ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
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FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16
of the Securities Exchange Act of 1934

For February 26, 2015

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F X Form 40-F ___

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Indicate by check mark whether the registrant by furnishing the information contained in this Form is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ___ No X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-________

The following information was issued as Company announcements in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

Appendix 1

Capital and risk management

Appendix 1 Capital and risk management

Presentation of information

The assets of disposal groups are presented as a single line in the consolidated balance sheet as required by IFRS. As allowed by IFRS, exposures, measures and ratios in this Appendix include disposal groups, primarily relating to Citizens Financial Group, on a line-by-line basis. A summary of this presentation is set out in Appendix 2.

Appendix 1 Capital and risk management

General overview and key developments

RBS's main risks are described in 'Risk and balance sheet management - Risk coverage' in the 2014 Annual Report and Accounts. The table below summarises the key developments during 2014 for these risks.

Risk type	Overview
Capital and leverage	Key milestones achieved in 2014 included the sell down of the first tranche of CFG; run down of the RCR and CIB assets; and the sell down of the RBS N.V. AFS portfolio. A £3.1 billion improvement in CET1 capital and a £73 billion reduction in RWAs resulted in the CET1 ratio improving during the year by 260 basis points from 8.6% to 11.2%. Risk reduction strategies contributed to the RWA reduction, £40 billion in CIB and £25 billion in RCR. RBS's current Pillar 2A requirement is 3.5% of RWAs at 31 December 2014. From 1 January 2015, 56% of the total Pillar 2A or 2.0% of RWAs will be met from CET1 capital. Based on capital that is required to be held to meet the overall financial adequacy rule, including holding current estimates of Pillar 2A constant, RBS estimates that its 'fully phased' CET1 maximum distributable amount (MDA) requirement would be 10.5% in 2019. Assuming a 13% a steady state CET1 capital ratio is achieved, RBS currently estimates that it would have a 2.5% headroom to MDA trigger in 2019. A significant reduction of £142 billion or 13% in the leverage exposure to £940 billion and a year on year increase in Tier 1 capital (100% CET1 currently) contributed to an 80 basis points improvement in leverage ratio from 3.4% to 4.2%. Full implementation of the 2014 Basel III leverage ratio framework, particularly on securities financing transactions, also contributed to the leverage exposure reduction.
Liquidity and funding	Liquidity metrics remained strong reflecting balance sheet and risk reduction as well as growth in UK PBB deposits: the liquidity coverage ratio improved to 112%; the net stable funding ratio was 121%; and the liquidity portfolio of £151 billion covered short-term and total wholesale funding of £28 billion and £90 billion by more than five and 1.5 times respectively. Based on its assessment of the Financial Stability Board's proposals, RBS may issue £3 - £5 billion per annum of qualifying debt between 2015 - 2019 to meet future total loss absorbing capital requirements.
Conduct and legal	RBS continued to remediate historical conduct issues, while also restructuring its customer-facing businesses and support functions around

the needs of its customers. Actions taken by RBS to address underlying control deficiencies included strengthening significantly the systems and controls governing RBS's LIBOR submissions, and simplifying RBS's retail product offering and sales processes. The conduct risk framework was also further developed, with the embedding of a new Conduct and Regulatory Affairs (C&RA) operating model, and the orientation of C&RA's assurance coverage and testing towards customer outcomes.

The impact of conduct issues resulted in litigation and conduct costs remaining high at £2.2 billion in 2014, albeit lower than the £3.8 billion recorded in 2013.

Appendix 1 Capital and risk management

General overview and key developments(continued)

Risk type	Overview
Credit	RBS's credit risk portfolio continued to improve with an overall reduction in exposure, an improvement in credit quality and a material provision release in 2014. These improvements were driven by supportive economic and market conditions in the UK and Ireland, better liquidity and increased collateral values, and also reflected improvements in credit risk measurement. Balance sheet credit exposure after credit mitigation decreased by 9% to £353 billion and credit RWAs fell by £62 billion or 17% to £295 billion primarily reflecting risk reduction and RCR disposal strategy. The wind-down of CIB's US asset-backed products business contributed to a £13 billion decrease in asset-backed securities, now at £25 billion, an £86 billion reduction on the 2008 peak of £111 billion. Impairment provisions of £18.0 billion, down £7.2 billion, covered risk elements in lending of £28.2 billion, down £11.2 billion, by 64%. Commercial real estate lending fell by £9.3 billion to £43.3 billion, of which £13.3 billion was in REIL with a provision coverage of 68%. Favourable market conditions, particularly in Ireland, resulted in impairment releases of £3.6 billion more than offsetting new impairment charges of £2.4 billion. This lead to a net release of £1.2 billion, of which £1.3 billion was in RCR and £0.4 billion in Ulster Bank, partly offset by net impairment charges of £0.3 billion in UK PBB and £0.2 billion in CFG.
Market	RBS's traded market risk profile decreased significantly, with market risk limits being reduced across all businesses, in some instances by 50-60%. Average trading VaR decreased significantly during the year to £27.8 million, 35% of the 2013 average, reflecting risk reductions in CIB and RCR, as well as the effect of a more comprehensive economic view of risk from the incorporation of credit and funding valuation adjustments in the VaR calculation. Market risk RWAs also decreased by £6.3 billion to £24.0 billion
Country	RBS maintained a cautious stance as many clients continued to reduce debt levels. Total eurozone net balance sheet exposure decreased by £5 billion or 5% to £98 billion. Within this amount, eurozone periphery exposures decreased by £10 billion, or 25%, to £31 billion, primarily in Spain reflecting the disposal of legacy liquidity portfolio bonds, and in Ireland and Italy. Total exposure to Greece was £0.4 billion but £120 million after the effect of collateral and guarantees. Limits for Russia and Ukraine were

	adjusted, additional credit restrictions were placed on new business and exposures were reviewed against international sanctions.
Pension	The triennial actuarial funding valuation of the Main scheme was agreed in May 2014 and showed an excess in the value of liabilities over the value of assets of £5.6 billion at 31 March 2013; a ratio of 82%. In 2014, various pension stress-testing initiatives were undertaken, both on internally defined scenarios and those to meet integrated PRA and European Banking Authority stress testing requirements.

Appendix 1 Capital and risk management

General overview and key developments(continued)

Risk type	Overview
Operational	RBS's transformation plan is material and complex affecting all business areas and functions simultaneously and so has the potential to increase operational risk profile at least in the short term. Significant investments were made to improve technology resilience for core banking services, operating practices and risk management across the three lines of defence. In particular, enhancements were made to cyber security programmes, mitigating a number of vulnerabilities.
Regulatory	The level of regulatory risk remains high as policymakers and regulators continue to strengthen regulations and supervision in response to the events of 2007 and 2008. RBS will in future focus CIB's business model on its leading positions in UK rates, debt capital markets and foreign exchange; this will leave RBS well-placed to implement the ring-fencing requirements, in 2019.
Reputational	The most material threat to RBS's reputation continued to originate from historical and more recent conduct deficiencies. RBS has been the subject of investigations and review by a number of regulators, some of which have resulted in fines and public censure.
Business	RBS reduced its business risk profile as it curtailed riskier activities in CIB, made disposals through RCR, and announced an intensified cost management programme.
Strategic	In early 2014, RBS announced the results of a strategic review with a defined plan to shift the business mix towards the UK and the retail and commercial banking segments, with the aim of a lower risk profile. The year saw good progress, with results in general exceeding targets and run-down or sell-off of non-core assets ahead of schedule. Capital ratios increased considerably, a significant step towards targeted levels of financial strength which, when attained, will provide RBS with more strategic options. However, RBS continued to work through the impact of tougher regulatory regime on banks.

Appendix 1 Capital and risk management

Capital management

RBS aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements, and operates within an agreed risk appetite. The appropriate level of capital is determined based on the dual aims of: (i) meeting minimum regulatory capital requirements; and (ii) ensuring RBS maintains sufficient capital to uphold customer, investor and rating agency confidence in the organisation, thereby supporting its business franchises and funding capacity.

Overview

- RBS's CET1 ratio was 11.2% at 31 December 2014, an improvement of 260 basis points compared with 8.6% as at 31 December 2013.
- The leverage ratio under 2014 Basel III framework improved from 3.4% to 4.2% at 31 December 2014.
- Key milestones achieved in 2014 include:
  - IPO of CFG;
  - run down of RCR and CIB assets; and
  - disposal of €9 billion of higher risk legacy available-for-sale securities, thereby reducing stressed capital and RWAs.

- Going forward, RBS is focused on delivering a capital plan in-line with its strategic objectives which includes the divestment of CFG by the end of 2016 and further run down of RCR and CIB assets.
- From 2015 RBS will target a c.13% CET1 ratio during the period of CIB restructuring and expects to achieve this by the end of 2016.
- RBS plans to issue around £2 billion of CRR-compliant Additional Tier 1 (AT1) capital instruments in 2015.

RBS's current Pillar 2A requirement is 3.5% of RWAs at 31 December 2014. From 1 January 2015, 56% of the total Pillar 2A or 2.0% of RWAs is required to be met from CET1 capital. Pillar 2A is a point in time assessment of the amount of capital that is required to be held to meet the overall financial adequacy rules. The PRA assessment may change over time, including as a result of at least an annual assessment and supervisory review of RBS's Internal Capital Adequacy Assessment Process.

RBS's capital risk appetite framework, which informs its capital targets, includes consideration of the MDA requirements. These requirements are expected to be phased in from 2016, with full implementation by 2019.

Based on current capital requirements, including holding current estimates of Pillar 2A constant for illustrative purposes, RBS estimates that its 'fully phased' CET1 MDA requirement would be 10.5% in 2019, assuming RBS's current risk profile. It should be noted that this estimate does not reflect the anticipated impact of RBS's planned restructuring and balance sheet risk reduction programmes, changes in the regulatory framework or other factors that could impact target CET1 ratios. This estimated MDA requirement comprises:

- 4.5% Pillar 1 minimum CET1 ratio
- 2.0% Pillar 2A CET1 ratio
- 2.5% Capital conservation buffer
- 1.5% Global Systemically Important Institution buffer

Based on the assumptions above, assuming a 13% steady state CET1 capital ratio is achieved, RBS currently estimates that it would have headroom of 2.5% to fully phased MDA trigger in 2019. This headroom will be subject to ongoing review to accommodate regulatory and other changes.

Appendix 1 Capital and risk management

Capital resources

	End-point CRR (1)			PRA transitional basis (1)		
	31 December 2014	30 September 2014	31 December 2013 (2)	31 December 2014	30 September 2014	31 December 2013 (2)
	£m	£m	£m	£m	£m	£m
Shareholders' equity (excluding non-controlling interests)						
Shareholders' equity	57,246	62,091	58,742	57,246	62,091	58,742
Preference shares - equity	(4,313)	(4,313)	(4,313)	(4,313)	(4,313)	(4,313)
Other equity instruments	(784)	(979)	(979)	(784)	(979)	(979)
	52,149	56,799	53,450	52,149	56,799	53,450
Regulatory adjustments and deductions						
Own credit	500	616	601	500	616	601
Defined benefit pension fund adjustment	(238)	(198)	(172)	(238)	(198)	(172)
Cash flow hedging reserve	(1,029)	(291)	84	(1,029)	(291)	84
Deferred tax assets	(1,222)	(1,565)	(2,260)	(1,222)	(1,565)	(2,260)
Prudential valuation adjustments	(384)	(438)	(781)	(384)	(438)	(781)
Goodwill and other intangible assets	(7,781)	(12,454)	(12,368)	(7,781)	(12,454)	(12,368)
Expected losses less impairments	(1,491)	(1,596)	(1,731)	(1,491)	(1,596)	(1,731)
Other regulatory adjustments	(585)	353	(55)	(855)	215	(55)
	(12,230)	(15,573)	(16,682)	(12,500)	(15,711)	(16,682)
CET1 capital	39,919	41,226	36,768	39,649	41,088	36,768
Additional Tier 1 (AT1) capital						
Qualifying instruments and related share premium subject to phase out	-	-	-	5,820	5,820	5,831
Qualifying instruments issued by subsidiaries and held by third parties	-	-	-	1,648	1,665	1,749
AT1 capital	-	-	-	7,468	7,485	7,580
Tier 1 capital	39,919	41,226	36,768	47,117	48,573	44,348
Qualifying Tier 2 capital						
Qualifying instruments and related share premium	5,542	5,361	3,582	6,136	5,956	4,431
Qualifying instruments issued by subsidiaries and held by third parties	3,175	3,454	5,151	7,490	7,705	9,374

Tier 2 capital	8,717	8,815	8,733	13,626	13,661	13,805
Total regulatory capital	48,636	50,041	45,501	60,743	62,234	58,153

Notes:

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

Appendix 1 Capital and risk management

Capital resources (continued)

Capital flow statement
The table below analyses the movement in end-point CRR CET1 and Tier 2 capital for the year.

	CET1 £m	Tier 2 £m	Total £m
At 1 January 2014	36,768	8,733	45,501
Loss for the year including reclassification of CFG, net of movements in fair value of own credit	(3,571)	-	(3,571)
Share capital and reserve movements in respect of employee share schemes	205	-	205
Ordinary shares issued	300	-	300
Foreign exchange reserve	(208)	-	(208)
AFS reserves	607	-	607
Decrease in goodwill and intangibles deduction	4,032	-	4,032
Deferred tax assets (DTA)	1,038	-	1,038
Prudential valuation adjustments (PVA)	397	-	397
Excess of expected loss over impairment provisions (EL-P)	240	-	240
Dated subordinated debt issues	-	2,159	2,159
Net dated subordinated debt/grandfathered instruments	-	(1,537)	(1,537)
Foreign exchange movements	-	(638)	(638)
Other movements	111	-	111
At 31 December 2014	39,919	8,717	48,636

Key points

On reclassification of CFG to disposal groups at 31 December 2014, the carrying value exceeded its fair value less costs to sell by £4 billion. The consequential write down has been ascribed to goodwill relating to CFG.

The lower regulatory capital deduction for DTA is due to the reduction in the net DTA balance, reflecting the write down of deferred tax assets during the year.

Tier 2 issuances of £2.2 billion comprised €1 billion 3.625% subordinated notes and $2.25 billion 5.125% subordinated notes, both maturing in 2024.

Appendix 1 Capital and risk management

Capital resources (continued)

Notes:

General:
In accordance with the PRA's Policy Statement PS7/2013 issued in December 2013 on the implementation of CRD IV, all regulatory adjustments and deductions to CET1 have been applied in full (end-point CRR basis) with the exception of unrealised gains on AFS securities which will be included from 2015 (PRA transitional basis).

CRD IV and Basel III impose a minimum CET1 ratio of 4.5%. Further, CET1 requirements will be imposed through buffers in the CRD. There are three buffers that will affect RBS: the capital conservation buffer set at 2.5% of RWAs; the counter-cyclical capital buffer (up to 2.5% of RWAs), which will be calculated as the weighted average of the countercyclical capital buffer rates applied in the countries where RBS has relevant credit exposures; and the highest of Global-Systemically Important Institution (G-SII), Other-Systemically Important Institution (O-SII) or Systemic Risk Buffers set by the supervisory authorities. RBS has been provisionally allocated a G-SII buffer of 1.5%. The regulatory target capital requirements will be phased in through CRR, and are expected to apply in full from 1 January 2019. Until then, using national discretion the PRA can apply a top-up. As set out in the PRA's Supervisory Statement SS3/13, RBS and other major UK banks and building societies are required to maintain a CET1 ratio of 7%, after taking into account certain adjustments set by the PRA.

From 1 January 2015, RBS must meet at least 56% of its Pillar 2A capital requirement with CET1 capital and the balance with Additional Tier 1 and/or Tier 2 capital. The Pillar 2A capital requirement is the additional capital that RBS must hold, in addition to meeting its Pillar 1 requirements in order to comply with the PRA's overall financial adequacy rule.

Measures in relation to end-point CRR basis, including RWAs, are based on the current interpretation, expectations, and understanding, of the CRR requirements, as well as further regulatory clarity and implementation guidance from the UK and EU authorities (end-point CRR basis above). The actual end-point CRR impact may differ when the final technical standards are interpreted and adopted.

Capital base:

(1)	Own funds are based on shareholders' equity.
(2)	Includes the nominal value of B shares (£0.5 billion) on the assumption that RBS will be privatised in the future and that they will count as permanent equity in some form by the end of 2017.
(3)	The adjustment, arising from the application of the prudent valuation requirements (PVA) to all assets measured at fair value, has been included in full. The PVA relating to assets under advanced internal ratings approach has been included in impairment provisions in the determination of the deduction from expected losses.
(4)	Where the deductions from AT1 capital exceed AT1 capital, the excess is deducted from CET1 capital. The excess of AT1 deductions over AT1 capital in year one of transition is due to the application of the current rules to the transitional amounts.
(5)	

Insignificant investments in equities of other financial entities (net): long cash equity positions are considered to have matched maturity with synthetic short positions if the long position is held for hedging purposes and sufficient liquidity exists in the relevant market. All the trades are managed and monitored together within the equities business.

Risk-weighted assets (RWAs):

(1) Current securitisation positions are shown as risk-weighted at 1,250%.

(2) RWA uplifts include the impact of credit valuation adjustments (CVA) and asset valuation correlation (AVC) on banks and central counterparties.

(3) RWAs reflect implementation of the full internal model method suite, and include methodology changes that took effect immediately on CRR implementation.

(4) Non-financial counterparties and sovereigns that meet the eligibility criteria under CRR are exempt from the credit valuation adjustments volatility charges.

(5) The CRR final text includes a reduction in the risk-weight relating to small and medium-sized enterprises.

Appendix 1 Capital and risk management

Leverage exposure

Basis of preparation

The leverage exposure set out on page 27 of the main announcement is based on the revised 2014 Basel III leverage ratio framework. The leverage ratio as originally included in the CRR is aligned with the internationally agreed ratio from January 2015.

Additional analysis of derivative notionals and undrawn commitments, two of the major components outside the balance sheet contributing to the leverage exposure is set out below.

Derivative notionals

Derivative potential future exposures (PFE) are calculated based on the notional value of the contracts and is dependent on the type of contract. For contracts other than credit derivatives the PFE is based on the type and maturity of the contract after the effect of netting arrangements.

The PFE on credit derivatives is based on add-on factors determined by the asset quality of the referenced instrument. Qualifying credit derivatives attract a PFE add-on of 5% and have reference securities issued by public sector entities, multilateral development banks or other investment grade issuers. Non-qualifying credit derivatives attract a PFE add-on of 10%.

The table below analyses the derivative notionals by maturity for contracts other than credit derivatives and credit derivatives by qualifying and not.

	Derivatives other than credit derivatives			Credit derivatives		
	<1 year	1-5 years	>5 years	Qualifying	Non-qualifying	Total
31 December 2014	£bn	£bn	£bn	£bn	£bn	£bn
Interest rate	11,069	10,423	5,839			27,331
Exchange rate	3,649	720	306			4,675

Equity	42	33	2			77
Commodities	1	-	-			1
Credit				99	26	125
Total	14,761	11,176	6,147	99	26	32,209
31 December 2013						
Interest rate	10,582	16,212	8,795			35,589
Exchange rate	3,261	814	480			4,555
Equity	43	35	1			79
Commodities	-	1	1			2
Credit				189	64	253
Total	13,886	17,062	9,277	189	64	40,478

Appendix 1 Capital and risk management

Leverage exposure (continued)

Weighted undrawn commitments

31 December 2014	UK PBB £bn	Ulster Bank £bn	Commercial Banking £bn	Private Banking £bn	CIB £bn	Central items £bn	CFG £bn	RCR £bn	Total £bn
Unconditionally cancellable items (1)	3.1	0.1	1.0	0.2	2.4	-	1.8	-	8.6
Items with a 20% CCF	0.4	-	0.7	0.1	3.2	-	0.4	-	4.8
Items with a 50% CCF	4.8	1.0	9.8	1.4	36.8	1.6	7.8	0.5	63.7
Items with a 100% CCF	0.1	0.3	2.2	0.8	10.2	3.9	1.5	0.3	19.3
	8.4	1.4	13.7	2.5	52.6	5.5	11.5	0.8	96.4
31 December 2013									
Unconditionally cancellable items (1)	3.1	0.2	0.4	0.1	0.7	-	1.7	-	6.2
Items with a 20% CCF	0.4	-	0.6	0.6	1.5	-	0.2	-	3.3
Items with a 50% CCF	5.8	1.0	12.5	1.0	41.9	2.7	7.1	0.7	72.7
Items with a 100% CCF	0.1	0.3	2.4	1.4	12.0	-	1.6	0.2	18.0
	9.4	1.5	15.9	3.1	56.1	2.7	10.6	0.9	100.2

Note:

(1) Based on a 10% credit conversion factor.

Risk-weighted assets

The table below analyses the movement in credit risk RWAs by key drivers during the year.

	Credit risk		
	Non-counterparty	Counterparty	Total
	£bn	£bn	£bn
At 1 January 2014 (Basel 2.5 basis)	291.1	22.3	313.4
CRR impact	26.8	16.8	43.6
At 1 January 2014 (CRR basis)	317.9	39.1	357.0
Foreign exchange movement	1.5	-	1.5
Business movements	(21.6)	(13.9)	(35.5)
Risk parameter changes	(11.7)	-	(11.7)
Methodology changes	(17.9)	5.2	(12.7)
Model updates	(2.7)	-	(2.7)
Other changes	(0.8)	-	(0.8)
At 31 December 2014 (CRR basis)	264.7	30.4	295.1
Modelled (1)	163.2	26.6	189.8
Non-modelled	101.5	3.8	105.3
	264.7	30.4	295.1

The table below analyses movements in market and operational risk RWAs during the year.

	Market risk			Operational	
	CIB	Other	Total	risk	Total
	£bn	£bn	£bn	£bn	£bn
At 1 January 2014 (Basel 2.5 and CRR bases)	22.4	7.9	30.3	41.8	72.1
Business and market movements	(15.4)	(2.8)	(18.2)	(5.0)	(23.2)
Methodology changes	11.9	-	11.9	-	11.9
At 31 December 2014 (CRR basis)	18.9	5.1	24.0	36.8	60.8
Modelled (1)	14.9	3.3	18.2		18.2
Non-modelled	4.0	1.8	5.8	36.8	42.6
	18.9	5.1	24.0	36.8	60.8

Note:

(1) Modelled refers to advanced internal ratings (AIRB) basis for non-counterparty credit risk, internal model method (IMM) for counterparty credit risk, and value-at-risk and related models for market risk. These principally relate to CIB (£83 billion) and Commercial Banking (£48 billion).

Appendix 1 Capital and risk management

Risk-weighted assets (continued)

The table below analyses RWA movements by segment during the year.

Total RWAs	UK PBB £bn	Ulster Bank £bn	Commercial Banking £bn	Private Banking £bn	CIB £bn	Central items £bn	CFG £bn	RCR £bn	Non-Core £bn	Total £bn
At 31 December 2013 (Basel 2.5 basis)	51.2	30.7	65.8	12.0	120.4	20.1	56.1	-	29.2	385.5
Impact of dissolution of Non-Core and creation of RCR	-	(1.9)	(2.7)	-	(10.0)	0.1	2.0	41.7	(29.2)	-
CRR impact	(1.5)	(0.6)	(1.6)	-	36.7	3.1	2.5	5.0	-	43.6
At 1 January 2014 (CRR basis)	49.7	28.2	61.5	12.0	147.1	23.3	60.6	46.7	-	429.1
Foreign exchange movement	-	(1.1)	-	-	(1.0)	-	3.6	-	-	1.5
Business movements	(0.3)	0.3	-	-	(36.8)	(6.1)	4.2	(20.0)	-	(58.7)
Risk parameter changes (1)	(5.0)	(3.6)	0.2	-	-	-	-	(3.3)	-	(11.7)
Methodology changes (2)	-	-	1.7	(0.2)	(2.0)	-	-	(0.3)	-	(0.8)
Model updates (3)	(1.6)	-	0.6	-	(0.2)	(0.4)	-	(1.1)	-	(2.7)
Other changes	-	-	-	(0.3)	-	(0.5)	-	-	-	(0.8)
At 31 December 2014 (CRR basis)	42.8	23.8	64.0	11.5	107.1	16.3	68.4	22.0	-	355.9

Notes:

(1) Risk parameter changes relate to changes in credit quality metrics of customers and counterparties such as probability of default (PD) and loss given default (LGD). They comprise:
UK PBB and Ulster Bank: primarily reflects recalibration of PD and LGD models reflecting improvements to the UK economy.
RCR: decrease in defaulted assets (£1.0 billion) and internal rating upgrades for certain counterparties (£0.8 billion).

(2) Methodology changes included:
Commercial Banking: revisions to both currency netting and maturity dates for securitisation liquidity facilities.
CIB: £2.0 billion primarily represents inclusion of hedges in the CVA calculation. In addition there were offsetting movements of £11.4 billion reflecting transition of trading book securitisations from credit risk to market risk; and

£7.5 billion reflecting reclassification of new CRR related charges, primarily asset value correlation and certain exchange traded derivatives from non-counterparty credit risk to counterparty credit risk.

(3) The following models were updated during the year:
UK PBB: revised retail LGD model.
Commercial Banking and RCR: new large corporate PD model.
CIB: reduction due to the impact of EAD model £2.6 billion was offset by the new large corporate PD model.

Key points

- UK PBB, RWAs reduced due to improvements in credit quality, recovery in the UK economy and lower balances.
- In Commercial Banking, credit risk RWAs increased by £5 billion due to growth in loans (£2 billion) and methodology changes (£2 billion) and model changes (£1 billion), offset by a £2 billion decrease in operational risk RWAs.
- CIB managed down RWAs by £40 billion, through both balance sheet and risk reductions. The reduction included £15 billion of market risk RWAs due to the wind down of the US asset-backed products business; £6 billion credit risk RWAs in GTS and Portfolio and £10 billion in Rates reflecting counterparty reviews as well as exits, novations and mitigation. Operational risk RWAs decreased by £3 billion.
- The RCR disposal strategy and run-off resulted in a £25 billion reduction in RWAs, £9 billion each in real estate finance and corporate, and a further £5 billion and £2 billion in Markets and Ulster Bank respectively.

In relation to RWA density:

- The increase in RWA density of bank exposures reflected the impact of credit valuation adjustments and asset valuation correlation and those on structured entities related to revised RWA treatments, both relating to the implementations of CRD IV.
- Non-modelled standardised credit risk RWAs principally comprised CFG (£63 billion), and Private Banking (£10 billion); repo transactions undertaken by RBS Securities Inc, the broker-dealer and certain securitisation exposures.
- Total shipping portfolio EAD was £10.9 billion and RWAs of £8.4 billion of which £2.3 billion and £1.7 billion were in RCR.
- Oil and gas RWAs were £8.5 billion at a density of 49%. Mining and metals RWAs were £3.3 billion with a density of 74%.

Appendix 1 Capital and risk management

Risk-weighted assets (continued)

EAD and RWA density

The tables below analyse exposure at default (EAD) after credit risk mitigation (CRM), RWAs, and related RWA density (RWAs as a percentage of EAD) by sector cluster. RWAs at 31 December 2014 are under current rules and 31 December 2013 are on a Basel 2.5 basis.

	EAD post CRM (1)			RWAs			RWA density		
	AIRB	STD	Total	AIRB	STD	Total	AIRB	STD	Total
31 December 2014	£m	£m	£m	£m	£m	£m	%	%	%

Sector cluster									
Sovereign									
Central banks	44,007	50,539	94,546	1,632	78	1,710	4	-	2
Central government	16,373	9,944	26,317	1,775	61	1,836	11	1	7
Other sovereign	4,936	6,548	11,484	1,250	386	1,636	25	6	14
Total sovereign	65,316	67,031	132,347	4,657	525	5,182	7	1	4
Financial institutions (FI)									
Banks	32,777	2,081	34,858	15,089	488	15,577	46	23	45
Other FI (2)	41,420	22,535	63,955	15,585	9,960	25,545	38	44	40
SSPEs (3)	17,504	2,634	20,138	6,216	4,410	10,626	36	167	53
Total FI	91,701	27,250	118,951	36,890	14,858	51,748	40	55	44
Corporates									
Property									
- UK	48,081	3,463	51,544	23,736	3,390	27,126	49	98	53
- Ireland	7,541	31	7,572	1,283	33	1,316	17	106	17
- Other Western Europe	4,625	431	5,056	2,321	445	2,766	50	103	55
- US	1,334	7,481	8,815	722	7,551	8,273	54	101	94
- RoW	2,048	284	2,332	1,296	249	1,545	63	88	66
Total property	63,629	11,690	75,319	29,358	11,668	41,026	46	100	54
Natural resources									
- Oil and gas	15,704	1,876	17,580	6,864	1,665	8,529	44	89	49
- Mining and metals	3,744	635	4,379	2,602	660	3,262	69	104	74
- Other	16,173	1,070	17,243	6,367	861	7,228	39	80	42
Transport									
- Shipping	8,332	2,571	10,903	5,790	2,575	8,365	69	100	77
- Other	21,268	3,297	24,565	9,176	2,865	12,041	43	87	49
Manufacturing	29,450	8,430	37,880	12,673	8,257	20,930	43	98	55
Retail and leisure	24,564	8,262	32,826	14,940	8,027	22,967	61	97	70
Services	23,489	8,426	31,915	13,327	8,350	21,677	57	99	68
TMT (4)	13,555	2,790	16,345	7,079	2,806	9,885	52	101	60
Total corporates	219,908	49,047	268,955	108,176	47,734	155,910	49	97	58
Personal									
Mortgages									
- UK	113,884	7,794	121,678	10,651	3,121	13,772	9	40	11
- Ireland	15,544	37	15,581	13,137	18	13,155	85	49	84
- Other Western Europe	193	311	504	16	124	140	8	40	28
- US	131	21,088	21,219	10	10,352	10,362	8	49	49
- RoW	407	589	996	39	232	271	10	39	27

Total mortgages	130,159	29,819	159,978	23,853	13,847	37,700	18	46	24
Other personal	31,628	15,971	47,599	13,233	11,805	25,038	42	74	53
Total personal	161,787	45,790	207,577	37,086	25,652	62,738	23	56	30
Other items	4,465	18,363	22,828	3,012	16,580	19,592	67	90	86
Total	543,177	207,481	750,658	189,821	105,349	295,170	35	51	39

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

Appendix 1 Capital and risk management

Risk-weighted assets: Exposure at default and RWA density

	EAD post CRM (1)			RWAs			RWA density		
	AIRB	STD	Total	AIRB	STD	Total	AIRB	STD	Total
31 December 2013	£m	£m	£m	£m	£m	£m	%	%	%
Sector cluster									
Sovereign									
Central banks	34,809	59,351	94,160	1,289	180	1,469	4	-	2
Central government	17,940	8,401	26,341	2,418	30	2,448	13	-	9
Other sovereign	5,323	5,525	10,848	1,451	149	1,600	27	3	15
Total sovereign	58,072	73,277	131,349	5,158	359	5,517	9	-	4
Financial institutions (FI)									
Banks	37,718	2,769	40,487	11,922	689	12,611	32	25	31
Other FI (2)	43,460	14,033	57,493	16,391	7,940	24,331	38	57	42
SSPEs (3)	21,564	2,523	24,087	5,827	2,189	8,016	27	87	33
Total FI	102,742	19,325	122,067	34,140	10,818	44,958	33	56	37
Corporates									
Property									
- UK	50,250	2,771	53,021	27,904	2,461	30,365	56	89	57
- Ireland	10,338	107	10,445	3,087	136	3,223	30	127	31
- Other Western Europe	8,764	143	8,907	4,937	130	5,067	56	91	57
- US	1,126	6,527	7,653	600	6,272	6,872	53	96	90
- RoW	3,579	317	3,896	2,817	253	3,070	79	80	79
Total property	74,057	9,865	83,922	39,345	9,252	48,597	53	94	58
Natural resources	29,403	2,826	32,229	15,586	2,435	18,021	53	86	56

Transport	31,677	3,024	34,701	21,678	2,709	24,387	68	90	70
Manufacturing	24,649	7,775	32,424	13,607	7,599	21,206	55	98	65
Retail and leisure	23,974	7,744	31,718	18,302	7,591	25,893	76	98	82
Services	22,716	8,757	31,473	15,972	8,382	24,354	70	96	77
TMT (4)	13,550	2,222	15,772	8,470	2,198	10,668	63	99	68
Total corporates	220,026	42,213	262,239	132,960	40,166	173,126	60	95	66
Personal									
Mortgages									
- UK	110,470	7,841	118,311	14,412	3,267	17,679	13	42	15
- Ireland	17,148	33	17,181	16,108	12	16,120	94	36	94
- Other Western Europe	202	507	709	25	202	227	12	40	32
- US	121	19,717	19,838	15	9,756	9,771	12	49	49
- RoW	396	242	638	50	107	157	13	44	25
Total mortgages	128,337	28,340	156,677	30,610	13,344	43,954	24	47	28
Other personal	33,358	14,521	47,879	15,286	10,703	25,989	46	74	54
Total personal	161,695	42,861	204,556	45,896	24,047	69,943	28	56	34
Other items	4,756	19,189	23,945	4,061	15,798	19,859	85	82	83
Total	547,291	196,865	744,156	222,215	91,188	313,403	41	46	42

Notes:

(1) Exposure at default post credit risk mitigation reflects an estimate of the extent to which a bank will be exposed under a specific facility, in the event of the default of a counterparty; AIRB: advanced internal ratings based; STD: standardised.
(2) Non-bank financial institutions, such as US agencies, insurance companies, pension funds, hedge and leverage funds, broker-dealers and non-bank subsidiaries of banks.
(3) Securitisation structured purpose entities primarily relate to securitisation related vehicles.
(4) Telecommunications, media and technology.

Appendix 1 Capital and risk management

Liquidity and funding risk

Liquidity and funding risk is the risk that RBS is unable to meet its financial obligations, including financing wholesale maturities or customer deposit withdrawals, as and when they fall due. The risk arises through the maturity transformation role that banks perform. It is dependent on RBS specific factors such as maturity profile, composition of sources and uses of funding, the quality and size of the liquidity portfolio as well as broader market factors, such as wholesale market conditions alongside depositor and investor behaviour. For a description of the liquidity and funding risk framework, governance and basis of preparation refer to the Risk and balance sheet management section of the 2014 Annual Report and Accounts.

Overview

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The liquidity position strengthened with the liquidity portfolio of £150.7 billion at 31 December 2014 covering short-term wholesale funding (STWF) more than five times. STWF decreased by £4.6 billion to £27.8 billion mainly due to the buy-back and maturity of medium-term notes in CIB.

· The liquidity portfolio increased by £7.3 billion in the last quarter and £4.6 billion in the year, primarily reflecting the proceeds from the Citizens IPO and the sale of €9 billion securities from the RBS N.V. bond portfolio. It includes £57 billion of secondary liquidity being assets eligible for discounting at central banks. The costs associated with maintaining the secondary liquidity portfolio are minimal, being largely administrative and operational costs.

· The liquidity coverage ratio (LCR) was 112% at 31 December 2014, based on RBS's interpretation of the EU guidelines. The improvement in LCR from 102% at year end 2013 reflects reductions in wholesale funding due to CIB balance sheet and risk reduction and an increase in retail deposits. With effect from 1 October 2015, LCR will replace the PRA's current regime, with an initial minimum requirement of 80% rising to 100% by 2018.

· The net stable funding ratio (NSFR) based on RBS's interpretation of the Basel framework was stable at 121% at 31 December 2014.

· Liquidity risk appetite is measured by reference to the liquidity portfolio as a proportion of net stressed outflows and the ratio was 186% (2013 - 145%) under the worst case stress scenario. The improvement in 2014 reflected lower stress outflows due to balance sheet reductions in CIB.

· During 2014 RBS successfully issued £2.2 billion of Tier 2 subordinated debt, compared with £1.8 billion in 2013. RBSG plc had senior unsecured debt outstanding of £6.9 billion, excluding commercial paper and certificates of deposit, at 31 December 2014. Based on its assessment of the Financial Stability Board's proposals, RBS may issue between £3 - 5 billion per annum during 2015 - 2019 to meet total loss absorbing capital requirements.

· The customer loan:deposit ratio remained broadly stable at 95% compared with 94% at the end of 2013 with an increase in the funding surplus in PBB of £4.4 billion (UK PPB: £1.4 billion; Ulster Bank: £3.0 billion) being offset by a decrease in the funding surplus in CPB of £6.6 billion (Commercial Banking: £5.7 billion; Private Banking: £0.9 billion).

Appendix 1 Capital and risk management

Liquidity risk

Liquidity and related metrics

The table below sets out the key liquidity and related metrics monitored by RBS.

	31 December 2014	30 September 2014	31 December 2013
Liquidity portfolio	£151bn	£143bn	£146bn
Stressed outflow coverage (1)	186%	182%	145%
Liquidity coverage ratio (LCR) (2)	112%	102%	102%
Net stable funding ratio (NSFR) (3)	121%	111%	120%

Notes:

(1) RBS's liquidity risk appetite is measured by reference to the liquidity portfolio as a percentage of stressed contractual and behavioural outflows under the worst of three severe stress scenarios of a market-wide stress, an idiosyncratic stress and a combination of both in RBS's Individual Liquidity Adequacy Assessment. This assessment is performed in accordance with PRA guidance.
(2) In January 2013, the Basel Committee on Banking Supervision (BCBS) issued its revised final guidance for calculating liquidity coverage ratio with a proposed implementation date of 1 January 2015. Within the EU, the LCR is currently expected to come into effect from the later date of 1 October 2015 on a phased basis, subject to the finalisation of the EU Delegated Act, which RBS expects to replace the current PRA regime. Pending guidance from the PRA, RBS monitors the LCR based on the EU Delegated Act and its internal interpretations of the expected final rules. Consequently RBS's ratio may change over time and may not be comparable with those of other financial institutions.
(3) BCBS issued its final recommendations for the implementation of the net stable funding ratio in October 2014, proposing an implementation date of 1 January 2018. Pending further guidelines from the EU and the PRA, RBS uses the definitions and proposals from the BCBS paper and internal interpretations, to calculate the NSFR. Consequently RBS's ratio may change over time and may not be comparable with those of other financial institutions.

Liquidity portfolio
The table below shows RBS's liquidity portfolio by product, liquidity value and carrying value. Liquidity value is lower than carrying value as it is stated after discounts applied by the Bank of England and other central banks to instruments, within the secondary liquidity portfolio, eligible for discounting.

	Liquidity value					
	Period end				Average	
	UK DLG (1)	CFG	Other	Total	Quarter	Year
31 December 2014	£m	£m	£m	£m	£m	£m
Cash and balances at central banks	66,409	1,368	633	68,410	61,777	61,956
Central and local government bonds						
AAA rated governments	5,609	-	2,289	7,898	8,729	5,935
AA- to AA+ rated governments and US agencies	6,902	9,281	1,448	17,631	16,589	12,792
Below AA rated governments	-	-	100	100	-	-
Local government	-	-	82	82	79	21
	12,511	9,281	3,919	25,711	25,397	18,748
Primary liquidity	78,920	10,649	4,552	94,121	87,174	80,704
Secondary liquidity (2)	53,055	2,290	1,189	56,534	57,582	56,017
Total liquidity value	131,975	12,939	5,741	150,655	144,756	136,721
Total carrying value	167,016	13,914	6,055	186,985		

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

Appendix 1 Capital and risk management

Liquidity risk (continued)

Liquidity portfolio (continued)

	Liquidity value					
	Period end				Average	
31 December 2013	UK DLG (1) £m	CFG £m	Other £m	Total £m	Quarter £m	Year £m
Cash and balances at central banks	71,121	824	2,417	74,362	76,242	80,933
Central and local government bonds						
AAA rated governments and US agencies	3,320	-	-	3,320	3,059	5,149
AA- to AA+ rated governments	5,822	6,369	96	12,287	13,429	12,423
Below AA rated governments	-	-	-	-	-	151
Local government	-	-	-	-	7	148
	9,142	6,369	96	15,607	16,495	17,871
Treasury bills	-	-	-	-	6	395
Primary liquidity	80,263	7,193	2,513	89,969	92,743	99,199
Secondary liquidity (2)	48,718	4,968	2,411	56,097	56,869	56,589
Total liquidity value	128,981	12,161	4,924	146,066	149,612	155,788
Total carrying value	159,743	17,520	6,970	184,233		

Notes:

(1) The PRA regulated UK Defined Liquidity Group (UK DLG) comprises the RBS's five licensed deposit taking UK banks: The Royal Bank of Scotland plc, National Westminster Bank Plc, Ulster Bank Limited, Coutts & Company and Adam & Company. In addition, certain of the RBS's significant operating subsidiaries - RBS N.V., Citizens Financial Group Inc. and Ulster Bank Ireland Limited - hold liquidity portfolios of liquid assets that comply with local regulations that may differ from PRA rules.

(2) Comprises assets eligible for discounting at the Bank of England and other central banks.

The table below shows the liquidity value of the liquidity portfolio by currency.

Total liquidity portfolio	GBP £m	USD £m	EUR £m	Other £m	Total £m

31 December 2014	93,861	40,556	16,238	-	150,655
31 December 2013	100,849	33,365	10,364	1,488	146,066

Appendix 1 Capital and risk management

Funding risk

The composition of RBS's balance sheet is a function of the broad array of product offerings and diverse markets served by its businesses. Active management of both asset and liability portfolios is designed to optimise the liquidity profile, while ensuring adequate coverage of all cash requirements under extreme stress conditions.

The table below summarises the key funding metrics.

	Short-term wholesale funding (1)		Total wholesale funding		Net inter-bank funding (2)		
	Excluding derivative collateral £bn	Including derivative collateral £bn	Excluding derivative collateral £bn	Including derivative collateral £bn	Deposits £bn	Loans (3) £bn	Net inter-bank funding £bn
31 December 2014	27.8	53.3	90.5	116.0	15.4	(13.3)	2.1
30 September 2014	31.4	53.9	94.4	116.9	16.5	(18.2)	(1.7)
30 June 2014	33.6	55.1	101.6	123.1	17.7	(19.3)	(1.6)
31 March 2014	31.0	50.8	101.5	121.3	15.6	(18.1)	(2.5)
31 December 2013	32.4	51.5	108.1	127.2	16.2	(17.3)	(1.1)

Notes:

(1) Short-term wholesale funding is funding with a residual maturity of less than one year.
(2) Excludes derivative cash collateral.
(3) Principally short-term balances.

The table below shows RBS's principal funding sources excluding repurchase agreements (repos).

	31 December 2014			31 December 2013		
	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m	Short-term less than 1 year £m	Long-term more than 1 year £m	Total £m
Deposits by banks						
derivative cash collateral	25,503	-	25,503	19,086	-	19,086
other deposits	13,137	2,294	15,431	14,553	1,690	16,243
	38,640	2,294	40,934	33,639	1,690	35,329
Debt securities in issue						
commercial paper	625	-	625	1,583	-	1,583

certificates of deposit	1,695	149	1,844	2,212	65	2,277
medium-term notes	7,741	29,007	36,748	10,385	36,779	47,164
covered bonds	1,284	5,830	7,114	1,853	7,188	9,041
securitisations	10	5,564	5,574	514	7,240	7,754
	11,355	40,550	51,905	16,547	51,272	67,819
Subordinated liabilities	3,274	19,857	23,131	1,350	22,662	24,012
Notes issued	14,629	60,407	75,036	17,897	73,934	91,831
Wholesale funding	53,269	62,701	115,970	51,536	75,624	127,160
Customer deposits						
derivative cash collateral (1)	13,003	-	13,003	7,082	-	7,082
financial institution deposits	46,359	1,422	47,781	44,621	2,265	46,886
personal deposits	185,781	6,121	191,902	183,799	8,115	191,914
corporate deposits	159,782	2,403	162,185	167,100	4,687	171,787
Total customer deposits	404,925	9,946	414,871	402,602	15,067	417,669
Total funding excluding repos	458,194	72,647	530,841	454,138	90,691	544,829

Note:

(1) Cash collateral includes £12,036 million (31 December 2013 - £6,720 million) from financial institutions.

Appendix 1 Capital and risk management

Funding risk (continued)

Total funding by currency

	31 December 2014					31 December 2013				
	GBP	USD	EUR	Other	Total	GBP	USD	EUR	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
Deposits by banks	6,501	10,869	20,715	2,849	40,934	7,418	8,337	17,004	2,570	35,329
Debt securities in issue										
- commercial paper	-	73	525	27	625	4	897	682	-	1,583
- certificates of deposit	910	747	185	2	1,844	336	1,411	476	54	2,277

- medium-term notes	4,592	11,292	16,672	4,192	36,748	6,353	11,068	23,218	6,525	47,164
- covered bonds	1,090	-	6,024	-	7,114	984	-	8,057	-	9,041
- securitisations	1,245	1,895	2,434	-	5,574	1,897	2,748	3,109	-	7,754
Subordinated liabilities	1,718	13,360	6,372	1,681	23,131	1,857	10,502	8,984	2,669	24,012
Wholesale funding	16,056	38,236	52,927	8,751	115,970	18,849	34,963	61,530	11,818	127,160
% of wholesale funding	14%	33%	46%	7%	100%	15%	28%	48%	9%	100%
Customer deposits	276,039	89,068	39,526	10,238	414,871	272,304	86,727	49,116	9,522	417,669
Total funding excluding repos	292,095	127,304	92,453	18,989	530,841	291,153	121,690	110,646	21,340	544,829
% of total funding	55%	24%	17%	4%	100%	54%	22%	20%	4%	100%

Repos

The table below analyses repos by counterparty type.

	31 December 2014 £m	31 December 2013 £m
Financial institutions		
- central and other banks	26,525	28,650
- other financial institutions	28,703	52,945
Government and corporate	9,354	3,539
	64,582	85,134

Appendix 1 Capital and risk management

Funding risk (continued)

Segment loan:deposit ratios and funding surplus

The table below shows customer loans, deposits, loan:deposit ratios (LDR) and funding surplus/(gap) by reporting segment.

	31 December 2014				31 December 2013			
	Loans (1)	Deposits (2)	LDR	Funding surplus/(gap)	Loans (1)	Deposits (2)	LDR	Funding surplus/(gap)
	£m	£m	%	£m	£m	£m	%	£m
UK PBB	127,244	148,658	86	21,414	124,828	144,841	86	20,013
Ulster Bank	22,008	20,561	107	(1,447)	26,068	21,651	120	(4,417)

PBB	149,252	169,219	88	19,967	150,896	166,492	91	15,596
Commercial Banking	85,053	86,830	98	1,777	83,454	90,883	92	7,429
Private Banking	16,523	36,105	46	19,582	16,644	37,173	45	20,529
CPB	101,576	122,935	83	21,359	100,098	128,056	78	27,958
CIB	72,751	59,402	122	(13,349)	68,148	64,734	105	(3,414)
Central items	613	1,583	39	970	289	1,081	27	792
CFG	59,606	60,550	98	944	50,279	55,118	91	4,839
RCR	11,003	1,182	nm	(9,821)	n/a	n/a	n/a	n/a
Non-Core	n/a	n/a	n/a	n/a	22,880	2,188	nm	(20,692)
	394,801	414,871	95	20,070	392,590	417,669	94	25,079
Of which: Personal	176,621	191,902	92	15,281	172,985	191,914	90	18,929

nm = not meaningful

Notes:

(1) Excludes reverse repo agreements and net of impairment provisions.
(2) Excludes repo agreements.

Customer deposits insured through deposit guarantee schemes totalled £160 billion (31 December 2013 - £161 billion) the more material of them being Financial Services Compensation Scheme £112 billion; US Federal Deposit Insurance Corporation £37 billion and Republic of Ireland's Deposit Guarantee Scheme £7 billion.

Encumbrance
RBS's encumbrance ratios are set out below.

Encumbrance ratios	31 December 2014 %	31 December 2013 %
Total	13	17
Excluding balances relating to derivatives transactions	14	19
Excluding balances relating to derivative and securities financing transactions	11	11

Appendix 1 Capital and risk management

Balance sheet encumbrance

	Encumbered assets relating to:						Encumbered	Unencumbered			
	Debt securities in issue		Other secured liabilities			Total	assets as a	Readily realisable (3)			
	Securitisations	Covered			Secured balances	encumbered	% of related	Liquidity		Other (4)	Cannot (encumber
31 December 2014	and conduits	bonds	Derivatives	Repos	(1)	assets (2)	assets	portfolio	Other	realisable	
	£bn	£bn	£bn	£bn	£bn	£bn	%	£bn	£bn	£bn	£
Cash and balances at central banks	-	-	-	-	2.4	2.4	3	66.7	6.4	-	
Loans and advances to banks	4.6	0.3	11.5	-	0.5	16.9	68	1.7	2.1	4.1	
Loans and advances to customers											
- UK residential mortgages	12.0	13.4	-	-	-	25.4	22	69.9	10.2	7.7	0
- Irish residential mortgages	8.6	-	-	-	-	8.6	62	0.9	4.3	-	0
- US residential mortgages	-	-	-	-	11.2	11.2	53	2.2	-	0.7	7
- UK credit cards	2.7	-	-	-	-	2.7	52	-	2.3	0.2	
- UK personal loans	-	-	-	-	-	-	-	-	6.4	2.9	
- other	6.0	-	21.9	-	1.3	29.2	13	8.0	17.2	110.3	67
Reverse repurchase agreements and stock borrowing	-	-	-	-	-	-	-	-	-	-	64
Debt securities	-	-	5.9	25.4	5.7	37.0	36	24.0	39.7	1.2	
Equity shares	-	-	0.3	2.6	-	2.9	47	-	2.2	0.2	0
Settlement balances	-	-	-	-	-	-	-	-	-	-	4
Derivatives	-	-	-	-	-	-	-	-	-	-	354
Intangible assets	-	-	-	-	-	-	-	-	-	-	8
Property, plant and equipment	-	-	-	-	0.4	0.4	6	-	-	4.2	2
Deferred tax	-	-	-	-	-	-	-	-	-	-	1

Prepayments, accrued income and other assets	-	-	-	-	-	-	-	-	-	-	7
	33.9	13.7	39.6	28.0	21.5	136.7		173.4	90.8	131.5	518
Securities retained								13.6			
Total liquidity portfolio								187.0			
Liabilities secured											
Intra-Group - secondary liquidity	(13.1)	-	-	-	-	(13.1)					
Intra-Group - other	(11.6)	-	-	-	-	(11.6)					
Third-party (6)	(5.6)	(7.1)	(39.6)	(64.6)	(10.5)	(127.4)					
	(30.3)	(7.1)	(39.6)	(64.6)	(10.5)	(152.1)					

For the notes to this table refer to page 22.

Appendix 1 Capital and risk management

Balance sheet encumbrance (continued)

	Encumbered assets relating to:						Encumbered	Unencumbered			
	Debt securities in issue		Other secured liabilities			Total	assets as a	Readily realisable (3)			
											Cannot
	Securitisations and conduits	Covered bonds	Derivatives	Repos	Secured balances	encumbered assets (2)	% of related assets	Liquidity portfolio	Other	Other (4) realisable	encumbe
31 December 2013	£bn	£bn	£bn	£bn	£bn	£bn	%	£bn	£bn	£bn	£
Cash and balances at central banks	-	-	-	-	-	-	-	74.3	8.4	-	
Loans and advances to banks	5.8	0.5	10.3	-	-	16.6	60	0.1	10.9	-	
Loans and advances to											

customers											
- UK residential mortgages	14.6	16.2	-	-	-	30.8	28	60.8	18.6	-	
- Irish residential mortgages	9.3	-	-	-	1.2	10.5	70	0.7	3.8	-	0
- US residential mortgages	-	-	-	-	3.5	3.5	18	9.5	6.7	-	
- UK credit cards	3.4	-	-	-	-	3.4	52	-	3.1	-	
- UK personal loans	3.4	-	-	-	-	3.4	38	-	5.5	-	
- other	13.5	-	18.1	-	0.8	32.4	14	4.4	9.6	175.6	10
Reverse repurchase agreements and stock borrowing	-	-	-	-	-	-	-	-	-	-	76
Debt securities	0.9	-	5.5	55.6	2.7	64.7	57	17.0	31.9	-	
Equity shares	-	-	0.5	5.3	-	5.8	66	-	3.0	-	
Settlement balances	-	-	-	-	-	-	-	-	-	-	5
Derivatives	-	-	-	-	-	-	-	-	-	-	288
Intangible assets	-	-	-	-	-	-	-	-	-	-	12
Property, plant and equipment	-	-	-	-	0.4	0.4	5	-	-	7.5	
Deferred tax	-	-	-	-	-	-	-	-	-	-	3
Prepayments, accrued income and other assets	-	-	-	-	-	-	-	-	-	-	8
Assets of disposal groups	-	-	-	-	-	-	-	-	-	-	0
	50.9	16.7	34.4	60.9	8.6	171.5		166.8	101.5	183.1	40
Securities retained								17.4			
Total liquidity portfolio								184.2			
Liabilities secured											

Intra-Group - secondary liquidity	(19.1)	-	-	-	-	(19.1)
Intra-Group - other	(18.4)	-	-	-	-	(18.4)
Third-party (6)	(7.8)	(9.0)	(42.7)	(85.1)	(6.0)	(150.6)
	(45.3)	(9.0)	(42.7)	(85.1)	(6.0)	(188.1)

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

Appendix 1 Capital and risk management

Balance sheet encumbrance(continued)

Notes:

(1) Includes cash, coin and nostro balance held with the Bank of England as collateral against deposits and notes in circulation.
(2) Encumbered assets are those that have been pledged to provide security for the liability shown above and are therefore not available to secure funding or to meet other collateral needs.
(3) Unencumbered readily realisable assets are those assets on the balance sheet that can be readily used to meet funding or collateral requirements and comprise:
(a) Liquidity portfolio: cash balances at central banks, high quality debt securities and loans that have been pre-positioned with central banks. In addition, the liquidity portfolio includes securitisations of own assets which has reduced over the years and has been replaced by loans.
(b) Other readily realisable assets: including assets that have been enabled for use with central banks; and unencumbered debt securities.
(4) Unencumbered other realisable assets are those assets on the balance sheet that are available for funding and collateral purposes but are not readily realisable in their current form. These assets include loans that could be prepositioned with central banks but have not been subject to internal and external documentation review and diligence work.
(5) Assets that cannot be encumbered include:
(a) derivatives, reverse repurchase agreements and trading related settlement balances.
(b) non-financial assets such as intangibles, prepayments and deferred tax.
(c) loans that cannot be pre-positioned with central banks based on criteria set by the central banks, including those relating to date of origination and level of documentation.
(d) non-recourse invoice financing balances and certain shipping loans whose terms and structure prohibit their use as collateral.
(6) In accordance with market practice RBS employs securities recognised on the balance sheet, and securities received under reverse repo transactions as collateral for repos. Secured derivative liabilities reflect net positions that are collateralised by balance sheet assets.

Appendix 1 Capital and risk management

Credit risk

Credit risk is the risk of financial loss due to the failure of a customer or counterparty to meet its obligation to settle outstanding amounts. For a description of the bank's credit risk framework, governance, policies and methodologies refer to the Risk and balance sheet management - Credit risk section - of the 2014 Annual Report and Accounts.

Overview

Credit quality and impairment - RBS's credit risk portfolio continued to improve with an overall reduction in exposure, an improvement in credit quality and a material provision release in 2014. These improvements were driven by supportive economic and market conditions in the UK and Ireland, better liquidity and increased collateral values, and also reflected improvements in credit risk measurement.

UK personal lending - The growth in UK PBB gross mortgage lending was within credit risk appetite and against a backdrop of house price increases over most of the year. Due to the withdrawal of products with promotional rates in line with strategy, credit card exposure declined during the year. Refer to Key credit portfolios - residential mortgages.

Ulster Bank - Following the creation of RCR, exposure to personal customers now represents 68% of total Ulster Bank exposure. In the personal portfolio, Ulster Bank's proactive offers of forbearance to help customers through financial difficulties saw significant uptake in the Republic of Ireland with an increasing trend towards customers opting for longer-term solutions (though mortgage recoveries stock remains high). The quality of the Ulster Bank wholesale portfolio improved following the transfer of CRE assets to RCR, with an associated material decrease in impairments. Refer to Segment performance - Ulster Bank.

CFG - 2014 was a year of growth in both the personal and wholesale CFG portfolios. This is in line with business strategy to expand personal mortgage lending and auto finance organically as well as through acquisition. The growth in wholesale exposures has been across a broad range of industry sectors and customer types, reflecting improving economic conditions in the US and specific focus on areas such as asset finance, CRE and franchise finance. Changes to strategy or the risk appetite framework are subject to review in accordance with CFG's and RBS's risk governance frameworks, so that risks are understood and accepted. Refer to Segment performance - Citizens Financial Group.

Oil prices - In the second half of 2014, oil prices reduced significantly, driven by growth in supply from non-OPEC producers, the return of supply from Libya, Iran and Iraq and reduced demand expectations from Europe and China. Exposures to this sector continue to be closely managed through the sector concentration framework as well as ongoing customer and subsector reviews, with stress testing highlighting specific sub sectors or customers particularly vulnerable to sustained low oil prices. Risk appetite to the overall oil and gas sector was reduced during the year, and action continues to mitigate exposure where possible. For further information, Refer to the Key credit portfolios section.

Russia/Ukraine - Ongoing tensions in Russia and Ukraine as well as the imposition of sanctions, particularly in the oil and gas, defence, and financial sectors, have adversely affected the credit risk profile of customers who have exposure to or dealings with Russian or Ukrainian entities. Accordingly RBS reduced limits to customers affected by those developments, including tightening transactional controls to mitigate credit risk while ensuring sanctions compliance. For further information regarding exposure to Russia, refer to the Country risk section.

Financial assets
Exposure summary
The table below analyses financial asset exposures, both gross and net of offset arrangements as well as credit mitigation and enhancement.

					Collateral					Exposure post credit
	Gross	IFRS offset	Carrying	Non-IFRS			Real estate and other		Credit	mitigation and
	exposure	(1)	value (2)	offset (3)	Cash (4)	Securities (5)	Residential (6)	Commercial (6)	enhancement (7)	enhancement
31 December 2014	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash and balances at central banks	75.5	-	75.5	-	-	-	-	-	-	75.5
Reverse repos	95.5	(30.8)	64.7	(5.0)	-	(59.7)	-	-	-	-
Lending	423.4	(3.8)	419.6	(40.2)	(1.6)	(4.1)	(149.5)	(57.7)	(5.8)	160.7
Debt securities	101.9	-	101.9	-	-	-	-	-	(0.2)	101.7
Equity shares	6.2	-	6.2	-	-	-	-	-	-	6.2
Derivatives	599.4	(245.4)	354.0	(295.3)	(33.3)	(7.0)	-	-	(14.3)	4.1
Settlement balances	6.7	(2.0)	4.7	-	-	-	-	-	-	4.7
Total	1,308.6	(282.0)	1,026.6	(340.5)	(34.9)	(70.8)	(149.5)	(57.7)	(20.3)	352.9
Short positions	(23.0)	-	(23.0)	-	-	-	-	-	-	(23.0)
Net of short positions	1,285.6	(282.0)	1,003.6	(340.5)	(34.9)	(70.8)	(149.5)	(57.7)	(20.3)	329.9

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

Key points

- Financial assets after credit mitigation and enhancement fell by £35 billion or 9% reflecting lower funded assets (£35 billion) as both CIB and RCR implemented strategic balance sheet reductions through wind-down and disposals.
- The major components of net exposure are cash and balances at central banks, unsecured commercial, corporate and bank loans and debt securities.
- Of the £102 billion of debt securities, £25 billion are asset-backed but underlying collateral is not reflected above as RBS only has access to cashflows from the collateral.

Appendix 1 Capital and risk management

Financial assets (continued)

					Collateral					Exposure post credit mitigation and enhancement
							Real estate and other			
31 December 2013	Gross exposure	IFRS offset (1)	Carrying value (2)	Non-IFRS offset (3)	Cash (4)	Securities (5)	Residential (6)	Commercial (6)	Credit enhancement (7)	
	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Cash and balances at central banks	82.7	-	82.7	-	-	-	-	-	-	82.7
Reverse repos	117.2	(40.7)	76.5	(11.4)	-	(65.0)	-	-	-	0.1
Lending	423.6	(3.4)	420.2	(37.2)	(1.6)	(2.7)	(145.4)	(60.0)	(3.9)	169.4
Debt securities	113.6	-	113.6	-	-	-	-	-	(1.3)	112.3
Equity shares	8.8	-	8.8	-	-	-	-	-	-	8.8
Derivatives	553.7	(265.7)	288.0	(241.3)	(24.4)	(6.0)	-	-	(7.3)	9.0
Settlement balances	8.2	(2.7)	5.5	(0.3)	-	-	-	-	-	5.2
Total	1,307.8	(312.5)	995.3	(290.2)	(26.0)	(73.7)	(145.4)	(60.0)	(12.5)	387.5
Short positions	(28.0)	-	(28.0)	-	-	-	-	-	-	(28.0)
Net of short positions	1,279.8	(312.5)	967.3	(290.2)	(26.0)	(73.7)	(145.4)	(60.0)	(12.5)	359.5

Notes:

(1) Relates to offset arrangements that comply with IFRS criteria and transactions cleared through and novated to central clearing houses, primarily London Clearing House and US Government Securities Clearing Corporation.
(2) The carrying value on the balance sheet represents the exposure to credit risk by class of financial instrument.
(3) Balance sheet offset reflects the amounts by which RBS's credit risk is reduced through master netting and cash management pooling arrangements. Derivative master netting agreements include cash pledged with counterparties in respect of net derivative liability positions and are included in lending in the table above.
(4) Includes cash collateral pledged by counterparties based on daily mark-to-market movements of net derivative positions with the counterparty.
(5) Securities collateral represent the fair value of securities received from counterparties, mainly relating to reverse repo transactions as part of netting arrangements.

(6) Property valuations are capped at the loan value and reflect the application of haircuts in line with regulatory rules to indexed valuations. Commercial collateral includes ships and plant and equipment collateral.
(7) Credit enhancement comprises credit derivatives (bought protection) and guarantees and reflects notional amounts less fair value and notional amounts respectively.

Appendix 1 Capital and risk management

Financial assets (continued)

Asset quality
The table below analyses financial assets, excluding debt securities, and contingent liabilities and commitments by internal asset quality (AQ) ratings. Debt securities are analysed by external ratings and are therefore excluded from the table below and are set out on page 34.

		Loans and advances										
	Cash and balances at central banks	Banks (1) Reverse repos	Derivative cash collateral	Bank loans	Total	Customers Reverse repos	Derivative cash collateral	Customer loans	Total	Settlement balances and other financial assets	Derivatives	Comm
31 December 2014	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Asset quality band (2)												
AQ1	73,871	2,479	3,765	5,463	11,707	27,007	12,526	33,913	73,446	1,610	65,632	
AQ2	-	4,143	4,625	818	9,586	400	1,602	18,077	20,079	146	100,222	
AQ3	1,433	2,538	1,348	3,047	6,933	8,664	4,335	29,093	42,092	460	123,882	
AQ4	185	8,336	1,391	2,891	12,618	5,124	2,798	122,349	130,271	852	49,929	
AQ5	-	2,076	225	572	2,873	1,902	520	72,994	75,416	438	10,872	
AQ6	-	636	58	106	800	42	45	41,468	41,555	43	1,118	
AQ7	-	500	90	292	882	848	34	26,203	27,085	26	1,146	
AQ8	5	-	1	40	41	-	6	6,386	6,392	12	533	
AQ9	-	-	6	32	38	-	9	4,727	4,736	-	173	
AQ10	-	-	-	-	-	-	-	984	984	31	485	
Past due	-	-	-	-	-	-	-	8,196	8,196	1,049	-	
Impaired	-	-	-	42	42	-	-	26,536	26,536	-	-	
Impairment provision	-	-	-	(40)	(40)	-	-	(18,000)	(18,000)	-	-	
	75,494	20,708	11,509	13,263	45,480	43,987	21,875	372,926	438,788	4,667	353,992	2

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

Appendix 1 Capital and risk management

Financial assets: Asset quality (continued)

		Loans and advances										
		Banks (1)				Customers						
31 December 2013	Cash and balances at central banks	Reverse repos	Derivative cash collateral	Bank loans	Total	Reverse repos	Derivative cash collateral	Customer loans	Total	Settlement balances and other financial assets	Derivatives	Comm
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	
Asset quality band (2)												
AQ1	80,305	5,885	2,043	6,039	13,967	30,233	10,042	34,395	74,670	2,707	71,497	
AQ2	1	4,744	4,930	672	10,346	996	1,899	17,695	20,590	192	69,949	
AQ3	1,873	2,164	1,502	2,347	6,013	1,857	3,796	29,364	35,017	746	94,678	
AQ4	479	9,864	1,451	7,031	18,346	10,642	1,894	99,258	111,794	470	39,157	
AQ5	-	1,776	416	662	2,854	5,403	297	77,045	82,745	717	8,826	
AQ6	-	1,823	1	157	1,981	82	38	39,324	39,444	59	1,487	
AQ7	-	301	-	237	538	684	50	30,279	31,013	22	978	
AQ8	3	-	-	48	48	-	10	8,482	8,492	58	132	
AQ9	-	-	-	34	34	-	41	16,944	16,985	-	641	
AQ10	-	-	-	-	-	-	-	730	730	-	695	
Past due	-	-	-	-	-	-	-	9,068	9,068	620	-	
Impaired	-	-	-	70	70	-	-	37,101	37,101	-	-	
Impairment provision	-	-	-	(63)	(63)	-	-	(25,162)	(25,162)	-	-	
	82,661	26,557	10,343	17,234	54,134	49,897	18,067	374,523	442,487	5,591	288,040	2

Notes:

(1) Excludes items in the course of collection from other banks of £995 million (31 December 2013 - £1,454 million).
(2) The following table details, for illustrative purposes only, the relationship between AQ bands, and external ratings published by S&P. This relationship is established by observing S&P's default study statistics, notably the one year default rates for each S&P rating grade. A degree of judgement is required to relate the PD ranges associated with the master grading scale to these default rates given that, for example, the S&P published default rates do not increase uniformly by grade and the historical default rate is nil for the highest rating categories.

Asset quality band	Probability of default range	Indicative S&P rating
AQ1	0% - 0.034%	AAA to AA
AQ2	0.034% - 0.048%	AA-
AQ3	0.048% - 0.095%	A+ to A
AQ4	0.095% - 0.381%	A- to BBB-

AQ5	0.381% - 1.076%	BB+ to BB
AQ6	1.076% - 2.153%	BB-
AQ7	2.153% - 6.089%	B+ to B
AQ8	6.089% - 17.222%	B- to CCC+
AQ9	17.222% - 100%	CCC to C
AQ10	100%	D

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

Appendix 1 Capital and risk management

Financial assets: Asset quality (continued)

Key points

Improving economic climate and credit conditions and disposals strategy in RCR resulted in the proportion of investment-grade (AQ1-AQ4) increasing from 75% to 78%.

Derivatives increased by £66.0 billion, primarily in AQ 2 - AQ4 bands.

Reverse repos: AQ1 balances decreased by £6.6 billion reflecting reduced overall trading in line with balance sheet management strategies. Also, changes to the large corporate grading models resulted in migrations from higher to lower quality AQ bands this contributed to the £7.2 billion increase in AQ3.

Asset quality of customer lending in AQ1-AQ3 remained stable with higher cash collateral against increased fair value of derivatives, partially offset by a reduction in traded loans in CIB Asset-Backed Products.

The increase of £23 billion in AQ 4 customer loans was primarily due to the recalibration of UK residential mortgage models following improvements in observed default rates and the implementation of the large corporate PD model.

Changes to the residential mortgage model and large corporate PD model also resulted in increase of £6.6 billion and £15.1 billion in AQ3 and AQ4 commitments.

Past due loans decreased by £0.9 billion including £0.5 billion in Ulster Bank reflecting increased work with customers in arrears and improving economic conditions. Past due loans comprise £1.6 billion (2013 - £2.2 billion) of accruing past due 90 days or more loans included within risk elements in lending and £6.5 billion (2013 - £6.8 billion) of loans that are past due less than 90 days. Of the total past due loans, £4.8 billion (2013 - £5.2 billion) relates to personal loans.

Appendix 1 Capital and risk management

Loans and related credit metrics

The tables below analyse gross loans and advances (excluding reverse repos) and the related credit metrics by segment.

	Gross loans to				Credit metrics				
	Banks	Customers	REIL	Provisions	REIL as a % of gross loans to customers	Provisions as a % of REIL	Provisions as a % of gross loans to customers	Impairment charge/ (releases)	Amounts written-off
31 December 2014	£m	£m	£m	£m	%	%	%	£m	£m
UK PBB	641	129,848	3,778	2,604	2.9	69	2.0	268	728
Ulster Bank	1,381	24,719	4,775	2,711	19.3	57	11.0	(365)	131
PBB	2,022	154,567	8,553	5,315	5.5	62	3.4	(97)	859
Commercial Banking	486	86,008	2,506	955	2.9	38	1.1	77	436
Private Banking	972	16,599	226	76	1.4	34	0.5	(5)	37
CPB	1,458	102,607	2,732	1,031	2.7	38	1.0	72	473
CIB	16,910	72,957	197	206	0.3	105	0.3	(7)	-
Central items	2,178	619	7	6	1.1	86	1.0	(12)	55
CFG	1,728	60,142	1,330	536	2.2	40	0.9	194	300
RCR	516	21,909	15,400	10,946	70.3	71	50.0	(1,320)	3,591
	24,812	412,801	28,219	18,040	6.8	64	4.4	(1,170)	5,278
31 December 2013									
UK PBB	760	127,781	4,663	2,957	3.6	63	2.3	497	967
Ulster Bank	591	31,446	8,466	5,378	26.9	64	17.1	1,774	277
PBB	1,351	159,227	13,129	8,335	8.2	63	5.2	2,271	1,244
Commercial Banking	701	85,071	4,276	1,617	5.0	38	1.9	652	587
Private Banking	1,531	16,764	277	120	1.7	43	0.7	29	15
CPB	2,232	101,835	4,553	1,737	4.5	38	1.7	681	602
CIB	20,550	69,080	1,661	976	2.4	59	1.4	598	360
Central items	2,670	341	1	66	0.3	nm	19.4	65	-

CFG	406	50,551	1,034	272	2.0	26	0.5	151	284
Non-Core	431	36,718	19,014	13,839	51.8	73	37.7	4,646	1,856
	27,640	417,752	39,392	25,225	9.4	64	6.0	8,412	4,346

The table below analyses segment loan impairment losses/(releases) by new provisions (gross) and releases and provision by components.

	Impairment losses/(releases) for year ended 31 December 2014								Impairment provision at 31 December 2014		
	Individual		Collective		Latent		Total				
	Gross	Releases	Gross	Releases	Gross	Releases	Gross	Releases	Individual	Collective	Latent
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
UK PBB	13	-	330	(133)	77	(19)	420	(152)	14	2,319	271
Ulster Bank	8	(18)	221	(251)	103	(428)	332	(697)	42	2,355	314
PBB	21	(18)	551	(384)	180	(447)	752	(849)	56	4,674	585
Commercial Banking	224	(85)	124	(103)	3	(86)	351	(274)	493	366	96
Private Banking	8	(10)	-	-	1	(4)	9	(14)	69	-	7
CPB	232	(95)	124	(103)	4	(90)	360	(288)	562	366	103
CIB	88	(63)	-	-	1	(33)	89	(96)	110	-	96
Central items	11	(23)	-	-	-	-	11	(23)	1	-	5
CFG	36	-	142	-	16	-	194	-	83	157	296
RCR	761	(1,760)	220	(235)	-	(306)	981	(2,301)	10,565	150	231
Total	1,149	(1,959)	1,037	(722)	201	(876)	2,387	(3,557)	11,377	5,347	1,316

Appendix 1 Capital and risk management

Loans and related credit metrics (continued)

Key points

- Loans to banks decreased by £2.8 billion in the year to £24.8 billion. This reflected RWA-focused reductions in trade finance (£5.4 billion) being partially offset by derivative collateral increase, both in CIB, as well as Ulster Bank's increased cash deposits with Central Bank of Ireland ahead of new regulatory liquidity requirements.
- Overall customer loans fell by £5.0 billion to £412.8 billion reflecting RCR disposal strategy being partly offset by increases in CFG and UK PBB.
- There has been a significant increase in CFG lending across a broad range of industry sectors, including residential mortgages, auto loans and commercial loans, in line with business strategy and risk appetite. Exchange rate movements also contributed to the increase.
- UK PBB's mortgage book grew strongly by £3.9 billion to £103.2 billion as advisor capacity increased (refer to Key credit portfolios for more details). This was partially offset by lower unsecured lending.

· Property and construction lending fell by £11.4 billion, of which £9.3 billion related to commercial real estate lending. Refer to Key loan portfolios for more details.

· REIL decreased by £11.2 billion to £28.2 billion, a 28% reduction in the year from £39.4 billion, across all segments except CFG. REIL as a proportion of gross loans improved to 6.8% from 9.4% in 2013 reflecting sales and repayments of £10.2 billion (£6.9 billion in RCR), write-offs of £5.3 billion (£3.6 billion in RCR), transfers to performing book of £1.5 billion, partially offset by new impaired loans of £7.1 billion (£3.0 billion in RCR). The execution of the RCR strategy, resulted in a number of disposals of REIL in the year.

· Loan impairment provision coverage of REIL remained stable at 64% and now stands at £18.0 billion, a £7.2 billion reduction in the year. Provision coverage of gross loans has declined steadily during 2014 and is now 4.4% compared with 6.0% at the end of 2013. The reduction in provision reflected write-offs of £5.3 billion (£3.6 billion in RCR) and impairment releases of £3.6 billion (£2.3 billion in RCR) partially offset by new charges of £2.4 billion (£1.0 billion in RCR) and currency and other movements.

· Disposal of assets by RCR, primarily in the second half of the year, at higher than anticipated sale prices together with favourable market conditions in Ireland and the UK resulted in impairment releases. Overall, there was a net loan impairment release of £1.2 billion includes £1.3 billion in RCR, for 2014.

· Commercial real estate gross lending reduced by £9.3 billion to £43.3 billion; related REIL is almost half of total REIL and has a provision coverage of 68%. Of the total CRE REIL of £13.3 billion, £11.1 billion is in RCR.

Within the business segments:

· RCR REIL decreased by £8.7 billion or 36% to £15.4 billion from £24.1 billion at 1 January 2014, primarily due to a mixture of asset disposals and write-offs. Provision coverage of REIL and REIL as a proportion of loans were both around 70%.

· In Ulster Bank, REIL as a proportion of loans decreased to 19% from 27% in 2013 and provision coverage of REILs reduced to 57% from 64% in 2013 mainly reflecting asset transfers to RCR on 1 January 2014, improved market conditions and higher collateral values also contributed.

· Commercial Banking REIL as a proportion of loans decreased to 2.9% from 5.0% in 2013, REIL decreased by 41% (£1.8 billion) to £2.5 billion, with £0.6 billion of the reduction due to the creation of RCR. REIL reductions in the year were mainly due to lower individual cases, albeit some increases were seen in the fourth quarter, and reductions in collectively assessed provisions due to improved credit conditions.

Appendix 1 Capital and risk management

Loans and related credit metrics: Risk elements in lending

Risk elements in lending (REIL) comprise impaired loans and accruing loans past due 90 days or more as to principal or interest. Impaired loans are all loans (including loans subject to forbearance) for which an impairment provision has been established; for collectively assessed loans, impairment loss provisions are not allocated to individual loans and the entire portfolio is included in impaired loans. Accruing loans past due 90 days or more comprise loans past due 90 days where no impairment loss is expected.

	UK PBB £m	Ulster Bank £m	Commercial Banking £m	Private Banking £m	CIB £m	Central items £m	CFG £m	RBS excluding RCR £m	RCR £m	Non-Core £m	Total £m
At 31 December 2013	4,663	8,466	4,276	277	1,661	1	1,034	20,378	-	19,014	39,392
Non-Core dissolution and RCR creation	137	(3,547)	(560)	-	(1,421)	-	289	(5,102)	24,116	(19,014)	-
At 1 January 2014	4,800	4,919	3,716	277	240	1	1,323	15,276	24,116	-	39,392
Currency translation and other adjustments	-	(250)	-	(3)	1	6	75	(171)	(885)	-	(1,056)
Additions	1,353	555	1,716	58	100	-	335	4,117	2,951	-	7,068
Transfers (1)	(309)	-	31	(15)	4	-	-	(289)	29	-	(260)
Transfers to performing book	(326)	(120)	(582)	(3)	(92)	-	-	(1,123)	(337)	-	(1,460)
Repayments and disposals	(1,012)	(198)	(1,884)	(51)	(56)	-	(103)	(3,304)	(6,883)	-	(10,187)
Amounts written-off	(728)	(131)	(491)	(37)	-	-	(300)	(1,687)	(3,591)	-	(5,278)
At 31 December 2014	3,778	4,775	2,506	226	197	7	1,330	12,819	15,400	-	28,219

Note:

(1) Represents transfers between REIL and potential problem loans.

The movement in loan impairment provisions by segment is shown in the table below.

	UK PBB £m	Ulster Bank £m	Commercial Banking £m	Private Banking £m	CIB £m	Central items £m	CFG £m	RBS excluding RCR £m	RCR £m	Non-Core £m	Total £m
At 31 December	2,957	5,378	1,617	120	976	66	272	11,386	-	13,839	25,225

2013											
Non-Core dissolution and RCR creation (1)	150	(1,985)	(306)	-	(766)	-	246	(2,661)	16,500	(13,839)	-
At 1 January 2014	3,107	3,393	1,311	120	210	66	518	8,725	16,500	-	25,225
Currency translation and other adjustments	-	(172)	10	(1)	1	7	21	(134)	(555)	-	(689)
Disposal of subsidiaries	-	-	-	-	-	-	-	-	(6)	-	(6)
Amounts written-off	(728)	(131)	(436)	(37)	-	(55)	(300)	(1,687)	(3,591)	-	(5,278)
Recoveries of amounts previously written-off	24	23	12	2	2	-	103	166	39	-	205
Charged to income statement - continuing operations	268	(365)	77	(5)	(7)	(12)	-	(44)	(1,320)	-	(1,364)
- discontinued operations	-	-	-	-	-	-	194	194	-	-	194
Unwind of discount	(67)	(37)	(19)	(3)	-	-	-	(126)	(121)	-	(247)
At 31 December 2014	2,604	2,711	955	76	206	6	536	7,094	10,946	-	18,040
Individually assessed											
- banks	-	-	-	-	1	-	-	1	39	-	40
- customers	14	42	493	69	109	1	83	811	10,526	-	11,337
Collectively assessed	2,319	2,355	366	-	-	-	157	5,197	150	-	5,347
Latent	271	314	96	7	96	5	296	1,085	231	-	1,316
	2,604	2,711	955	76	206	6	536	7,094	10,946	-	18,040

Note:

(1) Transfers in Non-core dissolution and RCR creation includes amounts in relation to latent.

Appendix 1 Capital and risk management

Loans and related credit metrics: Loans, REIL, provisions and impairments

The tables below analyse gross loans and advances to banks and customers (excluding reverse repos) and related credit metrics by sector and geography (by location of lending office).

				Credit metrics				
31 December 2014	Gross loans £m	REIL £m	Provisions £m	REIL as a % of gross loans %	Provisions as a % of REIL %	Provisions as a % of gross loans %	Impairment charge/ (release) £m	Amounts written-off £m
Central and local government	9,079	1	1	-	100	-	(1)	-
Finance	39,611	364	234	0.9	64	0.6	(5)	23
Personal - mortgages	150,572	5,634	1,521	3.7	27	1.0	36	236
- unsecured	29,155	1,964	1,585	6.7	81	5.4	401	737
Property	51,546	13,021	8,918	25.3	68	17.3	(1,083)	2,625
Construction	5,657	971	612	17.2	63	10.8	76	202
of which: CRE	43,317	13,345	9,027	30.8	68	20.8	(1,067)	2,750
Manufacturing	22,035	461	322	2.1	70	1.5	(26)	188
Finance leases (1)	14,030	156	113	1.1	72	0.8	-	75
Retail, wholesale and repairs	18,498	956	645	5.2	67	3.5	106	160
Transport and storage	14,299	1,146	500	8.0	44	3.5	37	211
Health, education and leisure	15,932	734	366	4.6	50	2.3	9	349
Hotels and restaurants	7,969	1,094	574	13.7	52	7.2	(40)	109
Utilities	4,825	156	85	3.2	54	1.8	16	5
Other	29,593	1,519	1,208	5.1	80	4.1	(11)	349
Latent	-	-	1,316	-	-	-	(675)	n/a
	412,801	28,177	18,000	6.8	64	4.4	(1,160)	5,269
Geographic regional analysis								
UK								
- residential mortgages	113,521	1,394	191	1.2	14	0.2	(23)	76
- personal lending	15,923	1,674	1,452	10.5	87	9.1	290	546
- property	37,547	6,026	3,676	16.0	61	9.8	(221)	1,917
- construction	4,098	676	361	16.5	53	8.8	(1)	175
- other	113,782	3,287	2,467	2.9	75	2.2	(146)	847
	284,871	13,057	8,147	4.6	62	2.9	(101)	3,561
Europe								
- residential mortgages	15,629	3,268	1,178	20.9	36	7.5	(10)	10
- personal lending	1,051	76	66	7.2	87	6.3	9	66
- property	8,021	6,907	5,197	86.1	75	64.8	(862)	699
- construction								