

Q3 2016
Pillar 3 Supplement

Pillar 3 Supplement Q3 2016

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Presentation of information

Forward-looking statements

This document contains forward-looking statements within the meaning of the United States Private Securities Litigation Reform Act of 1995, including those related to RBS and its subsidiaries' regulatory capital position and requirements, financial position, future pension funding requirements, on-going litigation and regulatory investigations, profitability, impairment losses and credit exposures under certain specified scenarios. In addition, forward-looking statements may include, without limitation, statements typically containing words such as "intends", "expects", "anticipates", "targets", "plans", "believes", "risk", "estimates" and words of similar import. These statements concern or may affect future matters, such as RBS's future economic results, business plans and current strategies. Forward-looking statements are subject to a number of risks and uncertainties that might cause actual results and performance to differ materially from any expected future results or performance expressed or implied by the forward-looking statements. Factors that could cause or contribute to differences in current expectations include, but are not limited to, legislative, fiscal and regulatory developments, accounting standards, competitive conditions, technological developments, exchange rate fluctuations and general economic conditions. These and other factors, risks and uncertainties that may impact any forward-looking statement or RBS's actual results are discussed in RBS's Annual Report and Accounts (ARA). The forward-looking statements contained in this announcement speak only as of the date of this announcement and RBS does not assume or undertake any obligation or responsibility to update any of the forward-looking statements contained in this announcement, whether as a result of new information, future events or otherwise, except to the extent legally required.

Basis of disclosure

RBS's main risks are described in Capital and risk management - Risk coverage in the 2015 ARA, Q3 2016 Interim Management Statement (IMS) and in the 2015 Pillar 3 Report.

The disclosures in this document supplement those in RBS's Q3 2016 IMS: Analysis of results - Capital and leverage ratios.

The Pillar 3 disclosures made by The Royal Bank of Scotland Group plc and its consolidated subsidiaries (together RBS) are designed to comply with Capital Requirements Regulation (CRR).

The information presented in this Pillar 3 Supplement is not required to be, and has not been, subject to external audit.

RBS has not omitted any disclosures on the grounds that the information may be proprietary or confidential.

RBS's significant subsidiaries are unchanged from the 2015 year end and are The Royal Bank of Scotland plc (RBS plc), National Westminster Bank Plc (NWB Plc) and Ulster Bank Ireland Designated Activity Company (UBI DAC), previously Ulster Bank Ireland Limited. Disclosures relating to RBS are repeated in this supplement for comparison purposes.

The disclosures in this report are based on the Capital Requirements Directive extant at the reporting periods presented. Therefore disclosures are based on CRR as promulgated by the PRA with effect from 1 January 2014, as well as amendments issued since for RBS, RBS plc and NWB Plc. UBI DAC disclosures are based on CRR as implemented by the Central Bank of Ireland.

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Capital requirements and leverage: RBS and significant subsidiaries

CAP 1: Capital and leverage ratios

	30 September 2016				31 December 2015			
	RBS %	RBS plc %	NWB Plc %	UBI DAC %	RBS %	RBS plc %	NWB Plc %	UBI DAC %
Risk asset ratios								
CET1	15.0	14.6	12.9	30.8	15.5	16.0	11.6	29.6
Tier 1	19.1	15.7	12.9	30.8	19.1	17.1	11.6	29.6
Total	24.1	22.5	20.5	33.3	24.7	25.3	19.7	32.1
Leverage								
Exposure (£bn)	703.2	476.2	166.9	28.0	702.5	502.6	153.1	23.7
Tier 1 capital (£bn)	44.8	28.9	8.1	6.5	46.3	34.7	7.2	5.7
Leverage ratio (%)	6.4	6.1	4.8	23.1	6.6	6.9	4.7	24.0

RBS

- CET1 ratio decreased by 50 basis points in the nine months to 30 September 2016 to 15.0% primarily reflecting management actions to normalise the ownership structure and improve the long-term resilience of RBS. These actions included the final Dividend Access Share payment of £1.2 billion and the accelerated payment of £4.2 billion relating to the deficit on the Main Scheme of The Royal Bank of Scotland Group Pension Fund, both in March 2016. Litigation and conduct charges contributed to a £2.0 billion reduction in CET1 capital.
- Tier 1 capital benefitted from the successful issuance of £2 billion of AT1 capital notes in August 2016. Total end-point CRR compliant AT1 capital now stands at £4.0 billion.
- RWAs decreased by £7.4 billion to £235.2 billion during the nine months to 30 September 2016.
 - Credit risk RWAs have remained relatively flat as lending growth in UK PBB and Commercial Banking and the adverse impact of foreign exchange movements following the EU referendum were offset by reductions due to disposals and run-off in Capital Resolution.
 - The impact of market volatility throughout 2016 and implementation of new risk metric models in CIB and Capital Resolution led to an increase of £1.7 billion in counterparty credit risk RWAs.
 - Market risk RWAs reduced by £3.4 billion driven by disposals of securitisations and lower US dollar position risk in Treasury.
 - Operational risk RWAs decreased by £5.9 billion as a result of the annual recalculation and the removal of the element relating to Citizens following regulatory approval.
- There was a 50 basis points increase in the CET1 ratio in Q3 2016 driven primarily by a £10.0 billion reduction in RWAs. RWA reduction reflected disposals and run-off in Capital Resolution, the unwind of mortgage model recalibrations booked by UK PBB in H1 2016 and lower non-modelled market risk.
- Leverage ratio on a PRA transitional basis decreased by 20 basis points to 6.4% partly driven by growth in mortgages and commercial lending. The benefit of the £2 billion end-point CRR compliant AT1 issuance in Q3 2016 was partly offset by redemption of non end-point CRR compliant Tier 1 instruments and CET1 capital erosion due to litigation and conduct charges, primarily in H1 2016.

RBS plc

- The CET1 ratio decreased from 16.0% to 14.6%. This reflected the annual phasing in of the CRR transition rules relating to significant investments, the £1.3 billion capital injection into NWB Plc, following the accelerated pension payment, partially offset by RWA reduction.
- RWAs decreased by £19.2 billion predominantly as a result of the significant investment change, which reduced standardised credit risk RWAs by £14.8 billion, offset by adverse exchange rate movements. Market risk RWAs decreased by £3.7 billion primarily due to disposals of securitisations and lower US dollar position risk.
- The leverage ratio on a PRA transitional basis decreased from 6.9% to 6.1% primarily reflecting reduced Tier 1 capital.

NWB Plc

- The CET1 ratio increased from 11.6% to 12.9% primarily reflecting the £1.3 billion capital injection from RBS plc and profit in the period, partially offset by the adverse impacts of the £4.2 billion accelerated pension payment to the Main Scheme in March 2016 and the annual phasing in of the CRR transition rules relating to significant investments.
- RWAs increased by £0.6 billion due to mortgage growth partially offset by a reduction of £1.8 billion as a result of the significant investment change and the annual recalculation of operational risk.
- The leverage ratio on a PRA transitional basis increased marginally to 4.8% as a result of increased Tier 1 capital, offset by growth in mortgage lending.

UBI DAC

- The CET1 ratio increased to 30.8%.
- RWAs increased by £1.8 billion with the impact of weaker sterling offsetting the decline in RWAs in euros.
- RWAs decreased from €26.2 billion to €24.4 billion as a result of reductions in mortgages, primarily tracker product, business lending and also due to the impact of improving economic conditions on risk metrics.
- The leverage ratio on a transitional basis declined marginally to 23.1% reflecting higher leverage exposure due to currency movements.

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CAP 2: Capital resources

Capital based on the relevant local regulatory capital transitional arrangements for the significant legal entities within RBS are set out below. The key driver of the movements in RBS plc and NWB Plc is the annual phasing-in of the CRR transition rules. The significant investment deduction has increased reflecting an incremental 10% rise in the percentage of significant investments which are treated as a capital deduction and a commensurate 10% decrease in the percentage of significant investments which are treated as risk-weighted assets. At 30 September 2016, 70% is treated as capital deduction and 30% risk-weighted assets, compared with 60% and 40% respectively at 31 December 2015.

Capital	30 September 2016				31 December 2015			
	RBS £m	RBS plc £m	NWB Plc £m	UBI DAC £m	RBS £m	RBS plc £m	NWB Plc £m	UBI DAC £m
Tangible equity	39,822	48,811	12,262	6,869	40,943	49,212	10,784	5,753
Expected loss less impairment provisions	(862)	(379)	(636)	(191)	(1,035)	(395)	(703)	(22)
Prudential valuation adjustment	(734)	(723)	(4)	—	(381)	(349)	(1)	—
Deferred tax assets	(838)	(44)	(519)	(247)	(1,110)	(252)	(622)	(210)
Own credit adjustments	(435)	(216)	—	(3)	(104)	17	—	—
Pension fund assets	(209)	(138)	(1)	100	(161)	(138)	—	142
Significant investment in financial institutions	—	(20,094)	(3,007)	—	—	(15,680)	(2,837)	—
Cash flow hedging reserve	(1,565)	(580)	—	—	(458)	(286)	1	—
Other adjustments for regulatory purposes	(9)	271	(40)	(44)	(64)	287	532	27
Total deductions	(4,652)	(21,903)	(4,207)	(385)	(3,313)	(16,796)	(3,630)	(63)
CET1 capital	35,170	26,908	8,055	6,484	37,630	32,416	7,154	5,690
AT1 capital before regulatory adjustments	9,662	2,993	175	—	8,716	3,493	204	—
Regulatory adjustments to AT1 capital	—	(1,033)	(175)	—	—	(1,175)	(187)	—
AT1 capital	9,662	1,960	—	—	8,716	2,318	17	—
Tier 1 capital	44,832	28,868	8,055	6,484	46,346	34,734	7,171	5,690
Tier 2 capital before regulatory adjustments	11,773	15,799	4,785	563	13,619	19,039	5,058	492
Regulatory adjustments to Tier 2 capital	—	(3,297)	(80)	(38)	—	(2,432)	(92)	(7)
Tier 2 capital	11,773	12,502	4,705	525	13,619	16,607	4,966	485
Total regulatory capital	56,605	41,370	12,760	7,009	59,965	51,341	12,137	6,175

CAP 3: RWAs and minimum capital requirements by risk type

RWAs	30 September 2016				31 December 2015			
	RBS £m	RBS plc £m	NWB Plc £m	UBI DAC £m	RBS £m	RBS plc £m	NWB Plc £m	UBI DAC £m
Credit risk								
- non-counterparty								
- advanced IRB	129,423	56,965	40,442	18,467	128,424	57,790	39,231	16,761
- standardised	37,166	73,851	13,677	841	37,993	88,654	15,191	968
- counterparty	25,094	22,673	519	512	23,361	21,769	402	345
Market risk	17,783	15,394	487	28	21,255	19,073	570	7
Operational risk	25,696	14,861	7,209	1,225	31,597	15,615	6,361	1,148
	235,162	183,744	62,334	21,073	242,630	202,901	61,755	19,229

Credit risk								
- non-counterparty								
- advanced IRB	10,354	4,557	3,235	1,477	10,274	4,623	3,138	1,341
- standardised	2,973	5,908	1,094	67	3,039	7,092	1,215	77
- counterparty	2,008	1,814	42	41	1,869	1,742	32	28
Market risk	1,423	1,232	39	2	1,700	1,526	46	1
Operational risk	2,056	1,189	577	98	2,528	1,249	509	92
	18,814	14,700	4,987	1,685	19,410	16,232	4,940	1,539

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CAP 4: Leverage exposure summary

Leverage based on the relevant local regulatory capital transitional arrangements are set out below.

Leverage	30 September 2016				31 December 2015			
	RBS £m	RBS plc £m	NWB Plc £m	UBI DAC £m	RBS £m	RBS plc £m	NWB Plc £m	UBI DAC £m
Derivatives	283,049	287,765	3,633	853	262,544	265,601	2,086	657
Loans and advances	346,490	178,691	215,693	23,748	326,976	175,906	207,632	19,876
Reverse repos	45,955	33,687	—	—	39,910	31,096	—	—
Other assets	176,884	191,082	9,677	2,341	185,978	196,579	10,674	2,245
Total assets	852,378	691,225	229,003	26,942	815,408	669,182	220,392	22,778
Derivatives								
- netting and variation margin	(281,693)	(283,577)	(2,552)	(147)	(258,589)	(260,076)	(1,451)	(99)
- potential future exposures	64,122	65,766	214	252	75,604	76,804	196	246
Securities financing transactions gross up	2,157	5,015	—	—	5,125	5,162	—	—
Undrawn commitments	62,104	43,421	10,419	1,166	63,464	46,309	9,890	1,021
Regulatory deductions and other adjustments	4,089	(21,069)	(4,938)	(201)	1,471	(15,827)	(5,221)	(212)
Exclusion of core UK-group exposures	—	(24,619)	(65,228)	—	—	(18,919)	(70,752)	—
Leverage exposure	703,157	476,162	166,918	28,012	702,483	502,635	153,054	23,734