

**The Royal Bank of Scotland Public Limited Company
Hong Kong Branch**

Financial Disclosure Statements

30 June 2015

The Royal Bank of Scotland Public Limited Company, Hong Kong Branch
Financial Disclosure Statements for the six months ended 30 Jun 2015

In compliance with the disclosure standards set out in the “Banking (Disclosure) Rules” issued by the Hong Kong Monetary Authority (“HKMA”), the following key financial information has been provided. The information is also available at the branch of the Bank (7/F, Lincoln House, Taikoo Place, 979 King’s Road, Quarry Bay) and the Public Registry of the HKMA.

Profit and Loss Information	6 months ended 30 Jun 2015 HK\$'000	6 months ended 30 Jun 2014 HK\$'000
Interest income	304,420	415,937
Interest expense	(189,161)	(243,110)
Net interest income	115,259	172,827
Other operating income		
Net (losses)/gains arising from non-trading in foreign currencies	(1,759)	23
Net gains on available for sale securities	-	729
Net losses from other trading activities	(2,555)	(138,404)
Net fees and commission income	150,222	173,935
Others	72,628	197,222
<i>Total operating income</i>	333,795	406,332
Operating expenses	(404,478)	(671,661)
Net release for impairment losses and provision for impaired loans and receivables	-	276
<i>Loss before taxation</i>	(70,683)	(265,053)
Tax expense	-	-
Loss for the year	(70,683)	(265,053)
Balance Sheet Information	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
<i>Assets</i>		
Cash and balances with banks	666,932	467,055
Placement with banks maturing between one and twelve months	25,346	558,384
Amount due from overseas offices of the institution	24,488,481	25,130,488
Trade bills	330,119	1,318,240
Advances and other accounts	22,795,363	31,814,290
Available-for-sale securities	4,509,993	4,409,944
Other investments	604,118	628,892
Tangible fixed assets	79,936	117,984
Total assets	53,500,288	64,445,277
<i>Liabilities</i>		
Deposits and balances of banks	6,316,782	7,570,376
Deposits from customers	5,948,769	8,474,848
Amount due to overseas offices of the institution	40,040,611	46,647,753
Other accounts and provisions	1,194,126	1,752,300
Total liabilities	53,500,288	64,445,277

Additional Profit and Loss Information

	6 months ended 30 Jun 2015 HK\$'000	6 months ended 30 Jun 2014 HK\$'000
Net fees and commission income		
Fees and commission income	151,384	174,158
Fees and commission expense	(1,162)	(223)
	<u>150,222</u>	<u>173,935</u>
Other operating income - Others		
Global and regional recharge income	76,344	194,156
Net (losses)/gains on sale of loans	(4,646)	227
Others	930	2,839
	<u>72,628</u>	<u>197,222</u>
Operating expenses		
Staff expenses	(199,923)	(306,190)
Rental expenses	(16,613)	(45,091)
Losses from the disposal of fixed assets	(14,139)	(487)
Others	(173,803)	(319,893)
	<u>(404,478)</u>	<u>(671,661)</u>

Additional Balance Sheet Information

	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Advances and other accounts		
Advances to customers	21,256,411	29,814,644
Advances to banks and other financial institutions	620,184	620,448
Impairment allowances		
Collective impairment allowances [#]	-	-
Individual impairment allowances	-	-
Accrued interest receivable	48,472	47,910
Other accounts and receivables	870,296	1,331,288
	<u>22,795,363</u>	<u>31,814,290</u>

[#] Collective impairment allowances for impaired assets are made at head office level.

Provisions made by the head office against the exposures of the branch

Collective impairment allowances [#]	6,154	28,498
Individual impairment allowances	-	-
	<u>6,154</u>	<u>28,498</u>

Loan impairment allowances

Loan impairment allowances are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. A loan is impaired when there is objective evidence that events since the loan was granted have affected expected cash flows from the loan. The impairment loss is the difference between the carrying value of the loan and the present value of estimated future cash flows at the loan's original effective interest rate. There are two components to the branch's loan impairment provisions: individual and collective.

Individual impairment allowances - all impaired loans that exceed specific thresholds are individually assessed for impairment. Individually assessed loans principally comprise the branch's portfolio of commercial loans to medium and large businesses. Impairment losses are recognised as the difference between the carrying value of the loan and the discounted value of management's best estimate of future cash repayments and proceeds from any security held. These estimates take into account the customer's debt capacity and financial flexibility; the level and quality of its earnings; the amount and sources of cash flows; the industry in which the counterparty operates; and the realisable value of any security held. Estimating the quantum and timing of future recoveries involves significant judgement. The size of receipts will depend on the future performance of the borrower and the value of security, both of which will be affected by future economic conditions; additionally, collateral may not be readily marketable. The actual amount of future cash flows and the date they are received may differ from these estimates and consequently actual losses incurred may differ from those recognised in these financial statements.

[#]Collective impairment allowances - this is made up of two elements: loan impairment provisions for impaired loans that are below individual assessment thresholds (collectively assessed provisions) and for loan losses that have been incurred but have not been separately identified at the balance sheet date (latent loss provisions). Collectively assessed provisions are established on a portfolio basis using a present value methodology taking into account the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates and the related average life. The Royal Bank of Scotland Public Limited Company, (Hong Kong) Branch does not have portfolio subjected to collectively assessed provisions. Latent loss provisions are held against estimated impairment losses in the performing portfolio that have yet to be identified as at the balance sheet date. To assess the latent loss within its portfolios, the Group has developed methodologies to estimate the time that an asset can remain impaired within a performing portfolio before it is identified and reported as such. Latent loss provisions are provided at head office level.

	30 Jun 2015	31 Dec 2014
	HK\$'000	HK\$'000
<i>Deposits from customers</i>		
Demand deposits and current accounts	4,030,844	5,567,135
Savings deposits	632,050	1,255,598
Time, call and notice deposits	1,285,875	1,652,115
	<hr/> 5,948,769	<hr/> 8,474,848
<i>Other accounts and provisions</i>		
Accrued interest payable	32,346	35,629
Other accounts and payables	1,161,780	1,716,671
	<hr/> 1,194,126	<hr/> 1,752,300
	<hr/> <hr/>	<hr/> <hr/>

Analysis of impaired loans

Upon adoption of HKAS39, the concept of suspended interest and non-performing advances are no longer relevant as interest is recognized on the recoverable element of impaired advances. Impaired advances are incurred if there is objective evidence of impairment resulting from loss event and the loss event has an impact on the estimated future cash flows of the advances that can be reliably estimated.

As at 30 Jun 2015 and 31 December 2014, there were no impaired advances to customers, banks and other accounts.

Analysis of overdue advances

As at 30 Jun 2015 and 31 December 2014, there were no overdue advances to customers and banks.

Analysis of rescheduled advances to customers

There were no rescheduled advances to customers which have been overdue for more than 3 months included in the above "Analysis of overdue advances to customers" as at 30 June 2015 and 31 December 2014.

As at 30 June 2015 and 31 December 2014, there were no rescheduled advances to banks.

Overdue other assets

As at 30 June 2015 and 31 December 2014, there were no overdue other assets.

Repossessed assets

As at 30 June 2015 and 31 December 2014, there were no repossessed assets.

Off-balance sheet exposures

<i>Contractual/ notional amounts of each of the following class of off-balance sheet exposures outstanding:</i>	30 Jun 2015 HK\$'000	31 Dec 2014 HK\$'000
Contingent liabilities and commitments		
Direct credit substitutes	-	242,530
Transaction-related contingencies	414,813	584,768
Trade-related contingencies	172,828	1,594,912
Other commitments	14,477,773	16,779,999
Forward forward deposits placed	38,214	1,419,641
	15,103,628	20,621,850
Derivatives and others		
Exchange rate contracts	60,552,960	70,186,300
Interest rate contracts	161,256	595,851
	60,714,216	70,782,151

The contract amount of these instruments indicates the volume of transactions outstanding as at the balance sheet date. They do not represent the value at risk.

	30 Jun 2015 HK\$'000		31 Dec 2014 HK\$'000	
	Fair value assets	Fair value liabilities	Fair value assets	Fair value liabilities
Exchange rate contracts	481,099	481,881	435,379	435,445
Interest rate contracts	-	6,901	-	8,213
	481,099	488,782	435,379	443,658

The contractual amount and fair value above do not take into account the effect of bilateral netting arrangements.

Advances to customers by industry sectors

	30 Jun 2015		31 Dec 2014	
	Gross loans and advances HK\$'000	% of gross loans covered by collateral %	Gross loans and advances HK\$'000	% of gross loans covered by collateral %
Loans for use in Hong Kong				
Industrial, commercial and financial				
Property development	1,421,478	47.24%	1,461,347	43.55%
Property investment	1,232,569	-	1,232,668	-
Electricity and gas	3,200,000	-	3,200,000	-
Wholesale and retail trade	233,672	15.91%	385,722	49.90%
Manufacturing	364,377	46.81%	906,850	65.85%
Transport and transport equipment	899,070	-	961,120	-
Information technology	49,842	-	164,342	-
Others	400,000	100%	400,000	100%
Individuals				
Other private purposes	-	-	-	-
Loans for use in Hong Kong	7,801,008	16.40%	8,712,049	20.96%
Trade finance	1,672,836	48.93%	8,648,888	32.05%
Loans for use outside Hong Kong	11,782,567	3.29%	12,453,707	6.23%
	21,256,411	11.69%	29,814,644	18.02%

Analysis of advances to customers by significant geographical area

	Gross advances to customers HK\$'000	Advances overdue for over three months HK\$'000	Impaired advances to customers HK\$'000	Individual impairment allowances HK\$'000
As at 30 Jun 2015				
Hong Kong	13,556,739	-	-	-
China	6,753,525	-	-	-
As at 31 Dec 2014				
Hong Kong	18,310,644	-	-	-
China	10,557,732	-	-	-

Significant geographical areas constitute 10% or more of the aggregate gross amount of advances to customers after taking into consideration of transfers of risks.

Analysis of International claims by significant geographical area (excluding local claims in local currency)

	Banks HK\$m	Official sector HK\$m	Non-bank financial institutions HK\$m	Non-bank private sector Non- financial private sector HK\$m	Others HK\$m	Total HK\$m
<u>As at 30 Jun 2015</u>						
Developed countries <i>of which United Kingdom</i>	24,708	-	-	-	-	24,708
Offshore centres <i>of which Hong Kong</i>	305	-	156	7,379	-	7,840
Developing Asia-Pacific <i>of which China</i>	236	-	604	6,776	-	7,616
<u>As at 31 Dec 2014</u>						
Developed countries <i>of which United Kingdom</i>	25,800	-	-	40	-	25,840
Offshore centres <i>of which Hong Kong</i>	288	-	1,119	12,003	-	13,410
Developing Asia-Pacific <i>of which China</i>	1,310	-	629	10,337	-	12,276

Significant geographical segment constitutes 10% or more of the aggregate international claims after taking into consideration of transfers of risks.

Figures of the previous period have been adjusted as for the comparison with figures of the current period.

Non-bank Mainland exposures

As at 30 Jun 2015

	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposures HK\$'m
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	6,297	169	6,466
2. Local governments, local government-owned entities and their subsidiaries and JVs	1,102	-	1,102
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	3,423	968	4,391
4. Other entities of central government not reported in item 1 above	3,998	533	4,531
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	1,762	65	1,827
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	918	103	1,021
	<u>17,500</u>	<u>1,838</u>	<u>19,338</u>
Total assets after provision	<u>53,500</u>		
On-balance sheet exposures as percentage of total assets	<u>32.71%</u>		

As at 31 Dec 2014

	On-balance sheet exposure HK\$'m	Off-balance sheet exposure HK\$'m	Total exposures HK\$'m
1. Central government, central government-owned entities and their subsidiaries and joint ventures (JVs)	10,841	868	11,709
2. Local governments, local government-owned entities and their subsidiaries and JVs	1,505	-	1,505
3. PRC nationals residing in Mainland China or other entities incorporated in Mainland China and their subsidiaries and JVs	4,590	1,597	6,187
4. Other entities of central government not reported in item 1 above	903	2,651	3,554
5. Other entities of local governments not reported in item 2 above	-	-	-
6. PRC nationals residing outside Mainland China or entities incorporated outside Mainland China where the credit is granted for use in Mainland China	4,043	417	4,460
7. Other counterparties where the exposures are considered by the reporting institution to be non-bank Mainland China exposures	1,475	186	1,661
	<u>23,357</u>	<u>5,719</u>	<u>29,076</u>
Total assets after provision	<u>64,445</u>		
On-balance sheet exposures as percentage of total assets	<u>36.24%</u>		

Figures of the previous period have been adjusted as for the comparison with figures of the current period.

Currency risks

Foreign currency exposures arising from trading, non-trading and structural positions with net position (in absolute terms) in a particular foreign currency constituting not less than 10% of the total net position in all foreign currencies are disclosed as follows:

As at 30 Jun 2015

Equivalent in millions of HK\$	USD	CNY	Total
Spot assets	41,005	47	41,052
Spot liabilities	(49,379)	(1,149)	(50,528)
Forward purchases	33,962	2,218	36,180
Forward sales	(26,168)	(1,124)	(27,292)
Net option position *	-	-	-
Net short position	(580)	(8)	(588)
Net structural position	-	604	604

As at 31 Dec 2014

Equivalent in millions of HK\$	USD	CNY	Total
Spot assets	46,410	1,508	47,918
Spot liabilities	(56,240)	(1,020)	(57,260)
Forward purchases	39,733	6,773	46,506
Forward sales	(30,523)	(7,286)	(37,809)
Net option position *	-	-	-
Net short position	(620)	(25)	(645)
Net structural position	16	629	645

* The delta equivalent approach was used for calculating the net position in options.

Liquidity risks

Liquidity information

The liquidity maintenance ratio (LMR) is calculated in accordance with the Banking (Liquidity) Rules effective from 1 January 2015. It is the first reporting period of LMR disclosure and provision of comparative figure is not available.

Average liquidity maintenance ratio for the financial period

30 Jun 2015
48.22%

The average liquidity ratio in accordance with the Fourth Schedule of the Hong Kong Banking Ordinance for the year ended 2014 is as follows:

Average liquidity ratio for the year ended

31 Dec 2014
57.42%

Liquidity risk is the risk that RBS cannot meet its actual or potential obligations in a timely manner as they fall due. Funding risk is the risk that RBS cannot maintain a diversified, stable and cost effective funding base. RBS manages its funding and liquidity risk through a formal governance structure. RBS Bank ALCO sets the global and overall strategic direction for liquidity management within the liquidity risk appetite set by the RBS Board. RBS Global Liquidity Policy sets out the governance and control framework within RBS in order to ensure effective and prudent management of liquidity, which is fundamental to the financial safety and soundness of the bank.

APAC ALCO sets the specific strategic direction for the APAC countries through regional liquidity risk framework. Hong Kong ALCO has the responsibility of setting detailed liquidity risk management framework for the country and to monitor progress and compliance. The liquidity and funding policy of the RBS Plc Hong Kong branch ensures compliance with the global policy and regulatory requirements set out in Supervisory Manual LM-2 Sound Systems and Controls for Liquidity Risk Management issued by HKMA.

RBS Plc Hong Kong branch periodically stress tests its liquidity positions and maintains a liquid assets portfolio. The branch has a Contingency Funding Plan document that sets out plan for the management of a liquidity event that may lead to a significant strain on the liquidity position of the branch.

All policy and governance documents are periodically reviewed and approved by Hong Kong ALCO.

The Royal Bank of Scotland Group plc
Group Information (consolidated basis)

	30 Jun 2015	31 Dec 2014
	£'m	£'m
Capital and capital adequacy		
Shareholders equity	61,769	60,192
Capital adequacy ratio		
Tier 1 capital ratio	14.3%	13.2%
Total capital ratio	18.5%	17.1%
The risk-based capital ratios have been calculated in accordance with the Basel Capital Accord and the European Community's Capital Adequacy Directive. An allowance for market risk has been incorporated in the calculation.		
Other financial information		
	30 Jun 2015	31 Dec 2014
	£'m	£'m
Total assets	964,701	1,050,763
Total liabilities	902,932	990,571
Total liabilities (excluding subordinated liabilities)	883,249	967,666
Total loans and advances	361,792	378,238
Total customer deposits	386,773	391,639
	6 months ended	6 months ended
	30 Jun 2015	30 Jun 2014
	£'m	£'m
Group profit before tax	835	2,692
<i>Figures of the previous period have been adjusted as for the comparison with figures of the current period.</i>		

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