or run-down (as applicable) those remaining businesses it is seeking to exit or asset portfolios it is seeking to sell either on favourable economic terms to the Group or at all. Material tax or other contingent liabilities could arise on the disposal of assets and there is no assurance that any conditions precedent agreed will be satisfied, or consents and approvals required will be obtained in a timely manner, or at all.

The Group may be liable for any deterioration in businesses or portfolios being sold between the announcement of the disposal and its completion, which period may be lengthy and may span many months. In addition, the Group may be exposed to certain risks 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 the Group's ability to implement its strategic plan and could have a material adverse effect on the Group's business, results of operations, financial condition, capital ratios and liquidity.

### **The 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 may have a material adverse effect on the Group**

As part of the restructuring of the RBSG Group businesses, operations and assets, on 19 April 2011, the RBSG Group announced the proposed transfers of a substantial part of the business activities of RBS N.V. to RBS (the "**Transfers**"). Subject to, among other matters, regulatory and other approvals, it is expected that the Transfers will be substantially completed by 31 December 2013. Substantial progress has been made in transferring businesses to RBS during 2011 and 2012 (see page 9 of the 2012 Annual Report). RBS Holdings N.V., however, has concluded that it will no longer be possible to transfer its businesses in China before 31 December 2013. Consideration is being given to the options for the transfer of businesses in China at a later date.

The process for implementing the Transfers 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 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 RBSG Group.

### **As a condition to the RBSG Group receiving HM Treasury support, the Group was prohibited from making discretionary coupon payments on, and exercising call options in**

**relation to, certain of its existing hybrid capital instruments. If the Group becomes subject to such restrictions again in the future, this may impair the Group's ability to raise new capital through the issuance of securities**

The RBSG Group was required to obtain State Aid approval for the aid given to the RBSG Group by Her Majesty's Treasury in the United Kingdom ("**HM Treasury**") as part of the placing and open offer undertaken by the RBSG Group in December 2008, the issuance to HM Treasury of £25.5 billion of B shares in the capital of RBSG, which are, subject to certain terms and conditions, convertible into ordinary shares in the share capital of RBSG and a contingent commitment by HM Treasury to subscribe for up to an additional £8 billion of B shares in the capital of RBSG Group if certain conditions are met (together, the "**State Aid**"). In that context, as part of the terms of the State Aid approval, the RBSG Group, together with HM Treasury, agreed with the terms of a State Aid restructuring plan. On 26 November 2009, RBSG also entered into a State Aid Commitment Deed with HM Treasury containing commitments and undertakings given by RBSG 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 RBSG.

It is possible that the Group may, in future, be subject to such restrictions on payments on the Group's hybrid capital instruments, whether as a result of undertakings given to regulatory bodies, changes to capital requirements such as the Basel III rules published by the Basel Committee on 16 December 2010 or otherwise. Any such restrictions, or the possibility of them, may limit the Group's ability to raise new capital through the issuance of securities.

### **Macro-prudential, regulatory and legal risks**

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

The Group is subject to extensive financial services laws, regulations, corporate governance requirements, administrative actions and policies in each jurisdiction in which it operates. All of these are subject to change, particularly in the current regulatory and market environment, where there have been unprecedented levels of government intervention (including nationalisations and injections of capital), changes to the regulations governing financial institutions and reviews of the industry in the UK, in many other European countries, the US and at the EU level.

As a result of the environment in which the Group operates, increasing regulatory focus in certain areas and ongoing and possible future changes in the financial services regulatory landscape (including requirements imposed by virtue of the RBSG Group's participation in government or regulator-led initiatives), the 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 recent regulatory developments and heightened levels of public and regulatory scrutiny will have on the Group, the enactment of legislation and regulations in the Netherlands and other jurisdictions in which the 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 in the United Kingdom, the EU Recovery and Resolution Directive or the Dodd-Frank Wall Street Reform and Consumer Protection Act in the United States) is likely to result in increased capital and liquidity

requirements and changes in regulatory requirements relating to the calculation of capital and liquidity metrics or other prudential rules relating to capital adequacy frameworks, and may result in an increased number of regulatory investigations and proceedings. Any of these developments could have an adverse impact on how the Group conducts its business, applicable authorisations and licences, the products and services it offers, its reputation, the value of its assets, its funding costs and its results of operations and financial condition.

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

- the monetary, fiscal, interest rate and other policies of central banks and other governmental or regulatory bodies;
- requirements to separate retail banking from investment banking
- restrictions on proprietary trading and similar activities within a commercial bank and/or a group which contains a commercial bank;
- restructuring certain of 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 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 the Group's ability to compensate its senior management and other employees;
- regulations relating to, and enforcement of, anti-bribery, anti-money laundering, anti-terrorism or other similar sanctions regimes;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- other requirements or policies affecting the Group's profitability, such as the imposition of onerous compliance obligations, further restrictions on business growth, capital, liquidity or pricing;
- the introduction of, and changes to, taxes, levies or fees applicable to the Group's operations (such as the imposition of financial activities taxes and changes in tax rates that reduce the value of deferred tax assets); and
- the regulation or endorsement of credit ratings used in the EU (whether issued by agencies in EU member states or in other countries, such as the United States).

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations may adversely affect the Group's business, financial condition and results of operations. In addition, uncertainty and lack of international

regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect the Group's ability to engage in effective business, capital and risk management planning.

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

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

The Group is involved in ongoing class action litigation, 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 the Group's ongoing legal and regulatory proceedings, see pages 177 to 179 of the 2012 Annual Report. In addition to these ongoing legal and regulatory proceedings, on 6 February 2013, RBSG Group reached a settlement with the Financial Services Authority, the Commodity Futures Trading Association and the US Department of Justice in respect of the LIBOR investigations. In addition to this settlement, the RBSG Group continues to cooperate with other governmental and regulatory authorities in relation to LIBOR investigations and one of the potential outcomes is that additional financial penalties may be incurred. Legal and regulatory proceedings and investigations are subject to many uncertainties, and their outcomes, including the timing and amount of fines or settlements, which may be material, are often difficult to predict, particularly in the early stages of a case or investigation. Adverse regulatory proceedings or adverse judgments in litigation could result in restrictions or limitations on the Group's operations or have a significant effect on the Group's reputation or results of operations.

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

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

### **Financial reporting related risks**

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

Under International Financial Reporting Standards as adopted by the EU ("IFRS"), the Group recognises at fair value: (i) financial instruments classified as 'held-for-trading' or 'designated as at fair value through profit or loss'; (ii) financial assets classified as 'available-for-sale'; and (iii) derivatives. Generally, to establish the fair value of these instruments, the Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data.

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

**The recoverability of certain deferred tax assets recognised by the Group depends on the 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, the Group has recognised deferred tax assets on losses available to relieve future profits from tax only to the extent that it is probable that they will be recovered. The deferred tax assets are quantified on the basis of current tax legislation and accounting standards and are subject to change in respect of the future rates of tax or the rules for computing taxable profits and allowable losses. Failure to generate sufficient future taxable profits or changes in tax legislation or accounting standards may reduce the recoverable amount of the recognised deferred tax assets.

## **Operational risks**

### **Operational risks are inherent in the Group's businesses**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The Group has complex and geographically diverse operations and operational risk and losses can result from internal and external fraud, errors by employees or third parties, failure to document transactions properly or to obtain proper authorisation, failure to comply with applicable regulatory requirements and conduct of business rules (including those arising out of anti-bribery, anti-money laundering and anti-terrorism legislation, as well as the provisions of applicable sanctions regimes), equipment failures, business continuity and data security system failures, natural disasters or the inadequacy or failure of systems and controls, including those of the Group's suppliers or counterparties. Although the Group has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures, to identify and rectify weaknesses in existing procedures and to train staff, it is not possible to be certain that such actions have been or will be effective in controlling each of the operational risks faced by the Group. Ineffective management of operational risks could have a material adverse effect on the Group's business, financial condition and results of operations.

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

The Group's operations are dependent on the ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations where it does business. The proper functioning of the Group's payment systems, financial and sanctions controls, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, are critical to the Group's operations. Critical system failure, any prolonged loss of service availability or any material breach of data security, particularly involving confidential customer data, could cause serious damage to the Group's ability to service its clients, could result in a loss of customers and significant compensation costs, could breach regulations under which the Group operates and could cause long-term damage to the Group's business and

brand. For example, failure to protect the Group's operations from cyber attacks could result in the loss of customer data or other sensitive information. The threats are increasingly sophisticated and there can be no assurance that the Group will be able to prevent all threats.

**The Group may suffer losses due to employee misconduct**

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

**The Group's operations have inherent reputational risk**

Reputational risk, meaning the risk to earnings and capital from negative public opinion, is inherent in the Group's business. Negative public opinion can result from the actual or perceived manner in which the Group conducts its business activities, from the Group's financial performance, from the level of direct and indirect government support or from actual or perceived practices in the banking and financial industry. Modern technologies, in particular online social networks and other broadcast tools which facilitate communication with large audiences in short time frames and with minimal costs, may significantly enhance and accelerate the impact of damaging information and allegations. Negative public opinion may adversely affect the Group's ability to keep and attract customers. The Group cannot ensure that it will be successful in avoiding damage to its business from reputational risk, which may result in a material adverse effect on the Group's financial condition, results of operations and prospects.

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

The Group's ability to implement its strategy and its future success depends on its ability to attract, retain and remunerate highly skilled and qualified personnel, including its senior management, which include members of the 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 RBSG Group).

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

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

**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.

Both of these entities hold the level of regulatory capital agreed upon with the Dutch Central Bank for purposes of covering any residual risks.

### **Risk Factors relevant to RBSG and/or the RBSG Group**

*The Group is reliant on the RBSG Group. Accordingly, risk factors which relate to RBSG or the RBSG Group will also be of relevance to prospective investors.*

### **Macro-economic and geopolitical risks**

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

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

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

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

- downward pressure on asset prices and on credit availability and upward pressure on funding costs, and such conditions continue to impact asset recovery rates and the credit quality of the RBSG Group's businesses, customers and counterparties, including sovereigns;
- alone or in combination with regulatory changes or actions of market participants, reduced activity levels, additional write-downs and impairment charges and lower profitability, and may restrict the ability of the RBSG Group to access funding and liquidity; and

- central bank actions to engender economic growth which have resulted in a prolonged period of low interest rates constraining, through margin compression and low returns on assets, the interest income earned on the RBSG Group's interest earning assets.

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

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

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

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

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

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

In particular, the RBSG Group has significant exposure to customers and counterparties in the Eurozone (at 31 December 2012 principally Germany (£48 billion), The Netherlands (£26 billion), Ireland (£40 billion), France (£19 billion) and Spain (£12 billion)) which includes sovereign debt exposures that have been, and may in the future be, affected by restructuring of their terms, principal, interest and maturity. The RBSG Group's Eurozone sovereign debt exposures resulted in the RBSG Group recognising an impairment loss of £1,099 million in 2011 in respect of its holding

of Greek government bonds. Similar write downs may occur in future periods. At 31 December 2012, the RBSG Group's Eurozone sovereign debt exposure amounted to £678 million including aggregate exposure of £51 million to Greece, Ireland, Italy, Spain and Portugal.

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

The competitive landscape for banks and other financial institutions in the UK, the US and throughout the rest of Europe is subject to rapid change and recent regulatory and legal changes are likely to result in new market participants and changed competitive dynamics in certain key areas, such as in retail banking in the UK. The competitive landscape in the UK will be particularly influenced by the recommendations on competition included in the final report of the ICB, and the UK Government's implementation of the recommendations. In order to compete effectively, certain financial institutions may seek to consolidate their businesses or assets with other parties. This consolidation, in combination with the introduction of new entrants into the markets in which the RBSG Group operates is likely to increase competitive pressures on the RBSG Group.

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

**The RBSG Group is subject to political risks**

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

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

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

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

The UK Government, through HM Treasury, currently holds 65.3 per cent. of the issued ordinary share capital of the RBSG Group. On 22 December 2009, the RBSG Group issued £25.5 billion of B Shares to the UK Government. The B Shares are convertible, at the option of the holder at any time, into ordinary shares. The UK Government has agreed that it shall not exercise the rights of conversion in respect of the B Shares if and to the extent that following any such conversion it would hold more than 75 per cent. of the total issued shares in the RBSG Group. Any breach of this agreement could result in the delisting of the RBSG Group from the Official List of the UK Listing Authority and potentially other exchanges where its securities are currently listed and traded. HM Treasury (or the UKFI on its behalf) may sell all or a part of the ordinary shares that it owns at any time. Any offers or sale of a substantial number of ordinary shares or securities convertible or exchangeable into ordinary shares by or on behalf of HM Treasury, or an expectation that it may undertake such an offer or sale, could negatively affect prevailing market prices for securities issued by the RBSG Group.

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

**The RBSG Group is subject to other global risks**

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

**Market and credit related risks**

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

Severe market events have resulted in the RBSG Group recording large write-downs on its credit market exposures in recent years; particularly early in the financial crisis (£10.1 billion in 2008 and £6.2 billion in 2009). Any deterioration in economic and financial market conditions or continuing weak economic growth could lead to further impairment charges and write-downs. Moreover, market volatility and illiquidity (and the assumptions, judgements and estimates in relation to such matters that may change over time and may ultimately not turn out to be accurate) make it difficult to value certain of the RBSG Group's exposures. Valuations in future periods, reflecting, among other things, then prevailing market conditions and changes in the credit ratings of certain of the RBSG Group's assets, may result in significant changes in the fair values of the RBSG Group's

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

**The financial performance of the RBSG Group has been, and continues to be, materially affected by deteriorations in borrower and counterparty credit quality and further deteriorations could arise due to prevailing economic and market conditions and legal and regulatory developments**

The RBSG Group has exposure to many different industries and counterparties, and risks arising from actual or perceived changes in credit quality and the recoverability of monies due from borrowers and counterparties are inherent in a wide range of the RBSG Group's businesses. In particular, the RBSG Group has significant exposure to certain individual counterparties in weakened business sectors and geographic markets and also has concentrated country exposure in the UK, the US and across the rest of Europe (principally Germany, The Netherlands, Ireland and France) (at 31 December 2012 credit risk assets in the UK were £316 billion, in North America £101 billion and in Western Europe (excluding the UK) £147 billion); and within certain business sectors, namely personal finance, financial institutions and commercial real estate (at 31 December 2012 residential and personal lending amounted to £182 billion, lending to financial institutions was £114 billion and commercial real estate lending was £63 billion). The RBSG Group expects its exposure to the UK to increase proportionately as its business becomes more concentrated in the UK, with exposures generally being reduced in other parts of its business as it implements its strategy.

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

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

Concerns about, or a default by, one financial institution could lead to significant liquidity problems and losses or defaults by other financial institutions, as the commercial and financial soundness of many financial institutions may be closely related as a result of credit, trading, clearing and other relationships. Even the perceived lack of creditworthiness of, or questions about, a counterparty

may lead to market-wide liquidity problems and losses for, or defaults by, the RBSG Group. This systemic risk may adversely affect financial intermediaries, such as clearing agencies, clearing houses, banks, securities firms and exchanges with which the RBSG Group interacts on a daily basis, all of which could have a material adverse effect on the RBSG Group's access to liquidity or could result in losses which could have a material adverse effect on the RBSG Group's financial condition, results of operations and prospects.

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

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

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

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

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

Some of the most significant market risks the RBSG Group faces are interest rate, foreign exchange, credit spread, bond, equity and commodity prices and basis, volatility and correlation risks. Changes in interest rate levels (or extended periods of low interest rates), yield curves (which remain depressed) and spreads may affect the interest rate margin realised between lending and borrowing costs, the effect of which may be heightened during periods of liquidity stress. Changes in currency rates, particularly in the sterling-US dollar and sterling-euro exchange rates, affect the value of assets, liabilities, income and expenses denominated in foreign currencies and the reported earnings of the RBSG Group's non-UK subsidiaries and may affect the RBSG Group's reported consolidated financial condition or its income from foreign exchange dealing. For accounting purposes, the RBSG Group values some of its issued debt, such as debt securities, at the current market price. Factors affecting the current market price for such debt,

such as the credit spreads of the RBSG Group, may result in a change to the fair value of such debt, which is recognised in the income statement as a profit or loss.

The performance of financial markets affects bond, equity and commodity prices, which has caused, and may in the future cause, changes in the value of the RBSG Group's investment and trading portfolios. As part of its ongoing derivatives operations, the RBSG Group also faces significant basis, volatility and correlation risks, the occurrence of which are also impacted by the factors noted above. While the RBSG Group has implemented risk management methods to mitigate and control these and other market risks to which it is exposed, it is difficult, particularly in the current environment, to predict with accuracy changes in economic or market conditions and to anticipate the effects that such changes could have on the RBSG Group's financial performance and business operations.

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

In the UK, the Financial Services Compensation Scheme ("FSCS") was established under the FSMA and is the UK's statutory fund of last resort for customers of authorised financial services firms. The FSCS can pay compensation to customers if a firm is unable or likely to be unable, to pay claims against it and may be required to make payments either in connection with the exercise of a stabilisation power or in exercise of the bank insolvency procedures under the Banking Act. The FSCS is funded by levies on firms authorised by the FSA, including the RBSG Group. In the event that the FSCS raises funds from the authorised firms, raises those funds more frequently or significantly increases the levies to be paid by such firms, the associated costs to the RBSG Group may have an adverse impact on its results of operations and financial condition. At 31 December 2012, the RBSG Group had accrued £119 million for its share of estimated FSCS levies for the 2012/2013 and 2013/2014 FSCS years.

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

**The RBSG Group may be required to make further contributions to its pension schemes if the value of pension fund assets is not sufficient to cover potential obligations**

The RBSG Group maintains a number of defined benefit pension schemes for past and a number of current employees. Pension risk is the risk that the assets of the RBSG Group's various defined benefit pension schemes which are long-term in nature do not fully match the timing and amount of the schemes' liabilities, as a result of which the RBSG Group is required or chooses to make additional contributions to the schemes. Pension scheme liabilities vary with changes to long-term interest rates, inflation, pensionable salaries and the longevity of scheme members as well as changes in applicable legislation. The schemes' assets comprise investment portfolios that are held to meet projected liabilities to the scheme members. Risk arises from the schemes because the value of these asset portfolios, returns from them and any additional future contributions to the schemes, may be less than expected and because there may be greater than expected increases in the estimated value of the schemes' liabilities. In these circumstances, the RBSG Group could be obliged, or may choose, to make additional contributions to the schemes, and during recent periods, the RBSG Group has voluntarily made such contributions to the schemes. Given the recent economic and financial market difficulties and the prospect that they may continue over the near and medium term, the RBSG Group may experience increasing pension deficits or be required or elect to make further contributions to its pension schemes and such deficits and

contributions could be significant and have an adverse impact on the RBSG Group's results of operations or financial condition. The most recent funding valuation at 31 March 2010 was agreed during 2011. It showed the value of liabilities exceeded the value of assets by £3.5 billion at 31 March 2010, a ratio of assets to liabilities of 84 per cent..

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

## **Funding, liquidity and capital related risks**

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

Liquidity risk is the risk that a bank will be unable to meet its obligations, including funding commitments, as they fall due. This risk is inherent in banking operations and can be heightened by a number of factors, including an over reliance on a particular source of wholesale funding (including, for example, short-term and overnight funding), changes in credit ratings or market-wide phenomena such as market dislocation and major disasters. Credit markets worldwide, including interbank markets, have experienced severe reductions in liquidity and term-funding during prolonged periods in recent years. Although credit markets generally improved during 2012 (in part as a result of measures taken by the ECB), and the RBSG Group's overall liquidity position remained strong, certain European banks, in particular from the peripheral countries of Spain, Portugal, Greece, Italy and Ireland remained reliant on central banks as one of their principal sources of liquidity and central banks increased their support to banks with the ECB providing significant short and long-term liquidity in the last few months of 2011 and in 2012. Although these efforts had a positive impact, global credit markets remain volatile.

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

The RBSG Group's liquidity management focuses, among other things, on maintaining a diverse and appropriate funding strategy for its assets in line with the RBSG Group's wider strategic plan. The RBSG Group has, at times, been required to rely on shorter-term and overnight funding with a consequent reduction in overall liquidity, and to increase its recourse to liquidity schemes provided by central banks. Such schemes require the pledging of assets as collateral and changes to asset valuations or eligibility criteria can negatively impact the available assets and reduce available liquidity access particularly during periods of stress when such lines may be needed most. Although conditions have improved, there have been recent periods where corporate and financial institution counterparties have reduced their credit exposures to banks and other financial institutions, limiting the availability of these sources of funding. Increased competition for funding during 2013 due to the significant levels of refinancing expected to be required by financial institutions, may also reduce the level of funding available from these sources. Under certain circumstances, the RBSG Group may need to seek funds from alternative sources potentially at higher costs than has previously been the case or may be required to consider disposals of other assets not previously identified for disposal to reduce its funding commitments.

The RBSG Group relies increasingly on customer deposits to meet a considerable portion of its funding and it is actively seeking to increase the proportion of its funding represented by customer deposits. The level of deposits may fluctuate due to certain factors outside the RBSG Group's control, such as a loss of confidence, increasing competitive pressures for retail customer deposits or the encouraged or mandated repatriation of deposits by foreign wholesale or central bank depositors, which could result in a significant outflow of deposits within a short period of time. There is currently heavy competition among UK banks for retail customer deposits, which has increased the cost of procuring new deposits and impacted the RBSG Group's ability to grow its deposit base and such competition is expected to continue. An inability to grow, or any material decrease in, the RBSG Group's deposits could, particularly if accompanied by one of the other factors described above, have a materially adverse impact on the RBSG Group's ability to satisfy its liquidity needs.

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

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

Effective management of the RBSG Group's capital is critical to its ability to operate its businesses, and to pursue its strategy of returning to standalone strength. The RBSG Group is required by regulators in the UK, the US and other jurisdictions in which it undertakes regulated activities to maintain adequate capital resources. The maintenance of adequate capital is also necessary for the RBSG Group's financial flexibility in the face of continuing turbulence and uncertainty in the global economy and specifically in its core UK, US and European markets.

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

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

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

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

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

The Basel Committee changes and other future changes to capital adequacy and liquidity requirements in the UK, the US and in other jurisdictions in which the RBSG Group operates, including any application of increasingly stringent stress case scenarios by the regulators in the UK, the US and other jurisdictions in which the RBSG Group undertakes regulated activities, may require the RBSG Group to raise additional Tier 1 (including Core Tier 1) and Tier 2 capital by way of further issuances of securities, and will result in existing Tier 1 and Tier 2 securities issued by the RBSG Group ceasing to count towards the RBSG Group's regulatory capital, either at the same level as present or at all. The requirement to raise additional Core Tier 1 capital, which could be mandated by the RBSG Group's regulators, could have a number of negative consequences for the RBSG Group and its shareholders, including impairing the RBSG Group's ability to pay dividends on, or make other distributions in respect of, ordinary shares and diluting the ownership of existing shareholders of the RBSG Group. If the RBSG Group is unable to raise the requisite Tier 1 and Tier 2 capital, it may be required to reduce further the amount of its risk-weighted assets and engage in the disposal of core and other non-core businesses, which may not occur on a timely basis or achieve prices which would otherwise be attractive to the RBSG Group.

Pursuant to the acquisition and contingent capital agreement entered into between RBS and HM Treasury on 29 November 2009, the RBSG Group will be subject to restrictions on payments on its hybrid capital instruments should its Core Tier 1 ratio fall below 6 per cent. or if it would fall below 6 per cent. as a result of such payment. At 31 December 2012, the RBSG Group's Tier 1 and Core Tier 1 capital ratios were 12.4 per cent. and 10.3 per cent., respectively, calculated in accordance with FSA requirements. Any change that limits the RBSG Group's ability to manage effectively its balance sheet and capital resources going forward (including, for example, reductions in profits and retained earnings as a result of write-downs or otherwise, increases in risk-weighted assets, regulatory changes, actions by regulators, delays in the disposal of certain assets or the inability to syndicate loans as a result of market conditions, a growth in unfunded pension exposures or otherwise) or to access funding sources, could have a material adverse impact on its financial condition and regulatory capital position.

**The RBSG Group's borrowing costs, its access to the debt capital markets and its liquidity depend significantly on its and the UK Government's credit ratings**

The credit ratings of RBSG, RBS and other RBSG Group members have been subject to change and may change in the future, which could impact their cost of, access to and sources of financing

and liquidity. A number of UK and other European financial institutions, including RBSG, RBS and other RBSG Group members, were downgraded during the course of 2011 and 2012 in connection with a review of systemic support assumptions incorporated into bank ratings and the likelihood, in the case of UK banks, that the UK Government is more likely in the future to make greater use of its resolution tools to allow burden sharing with bondholders, and in connection with a general review of rating agencies' methodologies. Rating agencies continue to evaluate the rating methodologies applicable to UK and European financial institutions and any change in such rating agencies' methodologies could materially adversely affect the credit ratings of RBSG Group companies. Any further reductions in the long-term or short-term credit ratings of RBSG or one of its principal subsidiaries (particularly RBS) would increase its borrowing costs, require the RBSG Group to replace funding lost due to the downgrade, which may include the loss of customer deposits, and may also limit the RBSG Group's access to capital and money markets and trigger additional collateral requirements in derivatives contracts and other secured funding arrangements. At 31 December 2012, a simultaneous one notch long-term and associated short-term downgrade in the credit ratings of RBSG and RBS by the three main ratings agencies would have required the RBSG Group to post estimated additional collateral of £9 billion, without taking account of mitigating action by management.

Any downgrade in the UK Government's credit ratings could adversely affect the credit ratings of RBSG Group companies and may have the effects noted above. In December 2012, Standard & Poor's placed the UK's AAA credit rating on credit watch, with negative outlook and, in February 2013, Moody's downgraded the UK's credit rating one notch to Aa1. Credit ratings of RBSG, RBS, RBS N.V., Ulster Bank Limited and RBS Citizens Financial RBSG Group, Inc. are also important to the RBSG Group when competing in certain markets, such as over-the-counter derivatives. As a result, any further reductions in the RBSG Group's long-term or short-term credit ratings or those of its principal subsidiaries could adversely affect the RBSG Group's access to liquidity and its competitive position, increase its funding costs and have a material adverse impact on the RBSG Group's earnings, cash flow and financial condition.

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

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

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

There is currently no restriction in respect of deferred tax assets recognised by the RBSG Group for regulatory purposes. Changes in regulatory capital rules may restrict the amount of deferred tax assets that can be recognised and such changes could lead to a reduction in the RBSG Group's Core Tier 1 capital ratio. In particular, on 16 December 2010, the Basel Committee published the Basel III rules setting out certain changes to capital requirements which include provisions limiting the ability of certain deferred tax assets to be recognised when calculating the

common equity component of Tier 1 capital. CRD IV which will implement Basel III in the EU includes similar limitations. The implementation of the Basel III restrictions on recognition of deferred tax assets within the common equity component of Tier 1 are subject to a phased-in deduction starting on 1 January 2014, to be fully effective by 1 January 2018.

## **Risks to implementation of RBSG Group strategy**

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

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

Because the ability to dispose of assets and the price achieved for such disposals will be dependent on prevailing economic and market conditions, which remain challenging, there is no assurance that the RBSG Group will be able to sell or run-down (as applicable) those remaining businesses it is seeking to exit or asset portfolios it is seeking to sell either on favourable economic terms to the RBSG Group or at all. Material tax or other contingent liabilities could arise on the disposal of assets and there is no assurance that any conditions precedent agreed will be satisfied, or consents and approvals required will be obtained in a timely manner, or at all. There is consequently a risk that the RBSG Group may fail to complete such disposals by any agreed longstop date.

The RBSG Group may be liable for any deterioration in businesses or portfolios being sold between the announcement of the disposal and its completion, which period may be lengthy and may span many months. In addition, the RBSG Group may be exposed to certain risks, including risks arising out of ongoing liabilities and obligations, breaches of covenants, representations and warranties, indemnity claims, transitional services arrangements and redundancy or other transaction related costs.

The occurrence of any of the risks described above could negatively affect the RBSG Group's ability to implement its strategic plan and could have a material adverse effect on the RBSG Group's business, results of operations, financial condition, capital ratios and liquidity.

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

The RBSG Group was required to obtain State Aid approval for the aid given to the RBSG Group by HM Treasury as part of the placing and open offer undertaken by the RBSG Group in

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

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

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

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

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

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

The implementation of the State Aid restructuring plan may also result in disruption to the retained business and give rise to significant strain on management, employee, operational and financial

resources, impacting customers and employees and giving rise to separation costs which could be substantial.

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

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

### **Macro-prudential, regulatory and legal risks**

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

The RBSG Group is subject to extensive financial services laws, regulations, corporate governance requirements, administrative actions and policies in each jurisdiction in which it operates. All of these are subject to change, particularly in the current regulatory and market environment, where there have been unprecedented levels of government intervention (including nationalisations and injections of government capital), changes to the regulations governing financial institutions and reviews of the industry, in the UK, in many other European countries, the US and at the EU level.

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

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

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

- the transfer in the UK of regulatory and supervisory powers from the FSA to the Financial Conduct Authority for conduct of business supervision and the Prudential Regulatory Authority for capital and liquidity supervision in 2013;
- the monetary, fiscal, interest rate and other policies of central banks and other governmental or regulatory bodies;
- requirements to separate retail banking from investment banking;
- restrictions on proprietary trading and similar activities within a commercial bank and/or a RBSG Group which contains a commercial bank;
- restructuring certain of the RBSG Group's non-retail banking activities in jurisdictions outside the UK in order to satisfy local capital, liquidity and other prudential requirements;
- the design and potential implementation of government mandated recovery, resolution or insolvency regimes;
- the imposition of government imposed requirements with respect to lending to the UK SME market and larger commercial and corporate entities and residential mortgage lending;
- requirements to operate in a way that prioritises objectives other than shareholder value creation;
- changes to financial reporting standards (including accounting standards), corporate governance requirements, corporate structures and conduct of business rules;
- the imposition of restrictions on the RBSG Group's ability to compensate its senior management and other employees;
- regulations relating to, and enforcement of, anti-bribery, anti-money laundering, anti-terrorism or other similar sanctions regimes;
- rules relating to foreign ownership, expropriation, nationalisation and confiscation of assets;
- other requirements or policies affecting the RBSG Group's profitability, such as the imposition of onerous compliance obligations, further restrictions on business growth, product offering, capital, liquidity or pricing;
- the introduction of, and changes to, taxes, levies or fees applicable to the RBSG Group's operations (such as the imposition of financial activities taxes and changes in tax rates that reduce the value of deferred tax assets); and
- the regulation or endorsement of credit ratings used in the EU (whether issued by agencies in EU member states or in other countries, such as the US).

Changes in laws, rules or regulations, or in their interpretation or enforcement, or the implementation of new laws, rules or regulations may adversely affect the RBSG Group's business, financial condition and results of operations. In addition, uncertainty and lack of international regulatory coordination as enhanced supervisory standards are developed and implemented may adversely affect the RBSG Group's ability to engage in effective business, capital and risk management planning.

**The RBSG Group is subject to resolution procedures under current and proposed resolution and recovery schemes which may result in various actions being taken in**

**relation to any securities of the RBSG Group, including the write off, write-down or conversion of the RBSG Groups' securities**

As a result of its status as a GSIFI and in accordance with current and proposed resolution and recovery schemes, the RBSG Group was required to meet certain resolution planning requirements by the end of 2012 and is required to meet others in 2013 contemplating its possible failure. The RBSG Group made the required submissions in 2012 to the FSA and its US business will make its required submissions in 2013. Similar to other major financial institutions, both the RBSG Group and its key subsidiaries remain engaged in a constructive dialogue on resolution and recovery planning with key national regulators and other authorities.

In addition to the powers provided by the Banking Act 2009, further resolution powers are expected to be provided as part of the RRD and the reforms implementing the recommendations of the ICB. Such resolution powers are expected to include a bail-in mechanism, pursuant to which losses would be imposed on shareholders and, as appropriate, creditors of the RBSG Group (through write-down or conversion into equity of liabilities including debt securities) in order to recapitalise and restore the RBSG Group to solvency as well as other options, including those as set forth in the Banking Act 2009. The implementation of any resolution and recovery scheme is the subject of significant debate, particularly for GSIFIs with complex cross border activities. Such debate includes whether resolution and recovery powers may be exercised through a single point of entry at the holding company or at various levels of the corporate structure of a GSIFI.

The potential impacts of these resolution and recovery powers may include the total loss of value of securities issued by the RBSG Group and, in addition for debt holders, the possible conversion into equity securities, and under certain circumstances the inability of the RBSG Group to perform its obligations under its securities.

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

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

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

Bail-in mechanisms continue to be discussed by the EU and the RBSG Group continues to participate in the debate around such mechanisms, which could affect the rights of creditors, including holders of senior and subordinated bonds, and shareholders in the event of the

implementation of a resolution scheme or an insolvency and could thereby materially affect the price of such securities.

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

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

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

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

If any of the proposals described above are adopted, major changes to the RBSG Group’s corporate structure, its business activities conducted in the UK and the US and potentially other jurisdictions where the RBSG Group operates, as well as changes to the RBSG Group’s business model, might be required. The changes are likely to include ring-fencing certain banking activities in the UK from other activities of the RBSG Group as well as restructuring other operations within the RBSG Group in order to comply with these proposed new rules and regulations. The

proposals, if adopted, are expected to take an extended period of time to put into place, would be costly to implement and may lack harmonisation, all of the effects of which could have a material adverse effect on the RBSG Group's structure, results of operations, financial condition and prospects.

**The RBSG Group is subject to a number of legal and regulatory actions and investigations. Unfavourable outcomes in such actions and investigations could have a material adverse effect on the RBSG Group's operating results or reputation**

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

The RBSG Group is involved in ongoing class action litigation, LIBOR related litigation and investigations, securitisation and securities related litigation and anti-money laundering, sanctions, mis-selling and compliance related investigations, in addition to a number of other matters. In respect of the LIBOR investigations, the RBSG Group reached a settlement on 6 February 2013 with the FSA, the Commodity Futures Trading Association and the US Department of Justice. In addition to this settlement, the RBSG Group continues to cooperate with these and other governmental and regulatory authorities, including in the US and Asia, into its submissions, communications and procedures relating to the setting of LIBOR and other trading rates, and the probable outcome is that it will incur additional financial penalties. Legal and regulatory proceedings and investigations are subject to many uncertainties, and their outcomes, including the timing and amount of fines or settlements, which may be material, are often difficult to predict, particularly in the early stages of a case or investigation. Adverse regulatory proceedings or adverse judgments in litigation could result in restrictions or limitations on the RBSG Group's operations or have a significant effect on the RBSG Group's reputation or results of operations.

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

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

## **Financial reporting related risks**

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

Under IFRS, the RBSG Group recognises at fair value: (i) financial instruments classified as held-for-trading or designated as at fair value through profit or loss; (ii) financial assets classified as available-for-sale; and (iii) derivatives. Generally, to establish the fair value of these instruments, the RBSG Group relies on quoted market prices or, where the market for a financial instrument is not sufficiently active, internal valuation models that utilise observable market data. In certain circumstances, the data for individual financial instruments or classes of financial instruments utilised by such valuation models may not be available or may become unavailable due to prevailing market conditions. In such circumstances, the RBSG Group's internal valuation models require the RBSG Group to make assumptions, judgements and estimates to establish fair value, which are complex and often relate to matters that are inherently uncertain. These assumptions, judgements and estimates will need to be updated to reflect changing facts, trends and market conditions. The resulting change in the fair values of the financial instruments has had and could continue to have a material adverse effect on the RBSG Group's earnings and financial condition.

### **The RBSG Group's results could be adversely affected in the event of goodwill impairment**

The RBSG Group capitalises goodwill, which is calculated as the excess of the cost of an acquisition over the net fair value of the identifiable assets, liabilities and contingent liabilities acquired. Acquired goodwill is recognised initially at cost and subsequently at cost less any accumulated impairment losses. As required by IFRS, the RBSG Group tests goodwill for impairment annually, or more frequently when events or circumstances indicate that it might be impaired. An impairment test involves comparing the recoverable amount (the higher of the value in use and fair value less cost to sell) of an individual cash generating unit with its carrying value. At 31 December 2012, the RBSG Group carried goodwill of £11.3 billion on its balance sheet. The value in use and fair value of the RBSG Group's cash generating units are affected by market conditions and the performance of the economies in which the RBSG Group operates. Where the RBSG Group is required to recognise a goodwill impairment, it is recorded in the RBSG Group's income statement, although it has no effect on the RBSG Group's regulatory capital position. Any significant write-down of goodwill could have a material adverse effect on the RBSG Group's results of operations.

### **The recoverability of certain deferred tax assets recognised by the RBSG Group depends on the RBSG Group's ability to generate sufficient future taxable profits**

In accordance with IFRS, the RBSG Group has recognised deferred tax assets on losses available to relieve future profits from tax only to the extent that it is probable that they will be recovered. The deferred tax assets are quantified on the basis of current tax legislation and accounting standards and are subject to change in respect of the future rates of tax or the rules for computing taxable profits and allowable losses. Failure to generate sufficient future taxable profits or changes in tax legislation or accounting standards may reduce the recoverable amount of the recognised deferred tax assets. In April 2011, the UK Government commenced a staged reduction in the rate of UK corporation tax from 28 per cent. to 23 per cent. over a four-year period. Further rate reductions were announced in 2012 which will lead to a corporation tax rate of 21 per cent. by April 2014. Such changes in the applicable tax rates will reduce the recoverable amount of the recognised deferred tax assets.

## **Operational risks**

### **Operational risks are inherent in the RBSG Group's businesses**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. The RBSG Group has complex and geographically diverse operations and operational risk and losses can result from internal and external fraud, errors by employees or third parties, failure to document transactions properly or to obtain proper authorisation, failure to comply with applicable regulatory requirements and conduct of business rules (including those arising out of anti-bribery, anti-money laundering and anti-terrorism legislation, as well as the provisions of applicable sanctions programmes), equipment failures, business continuity and data security system failures, natural disasters or the inadequacy or failure of systems and controls, including those of the RBSG Group's suppliers or counterparties. Although the RBSG Group has implemented risk controls and loss mitigation actions, and substantial resources are devoted to developing efficient procedures, to identify and rectify weaknesses in existing procedures and to train staff, it is not possible to be certain that such actions have been or will be effective in controlling each of the operational risks faced by the RBSG Group. Ineffective management of operational risks could have a material adverse effect on the RBSG Group's business, financial condition and results of operation. Notwithstanding anything contained in this risk factor, it should not be taken as implying that RBSG will be unable to comply with its obligations as a company with securities admitted to the Official List of the United Kingdom Listing Authority (the "**Official List**") nor that it, or its relevant subsidiaries, will be unable to comply with its or their obligations as supervised firms regulated by the FSA.

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

The RBSG Group's operations are dependent on the ability to process a very large number of transactions efficiently and accurately while complying with applicable laws and regulations where it does business. The proper functioning of the RBSG Group's payment systems, financial and sanctions controls, risk management, credit analysis and reporting, accounting, customer service and other information technology systems, as well as the communication networks between its branches and main data processing centres, are critical to the RBSG Group's operations. Critical system failure, any prolonged loss of service availability or any material breach of data security, particularly involving confidential customer data, could cause serious damage to the RBSG Group's ability to service its clients, could result in significant compensation costs, could breach regulations under which the RBSG Group operates and could cause long-term damage to the RBSG Group's business and brand.

For example, failure to protect the RBSG Group's operations from cyber attacks could result in the loss of customer data or other sensitive information. The threats are increasingly sophisticated and there can be no assurance that the RBSG Group will be able to prevent all threats. In addition, in June 2012, a computer system failure prevented customers from accessing accounts in both the UK and Ireland. Ongoing issues relating to the failure continued for several months, requiring the RBSG Group to set aside a provision for compensation to customers who suffered losses as a result of the system failure, in addition to other related costs.

### **The RBSG Group may suffer losses due to employee misconduct**

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

### **The RBSG Group's operations have inherent reputational risk**

Reputational risk, meaning the risk to earnings and capital from negative public opinion, is inherent in the RBSG Group's business. Negative public opinion can result from the actual or perceived manner in which the RBSG Group conducts its business activities, from the RBSG Group's financial performance, from the level of direct and indirect government support or from actual or perceived practices in the banking and financial industry. Modern technologies, in particular online social networks and other broadcast tools which facilitate communication with large audiences in short time frames and with minimal costs, may significantly enhance and accelerate the impact of damaging information and allegations. Negative public opinion may adversely affect the RBSG Group's ability to keep and attract customers and, in particular, corporate and retail depositors. The RBSG Group cannot ensure that it will be successful in avoiding damage to its business from reputational risk, which may result in a material adverse effect on the RBSG Group's financial condition, results of operations and prospects.

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

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

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

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

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

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

## DESCRIPTION OF RBS HOLDINGS N.V. AND THE ROYAL BANK OF SCOTLAND N.V.

### General Information

Both RBS Holdings and RBS N.V. are public limited liability companies incorporated under Dutch law on 30 May 1990 and 7 February 1825 respectively, operating under Dutch company law. RBS Holdings is registered with the Trade Register in Amsterdam under no. 33220369. RBS N.V. is registered with the Trade Register in Amsterdam under no. 33002587. RBS Holdings and RBS N.V. have their registered offices in Amsterdam, the Netherlands and their office address is Gustav Mahlerlaan 350, 1082 ME Amsterdam. The mailing address for RBS Holdings and RBS N.V. in the Netherlands is Post Office Box 12925, 1100 AX Amsterdam. RBS Holdings and RBS N.V.'s telephone number is (31) 20 464 9999.

The Group is a prominent international banking group offering a wide range of banking products and financial services on a global basis. RBS N.V. is the result of the merger of Algemene Bank Nederland N.V. and Amsterdam-Rotterdam Bank N.V. in 1990. Prior to the merger, these banks were, respectively, the largest and second-largest bank in the Netherlands. RBS N.V. traces its origin to the formation of the Nederlandsche Handel-Maatschappij N.V. in 1825, pursuant to a Dutch Royal Decree of 1824.

RBS Holdings has one subsidiary, RBS N.V. and RBS N.V. has various subsidiaries. Please refer to the paragraph "Major subsidiaries and participating interests" in "Financial Statements – Notes to the accounts – 15 Major subsidiaries and participating interests" on page 164 of the 2012 Annual Report for an overview of the entities within the Group. RBS Holdings is controlled by RBSG, which is incorporated in the United Kingdom and registered at 36 St. Andrew Square, Edinburgh, Scotland. RBSG is the ultimate parent company of RBS Holdings N.V.

RBS Holdings and RBS N.V. form part of the RBSG Group. RBSG is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, the RBSG Group operates in the United Kingdom, the United States and internationally through its principal subsidiaries, RBS and National Westminster Bank Plc ("**NatWest**"). Both RBS and NatWest are major United Kingdom clearing banks. In the United States, the RBSG Group's subsidiary Citizens Financial Group, Inc. is a large commercial banking organisation. Globally, the Group has a diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

### ABN AMRO

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

On 6 February 2010, the businesses of ABN AMRO Holding N.V. acquired by the Dutch State were legally demerged to a newly established company, ABN AMRO Bank N.V. which on 1 April 2010 was transferred to ABN AMRO Group N.V., itself owned by the Dutch State.

Following legal separation, RBS Holdings N.V. (formerly ABN AMRO Holding N.V.) has one operating subsidiary, The Royal Bank of Scotland N.V. (RBS N.V.), a fully operational bank within the Group. RBS N.V. is independently rated and regulated by the Dutch Central Bank. Certain assets within RBS N.V. continue to be shared by the Consortium Members.

On 17 October 2011, the Group completed the transfer of a substantial part of the UK activities of RBS N.V. to RBS pursuant to Part VII of the Financial Services and Markets Act 2000 (the “**UK Transfer**”). The UK Transfer moved a large part of the UK Equities & Structured Retail, Markets, Lending and the former Global Transaction Services 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 by a combination of local schemes of arrangement, novations and subsidiary share sales.

Substantially all of the Netherlands and EMEA businesses were transferred in 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 by way of a cross-border merger from RBS II B.V. into RBS (the “**Merger**”, and together with the Demerger, the “**Dutch Scheme**”), after which RBS II B.V. ceased to exist. The Dutch Scheme transferred net assets of €868 million to RBS. 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 latter 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 the first half of 2013, assets and liabilities largely relating to businesses in the United States, Canada and Russia were transferred to RBS by a combination of local schemes of arrangement, novations and subsidiary share sales.

Further transfers of Core and/or Non-Core components of RBS N.V. businesses to RBS, largely the assets and liabilities relating to businesses in India, Indonesia, Korea, Romania and Thailand are expected to take place during 2013 but are subject to certain authorisations including regulatory approval where necessary. These are included within the Transfers that meet the IFRS 5 definition of being Held for Sale as at 31 December 2012. These assets and liabilities have been classified as assets and liabilities of disposal groups as at year end, see Note 19 on page 167 of the 2012 Annual Report for further details.

Certain unaudited pro forma financial information illustrating the effect of the Transfers is set out in the 2012 Annual Report (as defined in “Documents Incorporated by Reference” below). The unaudited pro-forma condensed consolidated balance sheet is presented to show the effect of the Transfers as if the Transfers had occurred on 31 December 2012 and the pro-forma condensed consolidated statement of income is presented to show the effect of the Transfers as if the Transfers had occurred on 1 January 2012.

The assets and liabilities that are expected to remain in RBS N.V. as at the year ended 31 December 2013 are those which are not expected to be transferred to RBS for regulatory, tax or other reasons. These comprise (i) the liquidity portfolio and other available-for-sale debt securities held in the Netherlands (see page 45 and page 75 of the 2012 Annual Report for further details); (ii) the Trust Preferred Securities and certain securities issued by RBS N.V. (see Note 23 on page 172 of the 2012 Annual Report for further details); (iii) the businesses in China which RBS N.V. has determined would no longer be possible to transfer before the conclusion of the Transfers programme; and (iv) assets and liabilities falling within (a) the International Banking segment (primarily including Transaction Services products and emerging markets products) (b) the Markets segment (including Fixed Income, Currencies and Commodities (“**FICC**”) products and Derivatives Products and Solutions) (c) the Non-Core segment (including the Shared Assets) and (d) the Central items segment. At year end 2013, it is therefore expected that RBS N.V. will

continue to have limited operations in the Netherlands, United Kingdom, Australia, Singapore, Hong Kong, United States of America, Korea, India, Indonesia and China. Consideration is being given to all options for these remaining assets and liabilities, including the transfer of some or all of these assets and liabilities to RBS at a later date. If a decision is taken to transfer some or all of these assets and liabilities to RBS, such transfers will be subject, amongst other matters, to regulatory and other approvals, further tax and other analysis in respect of the assets and liabilities to be transferred and employee consultation procedures.

Approximately 98 per cent. of the issued share capital of RFS Holdings is now held by the RBSG Group.

### **Business overview**

RBS N.V. is a bank licensed and regulated by the Dutch Central Bank (*De Nederlandsche Bank*).

RBS N.V. operates on a significant scale across Europe, the Middle East and Africa, the Americas and Asia. As at 31 December 2012, the Group had total consolidated assets of €70.954 billion.

The Group comprises the following four segments:

- **Markets** is an origination, sales and trading business across debt finance, fixed income, currencies, investor products and equity derivatives. The division offers a unified service to the Group's corporate and institutional clients. The Markets' sales and research teams build strong ongoing client partnerships, provide market perspective and access, and work with the division's trading and structuring teams to meet the client's objectives across financing, risk management, investment, securitisation and liquidity.
- **International Banking** serves the world's largest companies with a leading client proposition focused on financing, transaction services and risk management. International Banking serves as the delivery channel for Markets' products to corporate clients.
- **Central Items** includes group and corporate functions, such as treasury, capital management and finance, risk management, legal, communications and human resources.

The above three segments are herein defined as the "**Core**" components.

- **Non-Core Segment** contains a range of separately managed businesses and asset portfolios that the Group intends to run off or dispose of, in line with the RBSG Group strategy for Non-Core assets. It also includes the remaining assets and liabilities in RBS N.V. that have not yet been sold, wound down or alternatively transferred by the Consortium Members referred to as "**Shared Assets**", in which each of the consortium shareholders has a joint and indirect interest.

The above segment is herein defined as the "**Non-Core**" component.

These RBS N.V. businesses are part of global business units of the RBSG Group that operate across multiple legal entities. The strategy of RBS N.V. is part of the overall business strategy of the RBSG Group. RBS Holdings N.V. has been restructured into Core and Non-Core components. The RBSG Group expects to substantially run down or dispose of the businesses, assets and portfolios within the Non-Core division by the end of 2013 and during the course of 2011 and 2012, it concluded the sales of businesses in Latin America, Asia, Europe and the Middle East.

### **Assets and liabilities to be transferred after legal separation**

A number of assets and liabilities of the Dutch State acquired businesses were not part of the legal demerger. At legal separation on 1 April 2010, approximately €600 million of assets and €500 million of liabilities remained in RBS N.V. due to amongst others, regulatory requirements. These will be transferred to the new ABN AMRO Bank. These remaining assets are adequately funded and capitalised.

Sufficient capital remains in the Group to cover the Dutch State interest and the Santander interest in the remaining Shared Assets until such time that these are sold, wound-down, redeemed or otherwise settled.

### **Litigation, investigations and reviews**

The RBSG Group and certain RBSG Group members are party to legal proceedings, investigations and regulatory matters in the Netherlands, the United Kingdom, the United States and other jurisdictions, arising out of their normal business operations. All such matters are periodically reassessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of the Group incurring a liability. The Group recognises a provision for a liability in relation to these matters when it is probable that an outflow of economic benefits will be required to settle an obligation which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation.

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

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

Other than as set out in the sections entitled "Litigation" and "Investigations and reviews" on pages 42 to 46, no member of the Group is, or has been, involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which RBS Holdings or RBS N.V. is aware) during the 12 months prior to the date of this Registration Document, which may have, or have had in the recent past, significant effects on the financial position or profitability of RBS Holdings, RBS N.V. and/or the Group taken as a whole.

The material legal proceedings, investigations and reviews involving the Group are described below. If any such matters were resolved against the Group, these matters could, individually or in the aggregate, have a material adverse effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

### **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. The Group considers that it has substantial and credible legal and factual defences to these claims and intends to defend itself vigorously.

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

Certain members of RBSG Group have been named as defendants in a number of class actions and individual claims filed in the US with respect to the setting of LIBOR. The complaints are substantially similar and allege that certain members of RBSG Group and other panel banks individually and collectively violated various federal laws, including the US commodities and antitrust laws, and state statutory and common law by manipulating LIBOR and prices of LIBOR-based derivatives in various markets through various means. RBSG Group considers that it has substantial and credible legal and factual defences to these and prospective claims. It is possible that further claims may be threatened or brought in the US or elsewhere relating to the setting of interest rates or interest rate-related trading.

#### *World Online*

In November 2009, the Supreme Court in the Netherlands gave 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, including a potential claim brought to the Group's attention in December 2011 on behalf of a group of individuals linked to a company acquired by World Online in 2000. The Group does not believe that such settlements or any final liability or loss will have a material adverse effect on the Group's financial position or profitability.

#### *Complex Systems*

RBS N.V. is the defendant in an action pending in the United States District Court for the Southern District of New York filed by Complex Systems, Inc. The plaintiff alleges that RBS N.V. has since late 2007 been using plaintiff's back-office trade finance processing software without a valid license, in violation of the US Copyright Act. Plaintiff has submitted an expert report which purports to establish that plaintiff's damages under the Copyright Act would be in excess of US\$300 million if RBS N.V. is held liable. RBS N.V. denies that it has ever lacked a valid license to use the software and disputes the amount of damages claimed. RBS N.V.'s alleged liability is the subject of summary judgment motions that have been pending since September 2012.

#### *CPDO Litigation*

In November 2012, the Federal Court of Australia gave a judgment against RBS N.V. and others in relation to claims involving the rating and sale of a structured financial product known as a constant proportion debt obligation (a "CPDO"). It held that RBS N.V. and others committed certain wrongful acts in connection with the rating and sale of the CPDO. The judgment may potentially have significance to other CPDOs issued by RBS N.V. in Australia and other jurisdictions. RBS N.V. cannot at this stage reliably estimate the liability, if any, that may arise as a result of or in connection with this lawsuit.

#### *Summary of other disputes, legal proceedings and litigation*

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

### **Investigations and reviews**

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

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

The Group is cooperating fully with the investigations and reviews described below.

#### *LIBOR and other trading rates*

On 6 February 2013 RBSG Group announced a settlement with the Financial Services Authority in the United Kingdom, the United States Commodity Futures Trading Commission and the United States Department of Justice in relation to investigations into submissions, communications and procedures around the setting of the London Interbank Offered Rate ("**LIBOR**"). RBSG 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 Department of Justice, RBS entered into a Deferred Prosecution Agreement in relation to one count of wire fraud relating to Swiss Franc LIBOR and one count for an antitrust violation relating to Yen LIBOR. RBS Securities Japan Limited agreed to enter a plea of guilty to one count of wire fraud relating to Yen LIBOR. RBSG Group continues to co-operate with investigations by various other governmental and regulatory authorities into its submissions, communications and procedures relating to the setting of LIBOR and other trading rates, including authorities in the US and Asia. RBSG Group is also under investigation by competition authorities in a number of jurisdictions, including the European Commission and Canadian Competition Bureau, stemming from the actions of certain individuals in the setting of LIBOR and other trading rates, as well as interest rate-related trading. RBSG Group is also co-operating with these investigations.

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

### *Other Investigations*

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

RBSG Group’s operations include businesses outside the United States that are responsible for processing US dollar payments. RBSG Group is conducting a review of its policies, procedures and practices in respect of such payments and has initiated discussions with UK and US authorities to discuss its historical compliance with applicable laws and regulations, including US economic sanctions regulations. Although RBSG Group cannot currently determine when the review of its operations will be completed or what the outcome of its discussions with UK and US authorities will be, the investigation costs, remediation required or liability incurred could have a material adverse effect on the Group’s consolidated net assets, operating results or cash flows in any particular period.

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

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

## CORPORATE GOVERNANCE

### GOVERNANCE

#### Boards and Committees

RBS Holdings and RBS N.V. are public companies with limited liability incorporated under the laws of the Netherlands. Both companies have a two-tier system of corporate governance; consisting of a Supervisory Board and a Managing Board (each as defined below). The day-to-day management of RBS Holdings and RBS N.V. is vested with the relevant Managing Board.

The Supervisory Boards of RBS Holdings and RBS N.V. (together, the “**Supervisory Board**”) are comprised of the same members. The Managing Boards of RBS Holdings and RBS N.V. (together, the “**Managing Board**”) are also comprised of the same members.

The Dutch Banking Code (*Code Banken*) was drawn up by the Netherlands Bankers' Association (*NVB*) in response to the report entitled “Restoring Trust” (*Naar herstel van vertrouwen*), which was published by the Advisory Committee on the Future of Banks (*Adviescommissie Toekomst Banken*) on 7 April 2009. The recommendations of the Advisory Committee’s report have been used as the basis for the Dutch Banking Code. The Dutch Banking Code came into force on 1 January 2010. RBS N.V. has published on its website an overview of its compliance with the Banking Code.

Neither RBS Holdings nor RBS N.V. are formally obliged to comply with the principles of the Dutch Corporate Governance Code which are mandatory only for listed companies and therefore neither RBS Holdings nor RBS N.V. does comply with the Dutch Corporate Governance Code. However, given its standing in the Netherlands, the Group has chosen to adhere to the provisions of the Dutch Corporate Governance Code as much as possible.

### SUPERVISORY BOARD

#### Responsibilities of the Supervisory Board

The Supervisory Board supervises the Managing Board’s conduct of the Group’s business and the general course of affairs of RBS Holdings and RBS N.V. and their respective associated businesses. In addition, the Supervisory Board is charged with assisting and advising the management of RBS Holdings and RBS N.V., respectively. In performing their duties, the members of the Supervisory Board are guided by the interests of RBS Holdings and RBS N.V. and their respective associated businesses and take into account the relevant interests of the Group’s stakeholders. Certain powers are vested with the Supervisory Board, including the approval of certain resolutions by the Managing Board.

The Supervisory Board is an independent body. Members of the Supervisory Board are appointed by the general meeting of shareholders of RBS Holdings and RBS N.V., respectively. The Supervisory Board nominate one or more candidates for each vacant seat.

Supervisory Board members are appointed for a term of four years and may be re-appointed after that term. Members of the Supervisory Board may serve a maximum of three 4-year terms, or 12 years from the date of their first appointment. As a principle, each member agrees to retire by the day on which the annual general meeting of shareholders of RBS Holdings is held in the year in which he or she reaches the age of 70.

Candidates recommended for appointment or re-appointment to the Supervisory Board should meet the criteria of the membership profile, which are set out in the Rules Governing the Supervisory Board’s Principles and Best Practices of RBS Holding, which are available on the

Group's website at [www.rbs.nl](http://www.rbs.nl). These rules also include the terms of reference of the Risk and Audit Committee. Information on that website does not form part of this Registration Document, unless expressly stated otherwise.

In the case of an actual or potential conflict of interest of material significance between a member of the Supervisory Board and the Group, the Chairman of the Supervisory Board shall be notified.

The Chairman and Vice Chairman are appointed by each Supervisory Board from among its members.

### **Composition of the Supervisory Board**

Following the legal separation, a new Supervisory Board was appointed.

The Supervisory Board currently consists of the following members:

Bruce Van Saun	Chairman
Ron Teerlink	Vice-Chairman
Sietze Hepkema	
Chris Campbell	
Henk Rottinghuis	

### **Curriculum Vitae of Supervisory Board Members**

#### **Bruce Van Saun - Chairman of the Supervisory Board**

Mr. Van Saun was appointed to the Supervisory Board on 1 April 2010. Appointed to the Board of RBSG in October 2009 as Group Finance Director, Mr. Van Saun has extensive leadership experience with 30 years in the financial services industry. From 1997 to 2008 he held a number of senior positions with Bank of New York and later Bank of New York Mellon, most recently as vice chairman and chief financial officer and before that he was responsible for Asset Management and Market Related businesses. Prior to that, he held senior positions with Deutsche Bank, Wasserstein, Perella Group and Kidder Peabody & Co. From late 2008 through joining RBS he worked as an advisor to US private equity firms. He is currently a non-executive director of Direct Line Insurance Group plc, WorldPay (Ship Midco Limited) and Lloyd's of London. He previously served on several corporate Boards in the US and has been active in numerous community organisations.

#### **Christopher Campbell**

Mr. Campbell was appointed as a member of the Supervisory Board on 23 June 2011. Mr. Campbell joined RBS in August 2005 as Deputy General Counsel and Director, Group Legal and became Group General Counsel in May 2010. Prior to joining RBS, Mr. Campbell was a partner for 18 years in Scotland's largest law firm, Dundas & Wilson, and was Managing Partner from 1996 until he joined RBS in 2005. In his role as Group General Counsel, Mr. Campbell has overall responsibility for advising the RBS Group Board and Executive Committee and for the provision of legal support to all of RBS's businesses globally. His responsibilities also include the Group Secretariat and Regulatory Affairs functions.

#### **Ron Teerlink - Vice-Chairman of the Supervisory Board**

Mr. Teerlink was appointed to the Supervisory Board on 1 April 2010. In April 2008 Mr. Teerlink joined the RBS Group as Chief Executive of Business Services, becoming the Group Chief Administrative Officer in February 2009. At the same time he was re-appointed to the Managing Board of ABN AMRO to oversee the integration programme. Mr. Teerlink started his career with

ABN Bank in 1986 as an IT/Systems analyst and held various functional positions before becoming Chief Operating Officer of the Wholesale Clients Business in 2002. He was appointed Chief Executive Officer of Group Shared Services in 2004 and joined ABN AMRO's Managing Board in January 2006, where he was responsible for Services and Market Infrastructure. Mr. Teerlink holds a Masters degree in Economics from Amsterdam's Vrije Universiteit.

### **Henk Rottinghuis**

Mr. Rottinghuis was appointed to the Supervisory Board on 1 September 2010. Mr. Rottinghuis has been a Member of the Executive Board of Pon Holdings B.V. since 1999 and was appointed CEO in 2001, a position he held for nearly ten years. Before joining the Board, he worked as the Managing Director of Pon's Automobielhandel, the importer of Volkswagen, Audi and Porsche in the Netherlands and Poland, and was responsible for all import activities in the automotive arm of Pon Holdings. Mr. Rottinghuis started his career in 1982 at the Royal Nedlloyd Group, a shipping and transport group, where he held various management positions for a period of ten years. He holds a Master of Laws from the Rijksuniversiteit Groningen, and has followed an executive programme at Harvard Business School. He holds several Board positions with larger family companies. He is Chairman of the Supervisory Board of Stork Technical Services.

### **Sietze Hepkema**

Mr. Hepkema was appointed as a member of the Supervisory Board on 1 September 2010. Mr. Hepkema currently is a member of the Management Board (RvB) of SBM Offshore NV. He is responsible for compliance, governance, legal and insurance. Until 2012, Mr. Hepkema was a corporate and M&A lawyer at Allen & Overy LLP. He was Senior Partner of the Amsterdam office from 1999 to 2009 and a member of the firm's Board from 2000 to 2010. Before joining Allen & Overy, Mr. Hepkema was Partner at Loeff Claey's Verbeke for 12 years, where he was appointed to the Managing Board in 1989. Between 1981 and 1987 he worked at Graham & James in San Francisco and Singapore. He holds a Master of Laws from the Erasmus University Rotterdam and an LLM from Harvard Law School.

### **Supervisory Board Committee**

The Supervisory Board has one standing committee, being a Risk & Audit Committee (the "**Risk & Audit Committee**").

The Risk & Audit Committee is appointed by the Supervisory Board from its own members. The Risk & Audit Committee derives its authority from the Supervisory Board, the RBSG Group Board Risk Committee and the RBSG Group Audit Committee. Its Terms of Reference are set out in Annex C of the Rules Governing the Supervisory Board's Principles and Best Practices.

In line with good corporate governance, the rules governing the Risk & Audit Committee have been reviewed to ensure that objectives are, where possible, fully aligned and consistent with the terms of reference of both the RBSG Group Audit Committee and the RBSG Group Board Risk Committee and are adequate and appropriate oversight and escalation mechanisms are implemented. Also, the rules have been reviewed in light of the requirements as stated in the Dutch Banking Code.

The external auditor is appointed or reappointed by the General Meeting of Shareholders for a period of one year on the advice of the Supervisory Board. The Risk & Audit Committee has the delegated responsibility for the engagement of the external auditor. For this purpose it evaluates the independence of the external auditor, the measures used to control the quality of the external auditor's work, and the annual audit budget. The Risk & Audit Committee's policy on auditor independence governs the appointment, compensation and oversight of the external auditor. To

ensure the external auditor's independence, the Auditor Independence Policy prohibits the external auditor from providing certain non-audit services to the Group.

The Risk & Audit Committee is furthermore responsible for pre-approving audit, audit-related and permitted non-audit services provided by the external auditor. In exercising its pre-approval authority, the Risk & Audit Committee considers whether the proposed services are consistent with the continued independence of the external auditor. During each meeting of the Risk & Audit Committee, an overview is presented of the non-audit services that were initiated during the period under review.

All members of the Supervisory Board are members of the Risk and Audit Committee. The Chairman of the Supervisory Board is also the Chairman of the Risk and Audit Committee.

5 meetings of the Risk and Audit Committee have occurred in 2012.

## **MANAGING BOARD**

### **Responsibilities of the Managing Board**

The members of the Managing Board collectively manage the company and are responsible for its strategy, structure and performance. The members of the Managing Board are appointed by the general meeting of shareholders of RBS Holdings and RBS N.V., respectively. The Supervisory Board nominates one or more candidates for each vacant seat. If the Supervisory Board nominates two or more candidates for a vacant seat, the nomination list is binding. The members of the Managing Board are accountable both collectively and individually for all decisions taken by the Managing Board.

The Chairman of each Managing Board leads the relevant Managing Board in its overall management of the Group to achieve its performance goals and ambitions. The Chairman is the main point of liaison with the Supervisory Board. The Chief Financial Officer is responsible for the financial affairs of the Group, and the Chief Risk Officer is responsible for the Group's risk management and operational risk control. Alongside their overall corporate responsibilities, the members of the Managing Board are responsible for the management of the Divisions, Group Functions and Services. The Managing Board has delegated certain tasks to committees, as described below.

### **Composition of the Managing Board**

Following the legal separation, a new Managing Board was appointed.

The members of the Managing Board currently comprise:

Jan de Ruiter	Chairman
Pieter van der Harst	Chief Financial Officer
Jeroen Kremers	Deputy Chairman and Chief Risk Officer
Michael Geslak	Chief Administrative Officer
Richard Hemsley	Head of International Banking RBS N.V.

### **Curriculum Vitae of Managing Board Members**

Managing Board members as at 31 December 2012 are set out below.

#### **Jan de Ruiter**

Chairman Managing Board - RBS NL Country Executive

Mr. de Ruiter started his career at the Dutch Credit Insurance ('NCM') in 1984 and moved to ABN Bank in 1987. During his 21 years with ABN AMRO, he held various positions in the wholesale division of the bank. From 1987 until 1993 he was a team member of the Institutional Equity Sales team in Amsterdam and from 1993 until 1998 Head of the European Equity sales team, based in London. In 1998 he became the Head of Equity Capital Markets for the Netherlands (Managing Director ABN AMRO Rothschild). Mr. de Ruiter was appointed Corporate Managing Director of ABN AMRO in 2000. In 2003 he became one of the two joint CEO's of ABN AMRO Rothschild. In 2004 he also became responsible for the global Merger & Acquisitions franchise of ABN AMRO. He held both positions until the end of 2007. At the beginning of 2008, following the successful consortium bid for ABN AMRO, he became the country executive of RBS in the Netherlands. Mr. de Ruiter graduated from the HEAO in Utrecht in 1983 (Economics/Law) and also holds an MBA degree from Webster University.

### **Jeroen Kremers**

Head of Global Country Risk, RBS Group - Chief Risk Officer and Deputy Chairman Managing Board, RBS N.V.

Mr. Kremers has been Head of Global Country Risk at RBSG since March 2009, and joined the ABN AMRO Managing Board as of 1 July 2009. He began his career in 1986 as an Economist for the International Monetary Fund in Washington DC. In 1989 he became Senior Economist at the Netherlands Ministry of Finance, and in 1992, Deputy Director for Financial and Economic Policy. He then moved to become Director for Financial Markets in 1997 and in addition was appointed Deputy Treasurer General. He also was a Professor of Economics at Erasmus University Rotterdam from 1991 until 2003. In 2003, Mr. Kremers left the Ministry and was elected Executive Director of the International Monetary Fund, representing a constituency of 13 European countries. He remained there until 2007, when he moved to ABN AMRO to become Head of Group Public Affairs. He left ABN AMRO in 2008 and in 2009 moved to RBS. He earned a DPhil at Nuffield College Oxford in 1985, following degrees in Quantitative Economics at Bristol University and in Econometrics at Tilburg University. Mr. Kremers is a member of the Senior Advisory Board of Oliver Wyman Financial Services as well as of the Supervisory Board of Maastricht University and of N.V. Nederlandse Spoorwegen.

### **Pieter van der Harst**

Chief Financial Officer

Mr. van der Harst obtained a Degree in Economics in 1985 at the Erasmus University in Rotterdam. He started his career at the Dutch subsidiary of Banque Indosuez, where, after several functions in risk management and operations, he became Director of Financial Markets in 1993. After the sale of this entity to Dutch savings bank SNS Bank in 1997, he served as Managing Director of SNS Financial Markets, leading the treasury, funding and trading activities of the bank. Mr van der Harst joined ABN AMRO in 2000 as Finance Director at Bouwfonds, a subsidiary active in residential mortgages and real estate development, finance and asset management. Following the sale of Bouwfonds in 2006, he joined ABN AMRO's corporate development team. From June 2007 to September 2007 he was acting CFO at ABN AMRO Asset Management. From September 2007 through May 2008 he served as CFO for ABN AMRO's business unit North America. From June 2008 to the legal separation date of April 1, 2010, he fulfilled the role of R share CFO in addition to his role of CFO for RBS in the Netherlands. Currently, he continues to serve as CFO for RBS Netherlands.

### **Michael Geslak**

Chief Administrative Officer – RBS NV

Mr. Geslak joined ABN AMRO in New York in 1988 as an accountant, in 1992 he formed the Market Risk function in New York, and after moving to Chicago in 1993 became Head of Market Risk for North America. In 1995 he became Head of Investment Banking Operations and Product Control in Chicago, which was later expanded to cover all Investment Banking Operations for North America. In 2000 he was promoted to Chief Administrative Officer for Wholesale Banking in the Americas.

Mr. Geslak then moved to London as Global Chief Information Officer for ABN AMRO Wholesale Banking and managed the provision of all technology to the Global Markets and Global Transaction Services businesses. In 2006 he became Head of Services for Global Markets and BU Europe. From 2009 to 2012 he became the RBS COO for EMEA. His current roles are CAO and Managing Board member for RBS NV and Business Services Business Partner for Non-Core and APS.

In addition to these responsibilities, for the past two years Mr. Geslak has been leading the programme to de-risk RBS NV by transferring businesses to RBS.

### **Richard Hemsley**

Head of International Banking RBS N.V.

Mr. Hemsley is Chief Logistics Officer for International Banking having previously been Chief Operating Officer for Global Transaction Services, a role which he took up in January 2011. Amongst Mr. Hemsley's responsibilities are to ensure Operations and Technology infrastructures are optimised and best practices are shared with Markets. He also co-ordinates with the Group's Business Services Division to enhance efficiency front-to-back connectivity, drive efficiency, tackle cost base and improve operational risk management.

Mr. Hemsley joined RBS Group (with NatWest) in 1983 holding a wide variety of roles in Retail Banking, Corporate Banking and Head Office functions. In 2000 he became Head of Lending Operations, Group Manufacturing, in 2004 he was appointed to Director, Group Security & Fraud and following on from this in 2005 his career progressed to MD, Manufacturing Operations with key responsibilities for customer service improvement whilst delivering a 30% improvement in productivity.

A Fellow of the Chartered Institute of Bankers in Scotland, Mr. Hemsley has also completed the Advanced Management Programme at Harvard Business School.

### **Managing Board Committees**

The Managing Board has four standing committees: the first being a Risk & Control Committee (the "**Risk & Control Committee**"), the second being an Asset & Liability Management Committee (the "**ALCO**"), the third being a Disclosure Committee (the "**Disclosure Committee**") and the fourth being a Power of Attorney Committee (the "**PoA Committee**").

#### **Risk & Control Committee**

The Risk & Control Committee oversees the risk framework within the Group, monitors the actual risk profile and advises the Managing Board. Its scope is credit, market, operational and regulatory risk within the Group.

#### **Asset & Liability Management Committee**

The Managing Board has delegated to the ALCO responsibility for the management of capital, liquidity, interest rate risk and foreign exchange risk. This includes, among other tasks, responsibility for reviewing, approving and allocating balance sheet, capital, liquidity and funding limits.

**Disclosure Committee**

The Disclosure Committee advises and assists the Managing Board in fulfilling its responsibilities for overseeing the accuracy and timeline of public disclosures made by the companies. This includes, among other things, reviewing and advising on the adequacy of the design and establishment of controls and other procedures, including procedures currently used by RBS Holdings and RBS N.V. in this respect.

**PoA Committee**

The PoA Committee has the authority to appoint holders of a Senior or a Divisional Power of Attorney (in relation to Market & International Banking, Business Services, Global Restructuring Group and NCD) on behalf of RBS N.V.

**Conflicts of interest and addresses**

There are no actual or potential conflicts of interest between the duties to RBS Holdings and/or RBS N.V. of the members of the Supervisory Board and the Managing Board set out above and their private interests and/or other duties which are of material significance to RBS Holdings, RBS N.V. and/or any of such members. Except as described under “– Supervisory Board – Curriculum Vitae of Supervisory Board Members” and “– Managing Board – Curriculum Vitae of Managing Board Members”, the Supervisory Board and Managing Board members do not perform principal activities outside the RBSG Group.

The business address of the members of the Supervisory Board and Managing Board is: The Royal Bank of Scotland N.V., Gustav Mahlerlaan 350, 1082 ME Amsterdam, the Netherlands.

## **GUARANTEE GIVEN BY RBS HOLDINGS N.V. IN RESPECT OF DEBT OBLIGATIONS OF THE ROYAL BANK OF SCOTLAND N.V.**

Set out below is a summary of the guarantee, which is in the form of a declaration in accordance with Article 2:403 of the Dutch Civil Code (referred to below as a “**403 Declaration**”) given by RBS Holdings in respect of debt obligations of RBS N.V.:

*“RBS Holdings N.V., hereby declares, that it assumes joint and several liability for the debts resulting from legal acts performed of The Royal Bank of Scotland N.V., such in accordance with Section 2:403, subsection 1(f), of the Dutch Civil Code.”*

A copy of the 403 Declaration has been deposited with and can be obtained from the Trade Register of the Amsterdam Chamber of Commerce at De Ruyterkade 5, Amsterdam, the Netherlands.

The 403 Declaration constitutes a statement of joint and several liability governed by and construed in accordance with the laws of the Netherlands. The 403 Declaration is part of the Dutch company law provisions designed to enable subsidiaries of parent companies which publish consolidated annual accounts to obtain an exemption from the requirements to separately publish their own annual accounts. One of the conditions for obtaining such exemption is that a 403 Declaration is issued by the parent company and deposited with the Trade Register of the Chamber of Commerce in the place where the subsidiary is established. The statutory provisions relating to 403 Declarations are contained in Article 2:403 and following of the Dutch Civil Code. A 403 Declaration is an unqualified statement by the parent company that the parent company is jointly and severally liable with the subsidiary for the debts resulting from legal acts of the subsidiary (including issued debt instruments). The 403 Declaration set out above constitutes the legal, valid and binding obligation of RBS Holdings, enforceable in accordance with its terms. The effect of the issue and deposit by RBS Holdings of its 403 Declaration is that RBS Holdings has become jointly and severally liable for all debts of RBS N.V. resulting from legal acts of RBS N.V.. The 403 Declaration accordingly constitutes a guarantee by RBS Holdings for any debt instruments for which RBS N.V. acts as the issuer. If RBS N.V. should default under such debt instruments, holders concerned may claim against both or either of RBS Holdings and RBS N.V. The liability of RBS Holdings under the 403 Declaration is unconditional and not limited in amount. It is limited to debts of RBS N.V. resulting from legal acts of RBS N.V. The liability of RBS Holdings under the 403 Declaration does not include obligations of RBS N.V. following from statute, such as tax and tort. Legal defences available to RBS N.V. against the holder concerned will likewise be available to RBS Holdings. A 403 Declaration may be revoked by the giver at any time. If the 403 Declaration is revoked by RBS Holdings, the situation under Dutch law would be as follows:

- (1) RBS Holdings would remain liable in respect of debts of RBS N.V. resulting from legal acts of RBS N.V. (including the issuance of debt instruments by RBS N.V.) performed prior to the effective date of such revocation; and
- (2) RBS Holdings would not be liable for debts of RBS N.V. resulting from legal acts of RBS NV performed after the effective date of such revocation.

The law of the Netherlands provides that in the event that RBS N.V. is no longer a subsidiary of RBS Holdings or otherwise a group company of RBS Holdings, the revocation of the 403 Declaration is under certain conditions capable of releasing RBS Holdings from all obligations under the 403 Declaration. However, in such event, there are detailed statutory provisions to protect the rights of creditors of RBS N.V.

## SUMMARY CONSOLIDATED FINANCIAL INFORMATION RELATING TO RBS HOLDINGS N.V.

The following tables summarise certain financial information of RBS Holdings for its financial years ended 31 December 2012 and 31 December 2011 and have been extracted without adjustment from the audited 2012 Annual Report of RBS Holdings, which were prepared in accordance with IFRS.

	<b>For the year ended 31 December 2012 (audited)</b>	<b>For the year ended 31 December 2011 (audited)</b>
	<i>(in millions of euros)</i>	
Operating profit/(loss) before tax .....	(887)	(186)
Tax (charge)/credit .....	(129)	(449)
Profit/(loss) from continuing operations .....	(1,016)	(635)
Profit/(loss) from discontinued operations, net of tax .....	17	40
Profit/(loss) for the year .....	(999)	(595)

	<b>As at 31 December 2012 (audited)</b>	<b>As at 31 December 2011 (audited)</b>
	<i>(in millions of euros)</i>	
Loans and advances .....	21,535	56,631
Debt securities and equity shares .....	23,782	42,738
Derivatives and settlement balances .....	7,586	21,746
Other assets .....	18,051	25,661
<b>Total assets</b>	<b>70,954</b>	<b>146,776</b>

	<b>As at 31 December 2012 (audited)</b>	<b>As at 31 December 2011 (audited)</b>
	<i>(in millions of euros)</i>	
Subordinated liabilities .....	6,851	6,859
Deposits .....	37,103	86,121
Derivatives, settlement balances and short positions .....	9,751	23,277
Other liabilities.....	15,450	27,103
Equity attributable to the shareholders of the parent company .....	1,799	3,395
Non-controlling interests .....	-	21
<b>Total liabilities and equity</b>	<b>70,954</b>	<b>146,776</b>

	<b>As at 31 December 2012 (unaudited)</b>	<b>As at 31 December 2011 (unaudited)</b>
	<i>(per cent.)</i>	
Core Tier 1 ratio .....	11.7	8.6
Tier 1 ratio.....	13.9	12.0
Total capital ratio.....	19.8	17.5

#### **Share Capital: RBS Holdings**

At 31 December 2012, RBS Holding's issued share capital comprised 89,287 ordinary shares with a par value per ordinary share of €0.56. There are no issued ordinary shares that have not been fully paid. The total issued ordinary share capital is €50,000.72. For a summary of the rights attaching to the ordinary shares, see "Financial Statements — Notes to the accounts — 24 Share capital" on page 173 of the 2012 Annual Report.

#### **Share Capital: RBS N.V.**

At 31 December 2012, RBS N.V.'s issued share capital comprised 11,112 ordinary shares with a par value per ordinary share of €4.50. There are no issued ordinary shares that have not been fully paid. The total issued ordinary share capital is €50,004.

## **DELOITTE ASSURANCE REPORT - UNAUDITED PRO FORMA CONDENSED CONSOLIDATED FINANCIAL INFORMATION RELATING TO RBS HOLDINGS N.V.**

On 27 March 2013, RBS Holdings published updated unaudited pro forma financial information in respect of the Transfers to RBS. This pro forma financial information is set out on pages 234 to 237 of the 2012 Annual Report (as defined in “Documents Incorporated by Reference” below) which is incorporated by reference herein. Set out below is an Assurance Report issued by Deloitte Accountants B.V. in respect of such pro forma financial information.

Each of RBS Holdings N.V. and RBS N.V. confirm that the information in the Assurance Report has been accurately reproduced and that as far as each of RBS Holdings N.V. and RBS N.V. is aware and able to ascertain from information published by Deloitte Accountants B.V., no facts have been omitted which would render the Assurance Report inaccurate or misleading.

**“Deloitte Accountants B.V.**

Orlyplein 10  
1043 DP Amsterdam  
P.O.Box 58110  
1040 HC Amsterdam  
Netherlands

Tel: +31 (0)88 288 2888

Fax: +31 (0)88 288 9739

[www.deloitte.nl](http://www.deloitte.nl)

July 12, 2013

### **Independent Practitioner’s Assurance Report on the Unaudited Pro Forma Condensed Consolidated Financial Information**

**To: the holders of debt instruments issued by: The Royal Bank of Scotland N.V. and RBS Holdings N.V.**

#### **Introduction**

We have completed our assurance engagement to report on the unaudited pro forma condensed consolidated financial information of RBS Holdings N.V. The unaudited pro forma condensed consolidated financial information consists of the unaudited pro forma condensed consolidated balance sheet statement as at 31 December 2012 and the unaudited pro forma condensed consolidated income statement for the period ended 31 December 2012 and the notes thereto (together the “Pro Forma Financial Information”). The applicable criteria on the basis of which the Pro Forma Financial Information are specified in RBS Holdings N.V. annual report and described on page 237 of the noted report.

#### **Management’s responsibility**

The Pro Forma Financial Information has been prepared for illustrative purposes only to illustrate the impact of the estimated effects of the proposed transfers from RBS Holdings N.V. to The Royal Bank of Scotland plc on the condensed consolidated financial information as if such proposed transfer of businesses had occurred on the balance sheet date of 31 December 2012 or on 1 January 2012 for the statement of income as presented in the Pro Forma Financial Information as set out on pages 234 to 237 on the company’s annual report. As part of this process, information about the company’s financial position and financial performance has been extracted from the company’s financial statements for the period ended 31 December 2012, on which an audit report has been published. The Pro Forma Financial Information addresses a hypothetical situation and, therefore, does not represent the actual financial position or results of RBS Holdings N.V.

### **Practitioner's responsibility**

Our responsibility is to express an opinion as required by item 7 of Annex II of the Commission Regulation (EC) No 809/2004, as to the proper preparation of the Pro Forma Financial Information and the consistency of accounting policies. We conducted our engagement in accordance with Dutch Law, including the Dutch Standard COS 3850N, "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus". This standard requires that the practitioner comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether RBS Holdings N.V. has compiled, in all material respects, the Pro Forma Financial Information, on the basis of the applicable criteria.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in preparing the Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in preparing the Pro Forma Financial Information.

The purpose of the Pro Forma Financial Information included in an annual report is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the event or transaction at 31 December 2012 would have been as presented.

A reasonable assurance engagement to report on whether the Pro Forma Financial Information has been compiled, in all material respects, on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used in the preparation of the Pro Forma Financial Information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and
- The Pro Forma Financial Information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the practitioner's judgment, having regard to the practitioner's understanding of the nature of the company, the event or transaction in respect of which the pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the Pro Forma Financial Information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Opinion**

In our opinion:

- the Pro Forma Financial Information has been properly compiled on the basis stated on page 237 of the 2012 Annual Report and Accounts of RBS Holdings N.V.; and
- such basis is consistent with the accounting policies of RBS Holdings N.V. as described in the notes to the financial statements of the Company for period ended 31 December 2012.

**Restriction of Use**

This report is required by the Commission Regulation (EC) No 809/2004 and is given for the purpose of complying with that Regulation and for no other purpose. We accept no responsibility to, and deny any liability to, any person or in any way arising from or in connection with the use of this report outside the Netherlands.

Deloitte Accountants B.V.

R. Koppen”

## GENERAL INFORMATION

### RBS Holding's Objects

Article 2 of the articles of association of RBS Holdings, adopted on 5 April 2013, provides that the objects of RBS Holdings are:

- (i) the participation in, collaboration with and financing, administration and management of other enterprises and companies, to provide security for the debts of third parties, and the performance of all acts, activities and services which are related or may be conducive thereto;
- (ii) to render services and to perform activities as a financial services provider (*financiële dienstverlener*) as defined in the Financial Supervision Act (*Wet op het financieel toezicht*) and the performance of all other acts and activities which are related or may be conducive thereto, all in the broadest possible sense; and
- (iii) the fostering of the direct and indirect interests of all those who are involved in any way with RBS Holdings and the safeguarding of the continuity of RBS Holdings and its affiliated enterprise(s).

### RBS N.V.'s Objects

Article 2 of the articles of association of RBS N.V., adopted on 5 April 2013, provides that the objects of RBS N.V. are:

- (i) to engage in banking and stockbroking, to administer the assets of third parties, to act as trustee, administrator and executor of wills and as a member of the managing or supervisory boards or liquidator of companies or other organisations, to provide insurance services and to engage in all transactions, activities and services which may relate or be conducive thereto, all in the widest sense;
- (ii) to participate in, co-operate with, finance, administer and manage other enterprises and companies and to engage in all transactions, activities and services which may relate or be conducive to the above; and
- (iii) to foster the direct and indirect interests of all involved in RBS N.V., in whatever way, and to safeguard the continuity of RBS N.V. and the enterprise(s) associated therewith.

### Documents Available for Inspection

So long as this Registration Document is valid as described in Article 9 of the Prospectus Directive, copies of the following documents will, when published, be available, free of charge, from the registered office of RBS N.V.:

- (i) a copy of this Registration Document.
- (ii) the documents incorporated by reference into this Registration Document as set out in paragraphs (a) to (f) in the section "Documents Incorporated by Reference" below; and
- (iii) an English translation of the articles of association (*statuten*) of each of RBS Holdings and RBS N.V. as in force and effect on the date of this Registration Document.

Copies of these documents as well as any annual financial statements and interim financial information to be published in the future are also accessible via [http://www.investors.rbs.com/RBS\\_NV](http://www.investors.rbs.com/RBS_NV). Other than the information explicitly incorporated by reference into this Registration Document, the information found at that website does not form part of and is not incorporated by reference into this Registration Document.

A copy of the 403 Declaration is available for inspection at the Trade Register of the Amsterdam Chamber of Commerce at De Ruyterkade 5, 1013 AA Amsterdam, the Netherlands.

### **No Significant Change and No Material Adverse Change**

There has been no significant change in the trading or financial position of the Group taken as a whole since 31 December 2012 (the end of the last financial period for which audited financial information of the Group has been published).

There has been no material adverse change in the prospects of RBS Holdings or RBS N.V. since 31 December 2012 (the date of the last published audited financial information of the Group).

### **Financial Information**

On the basis of article 403 of part 9 of Book 2 of the Netherlands Civil Code, RBS N.V. is not required to publish annual financial statements. Only abbreviated financial statements are required to be drawn up and approved by the Management Board of RBS N.V. The shareholders of RBS N.V. have agreed to this in a declaration of consent, dated 22 March 2013 and filed with the Chamber of Commerce in Amsterdam. The assets and liabilities and the income statement of RBS N.V. are fully consolidated in the consolidated financial statements of RBS Holdings N.V. for the periods covered by the financial information incorporated by reference into this Registration Document.

### **Independent Auditors**

The consolidated financial statements of RBS Holdings for the years ended 31 December 2012 and 31 December 2011 as set out in the 2012 Annual Report and the 2011 Annual Report respectively, have been audited by Deloitte Accountants B.V. (“**Deloitte**”). Deloitte have issued unqualified independent auditors’ reports on the financial statements for the years ended 31 December 2012 (on 27 March 2013) and 31 December 2011 (on 22 March 2012). Deloitte is located at Orlyplein 10, P.O. Box 58110, 1043 DP Amsterdam, the Netherlands. The Auditor of Deloitte is a member of the Royal NIVRA (the *Koninklijke Nederlands Instituut van registeraccountants*), which is a member of the International Federation of Accountants (IFAC). Following legal separation, Deloitte have continued as the auditors of RBS Holdings and RBS N.V.

### **Material Contracts**

RBS Holdings and RBS N.V. and their respective subsidiaries are party to various contracts in the ordinary course of business. For a description of contracts that are not entered into in the ordinary course of RBS Holdings’ and/or RBS N.V.’s business which could result in any member of the Group being under an obligation or entitlement that is material to RBS Holdings’ and/or RBS N.V.’s ability to meet its obligation to security holders in respect of securities being issued by RBS Holdings or RBS N.V. on the basis of, *inter alia*, this Registration Document please refer to the paragraph “Additional Information — Material contracts” on pages 241 and 242 of the 2012 Annual Report.

## FORWARD-LOOKING STATEMENTS

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

In particular, this Registration Document includes forward-looking statements relating, but not limited to: the Group’s restructuring plans, divestments, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets, return on equity, cost : income ratios, leverage and loan : deposit ratios, funding and risk profile, certain ring-fencing proposals, sustainability targets, the Group’s future financial performance, the level and extent of future impairments and write-downs, including sovereign debt impairments, the protection provided by the Contracts, and the Group’s potential exposures to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in, or incorporated by reference in, this Registration Document include, but are not limited to: the global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the continuing economic crisis in Europe; competition and consolidation in the banking sector; the ability to access sufficient sources of liquidity and funding; the ability to implement strategic plans on a timely basis, or at all, including the disposal of certain non-core assets and assets and businesses required as part of the State Aid restructuring plan; organisational restructuring, including any adverse consequences of a failure to transfer, or delay in transferring, certain business assets and liabilities from RBS N.V. to RBS; the deteriorations in borrower and counterparty credit quality; the extent of future write-downs and impairment charges caused by depressed asset valuations; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; ineffective management of capital or changes to capital adequacy or liquidity requirements; litigation and regulatory investigations; changes to the valuation of financial instruments recorded at fair value; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group’s operations) in the Netherlands, the United States, the United Kingdom, the rest of Europe and other countries in which the Group operates or a change in policy of the government of the Netherlands or United Kingdom; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in Dutch and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; pension fund shortfalls; general operational risks; reputational risk; general geopolitical and economic conditions in the Netherlands and in other countries in which the Group has significant business activities or investments; the protection provided to the Group pursuant to the Contracts and their effect on the Group’s financial and

capital position; the cross liability resulting from the legal demerger of ABN AMRO Bank N.V.; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the RBSG Group; and the success of the Group in managing the risks involved in the foregoing.

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

For a further discussion of certain risks faced by the Group, see "Risk Factors" on pages 4 to 38.

## DOCUMENTS INCORPORATED BY REFERENCE

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

- (a) the articles of association (*statuten*) of each of RBS Holdings and RBS N.V. as in force and effect on the date of this Registration Document;
- (b) the RBS Holdings N.V. Annual Report 2012 (the “**2012 Annual Report**”) (excluding the section headed “Business Review — Risk Factors” on page 10 and the section headed “Additional Information — Risk Factors” on pages 243 to 251) which includes the audited consolidated annual financial statements of RBS Holdings as at and for the year ended 31 December 2012 (prepared in accordance with IFRS). The audited consolidated annual financial statements of RBS Holdings appear on pages 116 up to and including 219 of the 2012 Annual Report and the auditor’s report thereon appears on page 221 of the 2012 Annual Report;
- (c) the RBS Holdings N.V. Annual Report 2011 (the “**2011 Annual Report**”) (excluding the section headed “Business Review — Risk Factors” on page 10 and the section headed “Additional Information — Risk Factors” on pages 236 to 245) which includes the audited consolidated annual financial statements of RBS Holdings as at and for the year ended 31 December 2011 (prepared in accordance with IFRS). The audited consolidated annual financial statements of RBS Holdings appear on pages 107 up to and including 213 of the 2011 Annual Report and the auditor’s report thereon appears on page 215 of the 2011 Annual Report;
- (d) the following sections of the 2012 Annual Report and Accounts of RBSG, which were published by RBSG on 27 March 2013:
  - (i) Independent auditor’s report on page 352;
  - (ii) Consolidated income statement on page 353;
  - (iii) Consolidated statement of comprehensive income on page 354;
  - (iv) Consolidated balance sheet as at 31 December 2012 on page 355;
  - (v) Consolidated statement of changes in equity on pages 356 to 358;
  - (vi) Consolidated cash flow statement on page 359;
  - (vii) Accounting policies on pages 360 to 372;
  - (viii) Notes on the consolidated accounts on pages 373 to 474;
  - (ix) Parent company financial statements and notes on pages 475 to 486;
  - (x) Essential reading – Highlights on pages 2 to 3;
  - (xi) Chairman’s statement on page 10 to 11;
  - (xii) Group Chief Executive’s review on pages 12 to 13;
  - (xiii) Our key targets on page 15;
  - (xiv) Our business and our strategy on pages 16 to 20;
  - (xv) Divisional review on pages 21 to 32;
  - (xvi) Business review on pages 36 to 293;

- (xvii) Corporate governance on pages 303 to 308;
  - (xviii) Letter from the Chair of the Group Performance and Remuneration Committee on pages 320 to 321;
  - (xix) Directors' remuneration report on pages 322 to 342;
  - (xx) Compliance report on pages 343 to 344;
  - (xxi) Report of the Directors on pages 345 to 349;
  - (xxii) Statement of directors' responsibilities on page 350;
  - (xxiii) Financial Summary on pages 488 to 497;
  - (xxiv) Exchange rates on page 498;
  - (xxv) Economic and monetary environment on page 499;
  - (xxvi) Supervision on page 500;
  - (xxvii) Description of property and equipment on page 501;
  - (xxviii) Major shareholders on page 501;
  - (xxix) Material contracts on pages 501 to 502; and
  - (xxx) Glossary of terms on pages 528 to 535;
- (e) the following sections of the 2011 Annual Report and Accounts of RBSG, which were published by RBSG on 9 March 2012:
- (i) Independent auditor's report on page 306;
  - (ii) Consolidated income statement on page 307;
  - (iii) Consolidated statement of comprehensive income on page 308;
  - (iv) Consolidated balance sheet as at 31 December 2011 on page 309;
  - (v) Consolidated statement of changes in equity on pages 310 to 312;
  - (vi) Consolidated cash flow statement on page 313;
  - (vii) Accounting policies on pages 314 to 326;
  - (viii) Notes on the consolidated accounts on pages 327 to 419;
  - (ix) Parent company financial statements and notes on pages 420 to 431;
  - (x) Essential reading – Highlights on page 1;
  - (xi) Chairman's statement on page 9;
  - (xii) Group Chief Executive's review on pages 10 to 11;
  - (xiii) Our key targets on page 13;
  - (xiv) Our business and our strategy on pages 14 to 18;
  - (xv) Divisional review on pages 19 to 29;
  - (xvi) Business review on pages 32 to 249;
  - (xvii) Corporate governance on pages 258 to 262;

- (xviii) Letter from the Chair of the Remuneration Committee on pages 272 to 273;
  - (xix) Directors' remuneration report on pages 274 to 295;
  - (xx) Report of the Directors on pages 298 to 302;
  - (xxi) Directors' interests in shares on page 303;
  - (xxii) Financial Summary on pages 433 to 441;
  - (xxiii) Exchange rates on page 441;
  - (xxiv) Economic and monetary environment on page 442;
  - (xxv) Supervision on page 443;
  - (xxvi) Regulatory developments and reviews on page 444;
  - (xxvii) Description of property and equipment on page 445;
  - (xxviii) Major shareholders on page 445;
  - (xxix) Material contracts on pages 445 to 450; and
  - (xxx) Glossary of terms on pages 476 to 483;
- (f) the section headed "Risk Factors" on pages 3 to 23 of the registration document (the "**RBSG Registration Document**") dated 12 March 2013 of RBSG;
- (g) the unaudited Interim Management Statement Q1 2013 of RBSG, which was published via the Regulatory News Service of the London Stock Exchange plc (the "**RNS**") on 3 May 2013;
- (h) the press release entitled "RBS announces planned management changes", which was published via the RNS on 9 May 2013; and
- (i) the press release entitled "Stephen Hester to leave RBS", which was published via the RNS on 12 June 2013.

Copies of the documents incorporated by reference into this Registration Document as well as any annual and interim consolidated financial statements for RBS Holdings to be published in the future are accessible via [http://www.investors.rbs.com/RBS\\_NV](http://www.investors.rbs.com/RBS_NV) (other than the information explicitly incorporated by reference into this Registration Document, the information found at this website does not form part of and is not incorporated by reference into this Registration Document).

Copies of the documents incorporated by reference into this Registration Document are also available on request, free of charge, by writing or telephoning us at:

The Royal Bank of Scotland Group plc, Investor Relations, 280 Bishopsgate, London EC2M 4RB, United Kingdom, telephone +44 207 672 1758, e-mail [investor.relations@rbs.com](mailto:investor.relations@rbs.com).

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

It should be noted that, except as set forth above, no other portion of the above documents is incorporated by reference into this Registration Document. In addition, where sections of any of the above documents which are incorporated by reference into this Registration Document cross-reference other sections of the same document which are not incorporated by reference into this

Registration Document, such cross-referenced information shall not form part of this Registration Document.

**RBS HOLDINGS N.V. AND THE ROYAL BANK OF SCOTLAND N.V.**

*Registered office address*

Gustav Mahlerlaan 350  
1082 ME Amsterdam  
The Netherlands

*Mailing address*

Post Office Box 12925  
1100 AX Amsterdam  
The Netherlands

**INDEPENDENT AUDITORS**

*To RBS Holdings N.V. and to The Royal Bank of Scotland N.V.*

**Deloitte Accountants B.V.**

Orlyplein 10  
P.O. Box 58110  
1043 DP Amsterdam  
The Netherlands