MICRON TECHNOLOGY INC
Form 4
November 21, 2007

FORM 4

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

OMB APPROVAL

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

STATEMENT OF CHANGES IN BENEFICIAL OWNERSHIP OF SECURITIES

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

(Print or Type Responses)

1. Name and Address of Reporting Person *
HAWKINS JAY L

(Last) (First) (Middle)

8000 S. FEDERAL WAY, MAIL STOP 557

(Street)

BOISE, ID 83707

(City) (State) (Zip)

2. Issuer Name **and** Ticker or Trading Symbol
MICRON TECHNOLOGY INC [MU]

3. Date of Earliest Transaction (Month/Day/Year)
11/19/2007

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

5. Relationship of Reporting Person(s) to Issuer

(Check all applicable)

_____ Director _____ 10% Owner
__X__ Officer (give title below) _____ Other (specify below)
V.P. of Operations

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

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

1.Title of Security (Instr. 3)	2. Transaction Date (Month/Day/Year)	2A. Deemed Execution Date, if any (Month/Day/Year)	3. Transaction Code (Instr. 8)		4. Securities Acquired (A) or Disposed of (D) (Instr. 3, 4 and 5)			5. Amount of Securities Beneficially Owned Following Reported Transaction(s) (Instr. 3 and 4)	6. Ownership Form: Direct (D) or Indirect (I) (Instr. 4)	7. Nature of Indirect Beneficial Ownership (Instr. 4)
			Code	V	Amount	(A) or (D)	Price			
Common Stock	11/19/2007		F		1,712	D	$ 9.15 (1)	320,788	D	

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

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

SEC 1474 (9-02)

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

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

Reporting Owners

Reporting Owner Name / Address	Relationships			
	Director	10% Owner	Officer	Other
HAWKINS JAY L 8000 S. FEDERAL WAY MAIL STOP 557 BOISE, ID 83707			V.P. of Operations	

Signatures

Katie Reid Attorney-in-fact	11/19/2007
**Signature of Reporting Person	Date

Explanation of Responses:

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

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

(1) Withholding of shares of common stock to satisfy tax withholding obligations in connection with the vesting of restricted stock awarded under the Issuer's 2004 Equity Incentive Plan.

Note: File three copies of this Form, one of which must be manually signed. If space is insufficient, *see* Instruction 6 for procedure.
Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB number. n" style="font-size:9.5pt;">4.65% Subordinated Notes due 2018

Euronext Amsterdam

* The guarantee is not listed for trading, but is listed only in connection with the registration of the corresponding Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Funding Trust V.

** The guarantee is not listed for trading, but is listed only in connection with the registration of the corresponding Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Funding Trust VI.

*** The guarantee is not listed for trading, but is listed only in connection with the registration of the corresponding Non-cumulative Guaranteed Trust Preferred Securities of RBS Capital Funding Trust VII.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each class of common stock of the close of the period covered by the annual report

(Title of each class)	(Number of outstanding shares)
Ordinary shares, par value €0.56 per share	89,287

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

o Yes x No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer o Accelerated filer o Non-Accelerated filer x

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

o U.S. GAAP

x International Financial Reporting Standards as issued by the International Accounting Standards Board

o Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

Explanation of Responses:

Form 20-F

SEC Form 20-F cross reference

SEC Form 20-F cross reference

Chairman's statement

In 2015 the Group continued to de-risk its balance sheet. Total assets reduced to €16.0 billion at the end of 2015 compared with €23.6 billion at the end of 2014. Plans for the further wind-down of the business were presented to the European Central Bank (ECB) and De Nederlandsche Bank (DNB), our regulators.

On 26 February 2015 RBS Group announced the restructuring of Corporate & Institutional Banking (CIB) to build a strong, safe and more sustainable business. Subsequently CIB is in the process of reducing its geographical footprint to approximately 13 countries, compared with 38 at the end of 2014.

This business restructuring is managed by RBS's Capital Resolution. The impacted countries for the Group are China, India and Indonesia. In 2015 we started the wind-down of our businesses in Indonesia and China. At the beginning of 2016 it was decided to also wind-down the retail and corporate business in India as well.

The scope of Capital Resolution's work includes the Group as most of the assets on the Group's balance sheet were already managed by Capital Resolution. As a result, the reorganisation agenda of RBS Group and the Group are fully aligned with each other.

Results of operations in 2015

Operating loss before tax was €48 million compared with a loss of €57 million in 2014. This was largely due to lower expenses as a result of lower staff and non-staff costs, and was offset by higher impairment losses. Net interest income decreased as a result of the wind-down. Total equity as at 31 December 2015, was €3.7 billion, an increase of €0.2 billion compared with 31 December 2014.

Capital and RWAs

The Group continues to be well capitalised. At 31 December 2015, the Group's Total capital ratio was 42.5%, the Tier 1 capital ratio was 30.1% and the Common Equity Tier 1 capital ratio was 21.1%. Within risk-weighted assets €9,350 million is included as a consequence of the proportional consolidation of a 40% interest in Saudi Hollandi Bank. This amount is comprises of €9,324 million in credit risk and €26 million in market risk.

Outlook

It is envisaged that in 2016 commercial activities will cease and that we will continue to execute the plans for the further de-risking of RBS N.V.. Ultimately, the objective is that RBS N.V. can relinquish its banking licence in the Netherlands.

On behalf of my fellow Managing Board members, I would like to thank all our employees and customers for their continued commitment and loyalty during 2015.

Idzard van Eeghen

Chairman of the Managing Board of RBS Holdings N.V.

Amsterdam, 28 April 2016

Financial review

Presentation of information

In the Report and unless specified otherwise, the terms 'company' and 'RBS Holdings' mean RBS Holdings N.V.. RBS Holdings N.V. is the parent company of The Royal Bank of Scotland N.V. (RBS N.V.) consolidated group of companies and associated companies (‘RBSH Group’ or ‘the Group’). The Royal Bank of Scotland Group plc (RBSG) is the ultimate holding company of RBSH Group. RBS Group refers to RBSG and its consolidated subsidiaries and associated companies. RBS plc refers to The Royal Bank of Scotland plc. The terms 'Consortium' and 'Consortium Members' refer to RBSG, Stichting Administratiekantoor Beheer Financiële Instellingen (the Dutch State, successor to Fortis) and Banco Santander S.A. (Santander) who jointly acquired RBS Holdings on 17 October 2007 through RFS Holdings B.V. (RFS Holdings).

The company publishes its financial statements in 'euro', the European single currency. The abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively. Reference to '£' is to pounds sterling. The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds, respectively. Reference to '$' is to United States of America (US) dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively.

Certain information in this report is presented separately for domestic and foreign activities. Domestic activities consist of transactions within the Netherlands. Geographic analysis has been compiled on the basis of location of office.

The results, assets and liabilities of individual business units are classified as trading or non-trading based on their predominant activity. Although this method may result in some non-trading activity being classified as trading, and vice versa, any resulting misclassification is not material.

All annual averages in this report are based on month-end figures. Management does not believe that these month-end averages present trends materially different from those that would be presented by daily averages.

International Financial Reporting Standards

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and IFRS as issued by the International Accounting Standard Board (IASB).

Glossary

A glossary of terms is included on pages 197 to 203.

RBS Holdings N.V.

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Forward-looking statements

Certain sections in this document contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘believe’, ‘should’, ‘intend’, ‘plan’, ‘could’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘objective’, ‘may, ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on these expressions.

In particular, this document includes forward-looking statements relating, but not limited to: the winding-down of the RBSH Group’s operations and the transfer and sale of a substantial part of its business activities to RBS plc; the RBS Group’s restructuring, including the implementation of the UK ring-fencing regime and the potential impact thereof on the RBSH Group; divestments; capitalisation; portfolios; net interest margin; capital and leverage ratios and requirements; liquidity; risk-weighted assets (RWAs); minimum requirements for eligible liabilities (MREL); return on equity (ROE); profitability; cost:income ratios; loan:deposit ratios; funding and credit risk profile; discretionary coupon and dividend payments; litigation, regulatory and governmental investigations; RBS Group’s and RBSH Group’s future financial performance; the level and extent of future impairments and write-downs; RBS Group’s and RBSH Group’s exposure to credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk; RBS Group’s and RBSH Group’s exposure to political risks, operational risk and conduct risk. These statements are based on current plans, estimates, targets and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could adversely affect RBSH Group’s results and the accuracy of forward-looking statements in this document include the risk factors and other uncertainties discussed in this document. These include those relating to: the winding-down of the RBSH Group’s operations and transfers or sales of assets to RBS plc; the RBSH Group’s reliance on the RBS Group; operational risks that are inherent in RBSH Group’s business and increased as a result of the implementation by the RBS Group of its strategic programme and the UK ring-fencing regime as well as the winding-down of the RBSH Group’s operations; the potential adverse impact on the RBSH Group resulting from the major ongoing restructuring carried out by the RBS Group through 2019; the potential adverse impact on the RBSH Group resulting from the implementation by the RBS Group of the UK ring-fencing regime; the political risks to which the RBS Group is exposed; the potential negative impact on RBSH Group’s business of actual or perceived global economic and financial market conditions and other global risks; uncertainties regarding RBSH Group’s exposure to any weakening of economies within the EU or emerging economies; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; the impact of unanticipated volatility or adverse movements in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices or equity prices; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in customer and counterparty credit quality as a result of prevailing economic and market conditions; RBSH Group's ability to achieve its capital targets; the achievement of capital and cost reduction targets; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity; the RBSH Group's ability to satisfy stress tests imposed by its regulators; the ability to access sufficient sources of capital, liquidity and funding when required; changes in the credit ratings of RBSG, RBS NV or other entities of the RBS Group and RBSH Group; uncertainties and adverse outcomes relating to legal, regulatory and governmental actions and investigations that RBS Group and RBSH Group are subject to and any resulting material adverse effect on RBSH Group of unfavourable outcomes; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBSH Group operates; RBSH Group's ability to attract and retain qualified personnel; changes in laws, regulations, accounting standards and taxes; the high dependence of RBSH Group's operations on its information technology systems and its increasing exposure to cyber security threats; the reputational and conduct risks inherent in RBSH Group's operations and the RBSH Group's ability to implement and maintain an effective risk management culture; the risk that RBSH Group may suffer losses due to employee misconduct; the reliance on valuation, capital and stress test models which may be inaccurate; changes in accounting rules, policies, assumptions and estimates and changes to the valuation of financial instruments recorded at fair value; potential liabilities resulting from the legal demerger of ABN Amro Bank NV; and the success of RBSH Group in managing the risks involved in the foregoing.

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

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

Financial review

Description of business

Introduction

RBS Holdings offers a range of banking products and financial services, principally in Europe and Asia.

In 2007, RFS Holdings, which was jointly owned by RBSG, Fortis (succeeded by the Dutch State in 2008) and Santander (together, the 'Consortium Members') completed the acquisition of RBS Holdings.

RBS Holdings has one direct subsidiary, RBS N.V., a fully operational bank within RBSH Group. RBS N.V. is independently rated and regulated, effective from 4 November 2014 the Dutch Central Bank was replaced as the main regulator by the European Central Bank (ECB) in conjunction with the Dutch Central Bank.

The Group is regulated in the Netherlands by the European Central Bank (ECB) under the Single Supervisory Mechanism (SSM). As part thereof, a Joint Supervisory Team comprising of ECB and De Nederlandsche Bank (DNB) staff has been set up to conduct the day to day prudential supervision oversight. The Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten (AFM) is responsible for the conduct supervision.

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

The Financial Supervision Act sets out rules regarding prudential supervision and supervision of conduct.

Prudential supervision focuses on the solidity of financial undertakings and contributes to the stability of the financial sector. Supervision of conduct focuses on orderly and transparent financial market processes, clear relations between market participants and due care in the treatment of clients (including supervision of the securities and investment businesses).

Since 31 December 2010, RBSG's shareholding in RFS Holdings has been 97.72%. RFS Holdings is controlled by RBSG, which is incorporated in the UK and registered at 36 St Andrew Square, Edinburgh, Scotland. RBSG is the ultimate parent company of RBSH Group. The consolidated financial statements of RBSH Group are included in the consolidated financial statements of RBS Group.

***interest is held by Stichting Administratiekantoor Beheer Financiële Instellingen**

RBS Holdings N.V.

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Financial review

The Group had total assets of €16.0 billion and owners' equity of €3.7 billion at 31 December 2015. The Group’s capital ratios were a Total capital ratio of 42.5%, a Tier 1 capital ratio of 30.1% and a Common Equity Tier 1 capital ratio of 21.1% as at 31 December 2015.

The Group total assets have reduced further from €23.6 billion to €16.0 billion in line with the Group's wind down strategy. The Groups main activities are limited to a small number of countries, including the UK, the Netherlands, China, India and Indonesia, and the Group has one significant associate, Saudi Hollandi Bank. Certain assets within RBS N.V. continue to be shared by the Consortium Members.

The Group has submitted a plan, the so-called target end state plan, to its regulators with the ultimate objective that RBS N.V. can relinquish its banking licence in the Netherlands.

RBS N.V. US branches

The RBS N.V. US branches were closed during 2015 as the remaining tail assets have been transferred and applicable regulatory approval has been received.

Competition

The Group faces strong competition in all the markets it serves.

Competition for corporate and institutional customers in the Netherlands and abroad is from Dutch banks and from foreign banks that offer investment and corporate banking services. In addition, the Group’s Corporate and Institutional Banking business faces competition from dedicated investment banks and from non-bank institutions via disintermediation in credit and financing products. In European and Asian corporate and institutional banking markets the Group also competes with the large domestic banks active in these markets and with the major international banks.

The RBS N.V. US branches were closed during 2015 as the remaining tailassets have been transferred and applica

Financial review

Summary consolidated income statement			
	2015	2014	2013
	€m	€m	€m
Net interest income	(22)	187	238
Fees and commissions receivable	17	158	119
Fees and commissions payable	(9)	(16)	(49)
Other non-interest income	294	(56)	129
Non-interest income	302	86	199
Total income	280	273	437
Operating expenses	(225)	(319)	(537)
Profit/(loss) before impairment losses	55	(46)	(100)
Impairment losses	(103)	(11)	(42)
Operating loss before tax	(48)	(57)	(142)
Tax credit/(charge)	20	(58)	(12)
Loss from continuing operations	(28)	(115)	(154)
Profit from discontinued operations, net of tax	22	15	19
Loss for the year	(6)	(100)	(135)

The RBS N.V. US branches were closed during 2015 as the remaining tailassets have been transferred and applica

Financial review

2015 compared with 2014

Operating loss before tax was €48 million compared with a loss of €57 million in 2014. This improvement was due to higher income and lower operating expenses partially offset by higher impairment losses.

Total income increased by €7 million to €280 million. This was mainly due to higher non-interest income offset by a decrease in net interest income.

Net interest income decreased to a loss of €22 million compared with income of €187 million in 2014 reflecting a reduction in interest receivable following the repayment of a loan to a fellow subsidiary in December 2014, the sale of a substantial portion of the legacy debt securities portfolio in Treasury and the overall run-down of banking book assets outpacing the reduction in liabilities.

Non-interest income increased by €216 million to €302 million compared with €86 million in 2014. Other operating income increased by €323 million. This included an increase in the fair value of financial instruments designated at fair value through profit and loss of €109 million (2015 - €175 million; 2014 - €66 million), a lower loss on the sale of available-for-sale securities in Treasury of €273 million, (2015 - €49 million; 2014 - €322 million) and higher profits from interests in associates of €38 million, (2015 - €155 million; 2014 - €117 million). This was offset by a decline in other income of €136 million (2015 - €49 loss; 2014 - €87 million) and a decrease in net fees and commissions of €134 million to €8 million compared with €142 million in 2014, reflecting a fee in relation to business transfers in 2014.

Operating expenses decreased by €94 million to €225 million mainly due to reductions in staff costs of €12 million resulting from planned business reduction and non-staff costs of €82 million largely driven by a non-repeat of a litigation settlement in 2014.

Impairment losses increased by €92 million to €103 million driven by a small number of large exposures.

The RBS N.V. US branches were closed during 2015 as the remaining tailassets have been transferred and applica

Tax credit for 2015 was €20 million compared with a tax charge of €58 million in 2014.

2014 compared with 2013

Operating loss before tax was €57 million compared with a loss of €142 million in 2013. This decrease was due to lower operating expenses partially offset by lower income, reflecting the transfers of businesses to RBS plc.

Total income decreased by €164 million to €273 million. This is mainly due to lower non-interest income.

Net interest income decreased by €51 million to €187 million, mainly reflecting business transfers and the continued low interest rate environment.

Non-interest income decreased by €113 million to €86 million compared with €199 million in 2013. This included higher losses on the sale of available-for-sale securities in Treasury partially offset by higher profits from interests in associates and an increase in the value of own credit adjustments.

Operating expenses decreased by €218 million to €319 million mainly due to reductions in both staff and non-staff costs as a result of business transfers to RBS plc.

Impairment losses decreased by €31 million to €11 million driven by a smaller number of individual cases.

Tax charge for 2014 was €58 million compared with €12 million in 2013.

Tax credit for 2015 was €20 million compared with a tax charge of €58 million in 2014.

Financial review

Analysis of results			
Net interest income			
	2015	2014	2013
	€m	€m	€m
Interest receivable	269	532	768
Interest payable (1)	(291)	(345)	(493)
Net interest income	(22)	187	275
Yields, spreads and margins of the banking business	%	%	%
Gross yield on interest-earning assets of the banking business (2)	2.1	2.1	1.8
Cost of interest-bearing liabilities of the banking business	(3.4)	(1.9)	(1.3)
Interest spread of the banking business (3)	(1.3)	0.2	0.5
Benefit from interest-free funds	1.1	0.5	0.2
Net interest margin of the banking business (4)	(0.2)	0.7	0.7
Gross yield (2)			
- Group	2.1	2.1	1.8
- Domestic	0.6	1.3	1.1
- Foreign	3.0	3.5	3.2
Interest spread (3)			
- Group	(1.3)	0.2	0.5
- Domestic	(3.0)	(0.2)	0.4
- Foreign	0.1	0.4	1.0
Net interest margin (4)			
- Group	(0.2)	0.7	0.7
- Domestic	(3.7)	—	0.5
- Foreign	2.1	2.1	1.0

Notes:

(1) Interest payable was decreased by €37 million in 2013 in respect of adjustments.

(2) Gross yield is the interest rate earned on average interest-earning assets of the banking business.

(3) Interest spread is the difference between the gross yield and the interest rate paid on average interest-bearing liabilities of the banking business.

Tax charge for 2014 was €58 million compared with €12 million in 2013.

(4) Net interest margin is net interest income of the banking business as a percentage of average interest-earning assets of the banking business.

(5) The analysis into Domestic and Foreign has been compiled on the basis of location of the office in which the transaction takes place.

Tax charge for 2014 was €58 million compared with €12 million in 2013.

Financial review

Consolidated balance sheet at 31 December 2015		
	2015	2014
	€m	€m
Assets		
Cash and balances at central banks	543	1,135
Loans and advances to banks	6,931	7,696
Loans and advances to customers	2,193	3,539
Amounts due from ultimate holding company	138	123
Debt securities and equity shares	2,139	3,243
Settlement balances	71	40
Derivatives	2,221	4,432
Deferred tax	10	34
Interests in associates	1,201	947
Prepayments, accrued income and other assets	534	1,105
Assets of disposal groups	—	1,257
Total assets	15,981	23,551
Liabilities		
Bank deposits	2,976	4,542
Repurchase agreements and stock lending	—	636
Deposits by banks	2,976	5,178
Customer accounts	1,481	2,934
Debt securities in issue	403	1,017
Settlement balances and short positions	36	34
Derivatives	1,861	4,555
Provisions, accruals and other liabilities	1,048	1,122
Deferred tax	58	88
Subordinated liabilities	4,456	5,104
Liabilities of disposal groups	—	46
Total liabilities	12,319	20,078
Total equity	3,662	3,473
Total liabilities and equity	15,981	23,551

Tax charge for 2014 was €58 million compared with €12 million in 2013.

RBS Holdings N.V.

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Tax charge for 2014 was €58 million compared with €12 million in 2013.

Financial review

Commentary on consolidated balance sheet

2015 compared with 2014

Total assets were €16.0 billion at 31 December 2015, a decrease of €7.6 billion, or 32%, compared with €23.6 billion at 31 December 2014.

Cash and balances at central banks decreased by €0.6 billion or 52% to €0.5 billion at 31 December 2015 reflecting reduced liquidity requirements.

Loans and advances to banks decreased by €0.8 billion, or 10%, to €6.9 billion at 31 December 2015, with the majority of the balance, €5.9 billion, being with fellow subsidiaries.

Loans and advances to customers declined €1.3 billion, or 38%, to €2.2 billion, mainly in China and India reflecting continued repayments and business run-down.

Debt securities and equity shares decreased by €1.1 billion, or 34%, to €2.1 billion at 31 December 2015, mainly reflecting the maturity and sale of available-for-sale securities in Treasury.

Derivative assets decreased by €2.2 billion, or 50%, to €2.2 billion, and derivative liabilities decreased by €2.7 billion, or 59%, to €1.9 billion. €1.3 billion of the assets and €1.5 billion of the liabilities are balances with fellow subsidiaries.

Prepayments, accrued income and other assets decreased by €0.6 billion, 52%, to €0.5 million, mainly reflecting continued business wind-down.

Deposits by banks decreased by €2.2 billion, or 43%, to €3.0 billion, with repurchase agreements and stock lending (repos), down to nil from €0.6 billion in 2014. Bank placings decreased €1.0 mainly due to a reduction in cash collateral reflecting the reduction in third party derivatives. €2.7 billion of the balance is with fellow subsidiaries.

Tax charge for 2014 was €58 million compared with €12 million in 2013.

Customer accounts were down €1.5 billion, 50%, to €1.5 billion, mainly in China and India reflecting continued balance sheet reduction.

Debt securities in issue declined €0.6 billion, 60%, to €0.4 billion reflecting decreases in medium-term-notes.

Owners' equity increased by €0.2 billion, 5%, to €3.7 billion.

Tax charge for 2014 was €58 million compared with €12 million in 2013.

Financial review *Capital and risk management*

Tax charge for 2014 was €58 million compared with €12 million in 2013.

	Traded market risk	62	
	Non-traded market risk	70	

RBS Holdings N.V.

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Tax charge for 2014 was €58 million compared with €12 million in 2013.

Financial review ***Capital and risk management***

Risk overview*

Presentation of information

Except as otherwise indicated by an asterisk (*), information in the Capital and risk management section (pages 15 to 71) is within the scope of the independent registered public accounting firm.

Capital and risk management are conducted on an overall basis within RBS Group. Therefore the discussion on Capital and risk management on pages 15 to 71 refer principally to policies and procedures in RBS Group that also apply to RBSH Group and RBS N.V..

Risk governance

Governance structure

Capital and risk management strategies are owned and set by the Managing Board of the Group and are implemented by the executive management. There are a number of committees and executives that support the execution of the business plan and strategy. Two of these committees are dedicated to the Group and report to the Group Managing Board. These are depicted and described in the structure chart and table below. Matters not specifically delegated are reserved for the Managing Board. The members of the Managing Board and Supervisory Board of RBS Holdings and RBS N.V. are the same.

Tax charge for 2014 was €58 million compared with €12 million in 2013.

There are also risk functions and committees that cover RBS Group and (parts of) the Group reflecting the integrated manner in which the business is managed within RBS Group. Service Level Agreements are in place between the Group and RBS Group to accommodate this integrated risk management oversight, including escalation procedures to the Group Managing Board as appropriate.

Risk management within the Group focuses on all material risks including credit, market, operational, regulatory and country risk and business activities. Liquidity risk and the day-to-day management of

Tax charge for 2014 was €58 million compared with €12 million in 2013.

liquidity and funding of the book are the responsibility of the Group Treasury.

For a summary of the main risk types faced by the Group and how it manages each of them, refer to page 25.

*unaudited

Tax charge for 2014 was €58 million compared with €12 million in 2013.

Financial review ***Capital and risk management***

Risk overview* continued

RBS Group governance structure

RBS Group is committed to achieving the highest standards of corporate governance in every aspect of its business, including risk management. A key aspect of the Board's responsibility as the main decision-making body is the setting of risk appetite (refer to page 24 for more information on risk appetite) to ensure that the levels of risk RBS Group is willing to accept in the attainment of its strategic business and financial objectives are clearly understood. The Board delegates authority for risk management to specific committees.

The risk governance structure and the main purposes of each of the committees is illustrated below:

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Tax charge for 2014 was €58 million compared with €12 million in 2013.

Financial review ***Capital and risk management***

Risk overview* continued

The following table shows details of the key the Group Board and Committees and their responsibilities.

Board/Committee	Responsibilities
Supervisory Board Membership: Consists of four members. Two are executives of RBS Group.	The Supervisory Board is responsible for supervising the Group's management, its general affairs, and the business connected with it as well as for advising the Managing Board. The Supervisory Board is responsible for the review of all matters relative to accounting policies, internal control, financial reporting functions, internal audit, external audit, risk assessment, regulatory compliance and the product approval process.
Managing Board Membership: Three members led by the Group Chairman (who in addition performs the role of Chief Risk Officer (CRO)), Chief Administrative Officer (CAO) and the Chief Financial Officer (CFO).	The Managing Board reports to the Supervisory Board. It is the principal decision-making forum for the Group, setting policy framework, operating structure and yearly plan (including objectives and budgets). All members of the Managing Board have responsibility for the Group. As well as their overall corporate responsibilities, the members of the Managing Board manage one or more units, for which they have primary responsibility.
RBSH Group. Risk and Control Committee (RCC) Membership: Chaired by the Group CRO and the Chairman of the Managing Board. Members include the Senior Group Risk Manager, a Group delegate of RBS Group Credit Risk and Market Risk, the Group Head of Conduct & Regulatory Affairs, the Chief Risk Officer, Asia, and the RBS N.V. Head of Regulatory Reporting.	The responsibilities of the RCC include: • Advising the Managing Board on the risk appetite of the Group, and receiving direction from the Managing Board on the risk appetite; • Providing input to the Group risk-appetite-setting process in the context of the Group's overall risk appetite; • Overseeing the risk framework within the Group and reporting directly to the Managing Board on the performance of the framework and on issues arising from it; and

- Monitoring the actual risk profile of the Group ensuring that this remains within the boundaries of the agreed risk appetite or else escalating excesses to the Managing Board. Prior to escalation, the RCC can ask the appropriate risk committee in RBS Group or the business that normally monitors and controls the risk item to address any excess.

The remit of the Committee also includes credit, market, operational and regulatory risks within the Group. Changes to the Terms of Reference of the Group RCC must be approved by the Managing Board. To execute its authority the RCC has access to all relevant risk information relating to the Group available within RBS Group including escalations from and to Group or business committees.

RBSH Group Asset and Liability Committee (ALCo)

Membership:

Seven permanent voting members led by RBSH Group's CFO, the Chairman of the Managing Board, the Chief Risk Officer the CAO, the RBSH Group Treasurer, the RBS Group Treasurer and the Global Head of Capital Management.

The mandate of ALCo covers the following specific areas in respect of the Group:

- The overall governance responsibility for the strategic management of the Group balance sheet;
- The review, approval and allocation of balance sheet, capital, liquidity and funding limits;
- The liquidity, funding, foreign exchange and interest rate exposures of the Group's balance sheet;
- The balance sheet structure and risk-weighted assets position of the Group;
- Decisions on capital repatriation and loss coverage;
- Compliance with all regulatory requirements at all times;
- The implementation and maintenance of transfer pricing policies (although setting the liquidity spread curve remains the responsibility of the RBS Group ALCo;
- The approval and implementation within the Group of RBS Group Treasury policies and procedures; and
- The Group ALCo is responsible for oversight of retained business (shared assets) and the residual ABN AMRO business.

*unaudited

Tax charge for 2014 was €58 million compared with €12 million in 2013.

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Tax charge for 2014 was €58 million compared with €12 million in 2013.

Financial review ***Capital and risk management***

Risk overview* continued

Three lines of defence

The three lines of defence model is used industry-wide for the management of risk. It provides a clear set of principles by which to implement a cohesive operating model, one that provides a framework for the articulation of accountabilities and responsibilities for managing risk across the organisation.

First line of defence - Management and supervision

The first line of defence includes RBS Group's customer franchises, Technology and Operations and support functions such as HR, Communications and Financial MI. Responsibilities include:

- Owning, managing and supervising, within a defined risk appetite, the risks which exist in business areas and support functions.
- Ensuring appropriate controls are in place to mitigate risk: balancing control, customer service and competitive advantage.
- Ensuring that the culture of the business supports balanced risk decisions and compliance with policy, laws and regulations.
- Ensuring that the business has effective mechanisms for identifying, reporting and managing risk and controls.

Second line of defence - Oversight and control

The second line of defence includes RBS Group's Risk Management and Conduct & Regulatory Affairs functions, (see below for further information), Legal, and the financial control aspects of Finance. Responsibilities include:

- Working with the businesses and functions to develop the risk and control policies, limits and tools for the business to use to discharge its responsibilities.
- Overseeing and challenging the management of risks and controls.

- Leading the articulation, design and development of RBS Group's risk culture and appetite.
- Analysing the aggregate risk profile and ensuring that risks are being managed to the desired level (risk appetite).
- Providing expert advice to the business on risk management. Providing senior executives with relevant management information and reports and escalating concerns where appropriate.
- Undertaking risk assurance (see below for more information).

Third line of defence - Internal Audit

Responsibilities include:

- Designing and delivering a risk-based audit plan to provide assurance on material risks and report on whether RBS Group is managing its material risks effectively.
- Monitoring, evaluating and reporting on the remediation of material risks across RBS Group.
- Engaging with management and participating in key governance fora to provide perspectives, insights and challenge so as to influence the building of a sustainable bank.
- Advising the RBSH Group Supervisory Board, the RBS Group Audit Committee and executive management with respect to RBSH Group's material risks and their associated controls.
- Reporting any matters which warrant escalation to the RBS Group Board, the RBS Group Board Risk Committee, the RBS Group Audit Committee and the RBS Group Executive Committee as appropriate.
- Providing independent assurance to the key jurisdictional regulators on both specific risks and control themes.

*unaudited

Financial review ***Capital and risk management***

Risk overview* continued

Risk management structure

RBS Group's management structure and the main elements of each role are illustrated below.

Notes:

(1) RBS Group Risk Management

The RBS Group Chief Risk Officer (CRO) leads RBS Group Risk Management. The CRO reports directly to the RBS Group Chief Executive and has an indirect reporting line to the Chairman of the Board Risk

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Committee and a right of access to the committee's chairman.

RBS Group Risk Management is a function independent of the franchises, structured by risk discipline to facilitate the effective management of risk.

In 2015, Risk Management, which had previously been spread across the different businesses, re-organised itself into six functional areas: Credit Risk; Enterprise-Wide Risk; Risk Infrastructure; Operational Risk, Support Functions and Divested Businesses; Risk Assurance; and Market Risk. Directors of Risk were also appointed for each of the franchises and for Services. The streamlined structure consolidates risk information, allowing for more efficient decision-making.

The directors of risk functions are responsible for RBS Group-wide risk appetite and standards within their respective disciplines and report to the CRO.

CROs are in place for certain jurisdictions and legal entities to meet local regulatory and governance requirements. They lead the risk management teams locally in support of functional risk heads where teams follow a functional operating model. The key CRO roles report directly to the RBS Group CRO.

Risk committees in the customer businesses and key functional risk committees oversee risk exposures arising from management and business activities and focus on ensuring that they are adequately monitored and controlled.

(2) Conduct & Regulatory Affairs

Conduct & Regulatory Affairs (C&RA) is led by the Chief Conduct & Regulatory Affairs Officer, who reports directly to the Chief Executive and has an indirect reporting line to the Board Risk Committee and a right of access to the committee's chairman. It is responsible for providing oversight of conduct risk and regulatory risk at RBS Group, and does so by setting RBS-wide policy and standards, providing advice to each customer business, and ensuring that the mitigating controls are suitable. C&RA also provides leadership of RBS Group's relationships with its regulators.

The functional heads (the Directors of Financial Crime, Advisory, Remediation, Compliance Services and Regulatory Affairs), report to the Chief Conduct & Regulatory Affairs Officer. Each is responsible, where appropriate, for the RBS Group-wide risk appetite and standards of their respective areas.

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Financial review ***Capital and risk management***

Risk overview* continued

Risk assurance

Risk assurance is a second line of defence function in which most of RBS Group's risk assurance activities are centralised. These primarily comprise credit risk and market risk quality assurance, controls assurance and Model Risk Management, each of which is described below.

Credit risk and market risk quality assurance: These teams provide assurance to both internal and external stakeholders including the Board, senior management, risk functions, franchises, Internal Audit and the regulators.

Credit risk and market risk quality assurance undertake reviews which assess various aspects of risk as appropriate: including: the quality of risk portfolios; the completeness, suitability, accuracy and timeliness of risk measurements; the quality of risk management practices; policy compliance; and adherence to risk appetite. This includes monitoring RBS Group's credit portfolios and market risk exposures to assist in early identification of emerging risks, as well as undertaking targeted reviews to examine specific concerns raised either by these teams or by their stakeholders.

RBS Group's Risk Assurance Committee (RAC) provides governance to ensure a consistent and fair approach to all aspects of the review activities of credit and market risk assurance. Additionally, RAC monitors and validates the ongoing programme of reviews and tracks the remediation of review actions. The credit and market risk assurance teams also attend relevant committees run by the customer franchises and other risk functions to ensure strong communication channels are maintained.

Controls assurance: This team tests the adequacy and effectiveness of key controls relating to credit and market risk, including those within the scope of Section 404 of the US Sarbanes-Oxley Act of 2002.

Model risk management

Model governance

Model governance follows a three lines of defence approach, with model developers having primary accountability and Model Risk Management (MRM) acting in a second-line-of-defence capacity.

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MRM is responsible for setting policy, providing governance and insight for all of RBS Group's statistical, economic, financial or mathematical models and performing independent model validation where necessary.

MRM will be responsible for defining and monitoring model risk appetite in conjunction with model developers, monitoring the model risk profile and reporting on the model population and escalating issues to senior management.

The general approach to MRM's independent model validation for risk and pricing models is detailed below. For more specific information relating to market risk models and pricing models, refer to page 68.

*unaudited

Financial review ***Capital and risk management***

Risk overview* continued

Models used within Risk

RBS Group uses a variety of models as part of its risk management process and activities. Key examples include the use of model outputs to support risk assessments in the credit approval process, ongoing credit risk management, monitoring and reporting, as well as the calculation of risk-weighted assets.

For more information on the use of models in the management of particular types of risk, notably credit and market risk, refer to the relevant section.

Independent model validation

MRM performs reviews of relevant risk and pricing models in two instances: (i) for new models or amendments to existing models and (ii) as part of its ongoing programme to assess the performance of these models.

Based on the review and findings from MRM, the RBS Group model or risk committees with appropriate delegated authority consider whether a model can be approved for use and whether any conditions need to be imposed, including those relating to the remediation of material issues raised through the review process. Once approved through internal governance, the new or amended model is implemented. Models used for regulatory reporting may additionally require regulatory approval before implementation.

MRM reassesses the appropriateness of approved risk models on a periodic basis according to the approved Periodic Review Policy.

MRM also monitors the performance of RBS Group's portfolio of models.

Risk culture and appetite

Risk culture

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RBS Group seeks to create a strong risk culture that becomes part of the way people work and think. Such a culture should be supported by robust practices on risk identification, measurement and management, and on associated controls and governance. Risk competencies, mindsets and behaviours needed to support RBS Group's risk culture should be embedded across the organisation and made integral to performance reviews.

RBS Group's target risk culture is clearly aligned to its core values of "serving customers", "working together", "doing the right thing" and "thinking long term". They act as a clear starting point for a strong and effective risk culture.

Aligned to these values is the Code of Conduct. The Code provides guidance on expected behaviour and sets out the standards of conduct that support the values. It explains the effect of decisions that are taken and describes the principles that must be followed.

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Financial review ***Capital and risk management***

Risk overview* continued

These principles cover conduct-related issues as well as wider business activities. They focus on desired outcomes, with practical guidelines to align the values with commercial strategy and actions. The embedding of these principles facilitates sound decision making and a clear focus on good customer outcomes. They are aligned with the people management and remuneration processes to support a positive and strong risk culture through appropriate incentive structures.

A simple decision-making guide (called the "YES check") has been included in the Code of Conduct. It is a simple, intuitive set of five questions, designed to ensure the values guide day-to-day decisions:

- Does what I am doing keep our customers and RBS Group safe and secure?
- Would customers and colleagues say I am acting with integrity?
- Am I happy with how this would be perceived on the outside?
- Is what I am doing meeting the standards of conduct required?
- In five years' time would others see this as a good way to work?

Each question is a prompt to think about the situation and how it fits with RBS Group's values. It ensures that employees can think through decisions that do not have a clear answer, guiding the judgements behind their decisions and actions.

If conduct falls short of RBS Group's required standards, the accountability review process is used to assess how this should be reflected in pay outcomes for those individuals concerned.

RBS Group's policies require that risk behaviour assessment is incorporated into performance assessment and compensation processes for enhanced governance staff.

Risk-based key performance indicators

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RBS Group-wide remuneration policy requires remuneration to be aligned with, and to support, effective risk management. The policy ensures that the remuneration arrangements for all employees reflect the principles and standards prescribed by the UK Remuneration Code. For further information refer to page 65 of the RBS Group Annual Report.

Tax charge for 2014 was €58 million compared with €12 million in 2013.

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Financial review ***Capital and risk management***

Risk overview* continued

Training

Enabling employees to have the capabilities and confidence to manage risk is core to RBS Group's learning strategy.

RBS Group offers a wide range of risk learning across the risk disciplines: Market Risk; Credit Risk; Operational Risk; Enterprise Risk; and Conduct and Regulatory Risk. This training can be mandatory, role specific or for personal development and includes technical and behavioural content.

There is mandatory learning that has to be completed by everyone and is focused on keeping employees, customers and the bank safe. This learning is accessed via the online learning system and is dependent on their role and business area. This makes it easy for employees to access and complete and allows monitoring at all levels to ensure completion.

Risk appetite

Risk appetite is the way in which RBS Group expresses the level of risk it is willing to accept in order to achieve its strategic, business and financial objectives.

It is key to ensuring overall safety and soundness and in embedding a strong risk culture throughout RBS Group.

Strategic risk appetite

RBS Group's risk appetite framework is designed to ensure RBS Group remains safe and sound and serves customers and wider stakeholders.

The RBS Group Board has set out four key strategic risk appetite objectives, aligned with the strategic plan, which provide the boundaries within which the risk appetite for all material risks is set. The strategic risk appetite objectives are:

- Maintain capital adequacy.
- Deliver stable earnings growth.
- Designed to ensure stable and efficient access to funding and liquidity.
- Maintain stakeholder confidence.

Risk appetite measures

Risk appetite starts with the strategic goals set by the RBS Group Board and is set in a manner that:

- Is aligned to business and financial goals. The risk appetite framework ensures that risk is managed in a manner that aligns to and supports the attainment of business and financial objectives.
- Is meaningful, and where possible risk appetite is expressed quantitatively. Risk control frameworks and limits set detailed tolerances and limits for managing risk (such as credit risk and market risk) on a day-to-day basis. These limits support, and are required to be consistent with, the strategic risk appetite.
- Considers performance under stress. The establishment and monitoring of risk appetite considers potential risk exposures and vulnerabilities under plausible stress conditions

Effective processes exist for frequent reporting of RBS Group's risks against agreed risk appetite to the Board and senior management.

Risk appetite statements

Risk appetite statements provide clarity on the scale and type of activities permitted.

The Group has developed a framework that sets and implements an appropriate risk appetite supported by a regular monitoring and review process. A risk appetite statement setting out overall risk limits for different risk types is approved by the Supervisory Board. Risk appetite limits and risk exposures are reported regularly to the Risk & Control Committee, the Managing Board and the Supervisory Board. Any limit breach is reported to the Managing Board. The Managing Board may grant a temporary waiver or require the position to be adjusted to comply with the risk limit.

Risk control frameworks and limits

Risk control frameworks and their associated limits are an integral part of the risk appetite framework and a key part of embedding risk appetite in day-to-day risk management decisions. The risk control frameworks manage risk by expressing a clear tolerance for material risk types that is aligned to business activities.

The RBS Group Policy Framework directly supports the qualitative aspects of risk appetite, helping to rebuild and maintain stakeholder confidence in RBS Group's risk control and governance. Its integrated approach is designed to ensure that appropriate controls, aligned to risk appetite, are set for each of the material risks it faces, with an effective assurance process put in place to monitor and report on performance. Risk appetite has its own policy within the RBS Group Policy Framework. This policy sets out clear roles and responsibilities to set, measure, cascade and report performance against risk appetite, and provides assurances that business is being conducted within approved risk limits and tolerances.

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Financial review ***Capital and risk management***

Risk overview* continued

Risk coverage

The main risk types faced by the Group are presented below.

Risk type	How the risk arises	2015 overview
Capital adequacy risk	Capital adequacy risk arises from inefficient management of capital resources.	The Group's Common Equity Tier 1 ratio on a CRR transitional basis was 21.1%. The Group plans for and maintains an adequate amount and mix of capital consistent with its risk profile. The amount of capital required is determined through risk assessment and stress testing.
Liquidity and funding risk	Liquidity and funding risk arise through the maturity transformation role that the Group performs and arises from day-to-day operations.	As it is one of the operating entities of the RBS Group, the Group's liquidity risk is monitored and managed centrally by RBS Group in line with policies and processes set by the Group's Managing Board.
Business risk	Business risk arises from exposure to, and the ability to assess the impact of, changes in the macro-environment, competition, business operations and technology.	The Group reduced its business risk profile further as it made disposals and sold almost its entire liquidity portfolio.
Reputational risk	Reputational risk can arise from the conduct of employees; activities of customers and the countries in which they operate; provision of products and transactions; as well as operations and infrastructure.	The most material threat to the Group's reputation continued to originate from historical misconduct. The Group has been the subject of investigations and review in relation to legacy rate setting concerns involving former employees, some of which resulted in dismissals.
Conduct and regulatory risk	Conduct risk arises if customers are not treated in line with their and other stakeholders' expectations. Conduct risk also arises if the Group does not take effective action to prevent fraud, bribery and money laundering. Regulatory risk arises from the Group's regulatory, business or operating environments and the Group's response to	RBS Group continued to remediate historical conduct issues, while also restructuring its customer-facing businesses and support functions around the needs of its customers. In the Group, rate setting was also the primary focus. Although the impact of conduct risk was less material than before, it remained a

Tax charge for 2014 was €58 million compared with €12 million in 2013.

	them.	high priority in 2015 due to its importance to RBS Group’s values. A new Conduct Risk Appetite Framework was also established.
Operational risk	Operational risk arises from a failure to manage operations, transactions and assets appropriately. It may arise from human error, an inability to deliver change on time or adequately, or the unavailability of technology services or the loss of customer data. Fraud and theft are sources of operational risk, as is the impact of natural and man-made disasters. It may also arise from a failure to take appropriate measures to protect assets or take account of changes in law.	The functional operating model for operational risk was embedded, with the aim of ensuring it is managed consistently across RBS Group. The threat to the security of RBS Group’s information from cyber attacks continued to be closely monitored. Further actions were taken to mitigate the risk such as improved user access controls and enhanced protection against malware. Operational Risk continued to oversee the execution of major projects, including the larger restructuring and divestments.
Credit risk	Credit risk arises from lending and AFS debt securities. Counterparty credit risk results from derivatives and securities financing transaction activities.	The Group managed credit risk based on a suite of credit approval and risk concentration frameworks and associated risk management systems and tools. Credit risk RWAs were €15.0 billion at 31 December 2015.
Market risk	The majority of the Group’s traded market risk exposure arises through transactions in financial instruments including debt securities, loans, deposits and equities, as well as securities financing and derivatives. The majority of its non-traded market risk exposure arises from assets and liabilities that are not classified as held for trading.	Market risk RWAs were reported at around €0.9 billion at 31 December 2015.

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Financial review ***Capital and risk management***

Capital management*

Definition

Capital management lies at the core of RBS Group's strength and sustainability goals. RBS Group defines capital as that part of the liability side of its balance sheet that has the capacity to absorb losses. The construction of capital starts with Common Equity Tier 1 (CET1) and other classes of capital such as Additional Tier 1 (AT1) and Tier 2. RBS Group will build up sufficient minimum requirements for eligible liabilities (MREL) over the coming years in line with regulatory requirements. Capital management involves the optimisation and efficient use of capital required by the Group's businesses, the outcomes of stress testing, the requirements of the market and the regulators and the supply of adequate forms of capital at acceptable prices.

All the disclosures in this section are unaudited.

2015 overview

The Group's Tier 1 capital ratio of 30.1% is higher than 2014 year end ratio of 24.5%, primarily reflecting further portfolio disposals and rundown of the Group's business during 2015. The amount of AT1 capital has declined when compared with the prior year, as a result of reduced eligibility of hybrid securities under the grandfathering rules of the CRR. The disallowed AT1 is added to the eligible Tier 2 capital that is also subject to its own grandfathering limits. Within the portfolio, there is an amount of €162 million that is lent to RBS Group as Tier 2. This is in addition to a part of the expected loss shortfall, being treated as a full Tier 2 capital deduction under the Capital Requirements Directive IV (CRD IV) rules.

Regulatory framework

Capital requirements regulation and directive

The European Union has implemented the Basel III proposals and a number of important changes to the banking regulatory framework through the Capital Requirements Regulation (CRR) and the Capital Requirements Directive (CRD) collectively known as the CRD IV package. The CRD IV package was implemented on 1 January 2014 with full implementation to be completed on 1 January 2019. As part of the implementation of the CRD IV package, the European Banking Authority's technical standards, which are legal acts specifying particular aspects of the CRD IV package, are either in progress to be finalised through adoption by the European Commission or now adopted.

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The CRD IV package continues to require a total amount of capital equal to at least 8% of risk-weighted assets but the share that has to be of the highest quality, that is CET1 capital, of at least 4.5%. The CRD IV package also introduces more stringent criteria for capital instruments, harmonised adjustments made to capital recognised for regulatory purposes and establishes new capital buffers to be phased in from 1 January 2014. Once fully implemented on 1 January 2019 the following minimum requirements must be met:

- Pillar 1 requirement of: CET1 of 4.5% of RWAs; Tier 1 of 6%; and total capital of 8%.
- Capital buffers: 'capital conservation buffer' of 2.5% of RWAs; 'countercyclical capital buffer' of up to 2.5%; an 'other systemically important institutions buffer' for domestically or EU important institutions and if required by a member state an additional 'systemic risk buffer'.
- Minimum Tier 1 leverage ratio of 3%.

The Group is managing the changes to capital requirements from new regulation (including model changes) and the resulting impact on the Common Equity Tier 1 ratio alongside its strategy of risk reduction and deleveraging. This is principally being achieved through the transfers/sales of countries and businesses to RBS plc and other interested parties, the continued run-off and disposal of assets and deleveraging in the Group's businesses.

The overall impacts of the regulatory changes are fully factored into the capital plans of the Group and its businesses.

Banking Union: Single Supervisory Mechanism

On 15 October 2013, the EU Council formally adopted the Regulation on the Single Supervisory Mechanism (SSM) which became operational on 4 November 2014. The SSM is a new framework for banking supervision in Europe with the aims of ensuring the safety and soundness of the European banking system and increasing financial integration and stability in Europe.

The European Central Bank has to ensure that credit institutions not only meet the minimum prudential capital requirements set by the CRR/CRD IV but also have an additional buffer reflecting their individual intrinsic risk profile. This is organised through the SSM. The SSM has to ensure that credit institutions have sufficient capital to cover unexpected losses or survive severe stressed economic and market conditions. The joint capital decision is the key outcome of the Supervisory Review and Evaluation Process. In this process, the supervisor reviews the governance and internal control arrangements used by each individual bank to manage its risks (i.e. the Internal Capital Adequacy Assessment Process).

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Overall this framework governs relations between the European Central Bank (ECB), national supervisors and banks and is an important step towards banking union in the EU.

Starting late in 2013 and prior to the adoption of the SSM on 4 November 2014 a comprehensive assessment of significant banks in the euro area (including the Group) was conducted by the ECB. The Group successfully passed the comprehensive assessment which was a rigorous “financial health check” that included a comprehensive risk assessment, a detailed asset quality review and a stress test. The results of the comprehensive assessment were made public by the ECB in October 2014.

*unaudited

Tax charge for 2014 was €58 million compared with €12 million in 2013.

Financial review ***Capital and risk management***

Capital management* continued

Governance and approach

The Group Asset and Liability Management Committee (ALCo) is responsible for ensuring the Group maintains adequate capital at all times. The ALCo manages and plans the Group capital levels taking into account current and projected capital levels and provides input to and oversees capital levels agreed in the annual Internal Capital Adequacy Assessment Process (ICAAP).

ALCo also plans and manages capital interaction with RBS Group. Such interaction would include, amongst other matters, ALCo considerations around the Group's strategic asset sales/transfers to RBS Group which would need to be capital neutral to RBS Group and are required to be structured in such way so as to satisfy DNB, ECB and PRA regulatory requirements. The ALCo is in turn ultimately governed by the Group's Managing Board who approve both ALCo and ICAAP capital management decisions.

Determining appropriate capital

The Group aims to maintain an appropriate level of capital to meet its business needs (which include requirements of its parent company RBS Group) and its regulatory requirements and to operate within an agreed risk appetite. Determination of appropriate capital levels involves regular ALCo capital monitoring and planning, budgeting cycle forecasts, and an annual ICAAP. Capital plans are subjected to governance reviews, Managing Board oversight and approval and the review by the appropriate supervisory authority.

Through the annual ICAAP process, the Group makes a determination of its desired capital levels based on maintaining a target external credit rating and risk appetite within both current and emerging regulatory requirements. Desired capital levels are evaluated through the application of both internally and externally defined stress tests that quantify changes in capital ratios under a range of scenarios. The stress tests are also used to identify management and recovery actions that the Group would expect to implement should such eventualities arise. These stress assessments are a key part of capital management and contingency planning and therefore complement agreed capital buffers.

Monitoring and maintenance

The Group operates a rigorous capital planning process via ALCo aimed at ensuring the capital position is controlled within the agreed parameters. This incorporates regular re-forecasts of the capital position of the Group. In the event that the projected position deteriorates beyond acceptable levels, the Group would revise business plans accordingly. The Group is managing the changes to capital requirements from new regulation and model changes and the resulting impact on the Common Equity Tier 1 ratio, focusing on risk reduction and deleveraging. This is principally being achieved through the transfers to RBS plc, the continued run-off and disposal of assets and deleveraging in the Group as it focuses on the most productive returns on capital.

The overall impacts of the regulatory changes are fully factored into the capital plans of Group and its businesses.

Capital allocation

Capital resources are allocated to the Group's businesses based on both key performance parameters agreed by the RBS Group Board in an annual strategic planning process and the requirements of strategic asset transfer programmes and capital allocation requirements determined in consultation with RBS Group.

The Group has regard to the supervisory requirements of De Nederlandsche Bank (DNB) and the ECB under the SSM. The DNB/ECB uses the capital ratio as a measure of capital adequacy in the Netherlands and Eurozone banking sector, comparing a bank's capital resources with its RWAs (the assets and off-balance sheet exposures are weighted to reflect the inherent credit and other risks).

*unaudited

Financial review ***Capital and risk management***

Capital management* continued

Capital ratios and risk-weighted assets

The Group aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements. The Group's capital ratios and RWAs are set out below.

	2015	2014
	CRR	CRR
	transitional basis	transitional basis
Capital ratios	%	%
Common Equity Tier 1	21.1	16.2
Tier 1	30.1	24.5
Total	42.5	33.9
Risk-weighted assets	€m	€m
Credit risk	15,033	18,179
Market risk	897	1,182
Operational risk	463	732
Settlement risk	—	28
	16,393	20,121

With effect from 1 January 2014 the Group is regulated under the CRD IV package of Basel III. Since 2014 the Credit Valuation Adjustment RWA charge was part of credit risk. As from December 2015 this was captured within the market risk line in the above table, the amount is €139 million. The corresponding amount for 2014 was €298 million.

The Group has used the basic indicator approach since 2013 to calculate the operational risk capital charge. Within risk-weighted assets €9,350 million is included as a consequence of the proportional consolidation of the 40% interest in Saudi Hollandi Bank. This amount is made up of €9,324 million in credit risk and €26 million in market risk.

Tax charge for 2014 was €58 million compared with €12 million in 2013.

Tax charge for 2014 was €58 million compared with €12 million in 2013.

*unaudited

Tax charge for 2014 was €58 million compared with €12 million in 2013.

Financial review ***Capital and risk management***

Capital Management* continued		
Capital resources and flow statement		
The Group's regulatory capital resources were as follows:		
	2015	2014
	CRR	CRR
	transitional basis	transitional basis
	€m	€m
Tier 1		
Controlling interests	3,662	3,473
Adjustment for:		
- Goodwill and other intangible assets	(3)	(44)
- Unrealised losses on available-for-sale debt securities	9	54
- Unrealised gains on available-for-sale equities	(7)	(7)
- Other regulatory adjustments	(195)	(225)
Common Equity Tier 1	3,466	3,251
Trust preferred securities	3,006	2,686
Disallowed Tier 1 Capital	(1,538)	(1,008)
Total Tier 1 capital	4,934	4,929
Tier 2		
Subordinated debt	891	1,043
Disallowed Tier 1 Capital	1,538	1,008
Disqualified Tier 2 Capital	(237)	—
Deductions from Tier 2 capital	(166)	(153)
Total Tier 2 capital	2,026	1,898
Total regulatory capital	6,960	6,827

The table below analyses the movement in Common Equity Tier 1 capital during the year.	
	€m
At 1 January 2015	3,251
Regulatory adjustment: fair value changes in own credit spreads	29
Foreign currency reserves	87
Loss of non-controlling interest and reduction in goodwill	41

Tax charge for 2014 was €58 million compared with €12 million in 2013.

Attributable loss	(6)
Other	64
At 31 December 2015	3,466
*unaudited	

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Financial review ***Capital and risk management***

Liquidity and funding risk

Definition

Liquidity risk is the risk that the Group is unable to meet its financial obligations, including financing wholesale maturities or customer deposit withdrawals, as and when they fall due.

As one of the operating entities of the RBS Group, the Group's liquidity risk is monitored and managed centrally by the RBS Group in line with the policies and processes set by the Group's Managing Board.

Policy, framework and governance

Internal liquidity policies are designed to ensure that the Group:

- Has a clearly stated liquidity risk tolerance: Appetite for liquidity risk is set by the Board as a percentage of the Individual Liquidity Adequacy Assessment (ILAA) stressed outflows, and the Group monitors its liquidity position against this risk tolerance on a daily basis. In setting risk limits the Board considers the nature of the Group's activities, overall risk appetite, market best practice and regulatory compliance.

- Has in place strategies, polices and practices to ensure that the Group maintains sufficient liquidity: The risk management framework determines the sources of liquidity risk and the steps that can be taken when these risks exceed certain actively monitored limits. These actions include when and how to use the liquid asset portfolio, and what other adjustments to the balance sheet should be undertaken to manage these risks within the bank's risk appetite.

- Incorporates liquidity costs, benefits and risks in product pricing and performance management: The Group uses internal funds transfer pricing to ensure that these costs are reflected in the measurement of business performance, and to correctly incentivise businesses to source the most appropriate mix of funding.

The Asset and Liability Management Committee (ALCo) sets and reviews the liquidity risk management framework and limits within the risk appetite set by the Managing Board. ALCo oversees the implementation of liquidity management across the Group.

Tax charge for 2014 was €58 million compared with €12 million in 2013.

In setting risk limits the Group Board takes into account the nature of the Group's various activities, the Group's overall risk appetite and regulatory compliance.

RBS Holdings N.V.

Tax charge for 2014 was €58 million compared with €12 million in 2013.

Financial review ***Capital and risk management***

Liquidity and funding risk continued

Regulatory oversight*

With effect from November 2014, the Group is subject to the European Central Bank's (ECB), supervisory regime for liquidity and each member of the Group also complies with their local regulatory framework for the assessment and management of liquidity risk as well as meeting internal standards.

Measurement and monitoring

In implementing the Group's liquidity risk management framework, a suite of tools are used to monitor, limit and stress test the risks within the balance sheet. The limits control the amount and composition of funding sources, asset and liability mismatches and funding concentrations, in addition to the level of liquidity risk.

Monitoring, reporting and internal limits are under regular review, given the need to appropriately represent and control the business through its considerable changes over time.

The Group maintains a Contingency Funding Plan (CFP), which forms the basis of analysis and management actions to be undertaken in a liquidity stress. The CFP is linked to stress test results and forms the foundation for liquidity risk limits. The CFP sets out the circumstances under which the plan would be invoked; this includes material worsening of early warning indicators. It also prescribes a communications plan, roles and responsibilities, as well as potential management actions to take in response to various levels of liquidity stress. The Group's CFP is fully integrated with the CFP of RBS Group.

Liquidity reserves

The Group's liquidity portfolio is managed centrally by RBS Group's Treasury. In addition, local liquidity reserves are the responsibility of local Treasurers who report to the Group Treasurer functionally.

Within the liquidity portfolio the Group holds cash at central banks €0.2 billion (2014 - €0.8 billion) and government securities of €3.3 billion (2014 - €1.8 billion).

Tax charge for 2014 was €58 million compared with €12 million in 2013.

Funding markets

As part of the reduction in the Group’s balance sheet, funding is now concentrated with RBS Group, which has access to a broad funding base, thereby providing funding to meet the Group’s requirements.

Funding sources					
The table below shows the Group's primary funding sources excluding repurchase agreements.					
	2015			2014	
	€m				

Tax charge for 2014 was €58 million compared with €12 million in 2013.