

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
May 06, 2011

FORM 6-K  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

Report of Foreign Private Issuer

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

For May 6, 2011

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000  
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F  X

Form 40-F  \_\_\_\_

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): \_\_\_\_\_

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): \_\_\_\_\_

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

Yes  \_\_\_\_

No  X

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

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



Condensed consolidated income statement  
for the quarter ended 31 March 2011

|   | Quarter ended             |                              |                           |
|---|---------------------------|------------------------------|---------------------------|
|   | 31<br>March<br>2011<br>£m | 31<br>December<br>2010<br>£m | 31<br>March<br>2010<br>£m |
| Interest receivable   | 5,401                     | 5,612                        | 5,692                     |
| Interest payable  | (2,100)                   | (2,032)                      | (2,150)                   |
| Net interest income   | 3,301                     | 3,580                        | 3,542                     |
| Fees and commissions receivable                             | 1,642                     | 2,052                        | 2,051                     |
| Fees and commissions payable                                | (260)                     | (449)                        | (572)                     |
| Income from trading activities                              | 835                       | 364                          | 1,766                     |
| Other operating income (excluding insurance premium income) | 391                       | 1,003                        | 447                       |
| Insurance net premium income                                | 1,149                     | 1,272                        | 1,289                     |
| Non-interest income   | 3,757                     | 4,242                        | 4,981                     |
| Total income  | 7,058                     | 7,822                        | 8,523                     |
| Staff costs   | (2,399)                   | (2,194)                      | (2,689)                   |
| Premises and equipment                                      | (571)                     | (709)                        | (535)                     |
| Other administrative expenses                               | (921)                     | (1,048)                      | (1,011)                   |
| Depreciation and amortisation                               | (424)                     | (546)                        | (482)                     |
| Write-down of goodwill and other intangible assets          | -                         | (10)                         | -                         |
| Operating expenses  | (4,315)                   | (4,507)                      | (4,717)                   |
| Profit before other operating charges and impairment losses | 2,743                     | 3,315                        | 3,806                     |
| Insurance net claims  | (912)                     | (1,182)                      | (1,136)                   |
| Impairment losses   | (1,947)                   | (2,141)                      | (2,675)                   |
| Operating loss before tax                                   | (116)                     | (8)                          | (5)                       |
| Tax (charge)/credit   | (423)                     | 3                            | (107)                     |
| Loss from continuing operations                             | (539)                     | (5)                          | (112)                     |
| Profit from discontinued operations, net of tax             | 10                        | 55                           | 313                       |
| (Loss)/profit for the period                                | (529)                     | 50                           | 201                       |
| Non-controlling interests                                   | 1                         | (38)                         | (344)                     |
| Preference share and other dividends                        | -                         | -                            | (105)                     |

|  |        |    |        |
|--|--------|----|--------|
| (Loss)/profit attributable to ordinary and B shareholders      | (528)  | 12 | (248)  |
| Basic loss per ordinary and B share from continuing operations | (0.5p) | -  | (0.2p) |

In the income statement above one-off and other items as shown on page 16 are included in the appropriate caption. A reconciliation between the income statement above and the managed view income statement on page 10 is given in Appendix 1 to this announcement.



Condensed consolidated statement of comprehensive income  
for the quarter ended 31 March 2011

|  | 31<br>March<br>2011<br>£m | 31<br>December<br>2010<br>£m | 31<br>March<br>2010<br>£m |
|--|---------------------------|------------------------------|---------------------------|
| (Loss)/profit for the period   | (529)                     | 50                           | 201                       |
| Other comprehensive (loss)/income  |                           |                              |                           |
| Available-for-sale financial assets (1)  | (37)                      | (1,132)                      | 415                       |
| Cash flow hedges   | (227)                     | (353)                        | (195)                     |
| Currency translation   | (360)                     | 34                           | 785                       |
| Actuarial gains on defined benefit plans   | -                         | 158                          | -                         |
| Other comprehensive (loss)/income before tax   | (624)                     | (1,293)                      | 1,005                     |
| Tax (charge)/credit  | 32                        | 393                          | (115)                     |
| Other comprehensive (loss)/income after tax  | (592)                     | (900)                        | 890                       |
| Total comprehensive (loss)/income for the period   | (1,121)                   | (850)                        | 1,091                     |
| Total comprehensive (loss)/income recognised in the statement of changes in equity is attributable as follows: |                           |                              |                           |
| Non-controlling interests  | (9)                       | 52                           | 325                       |
| Preference shareholders  | -                         | -                            | 105                       |
| Ordinary and B shareholders  | (1,112)                   | (902)                        | 661                       |
|  | (1,121)                   | (850)                        | 1,091                     |

Note:

(1) Analysis provided on page 84.

Key point

- The Q1 2011 currency translation movement represents the net charge on retranslating net investments in foreign operations and related currency hedging, following the weakening of the US dollar against sterling since the year end.



Condensed consolidated balance sheet  
at 31 March 2011

|   | 31               |                  |
|---|------------------|------------------|
|   | 31 March         | December         |
|   | 2011             | 2010             |
|   | £m               | £m               |
| Assets  |                  |                  |
| Cash and balances at central banks                | 59,591           | 57,014           |
| Net loans and advances to banks                   | 59,304           | 57,911           |
| Reverse repurchase agreements and stock borrowing | 45,148           | 42,607           |
| Loans and advances to banks                       | 104,452          | 100,518          |
| Net loans and advances to customers               | 494,148          | 502,748          |
| Reverse repurchase agreements and stock borrowing | 60,511           | 52,512           |
| Loans and advances to customers                   | 554,659          | 555,260          |
| Debt securities                                   | 231,384          | 217,480          |
| Equity shares                                     | 22,212           | 22,198           |
| Settlement balances                               | 23,006           | 11,605           |
| Derivatives                                       | 361,048          | 427,077          |
| Intangible assets                                 | 14,409           | 14,448           |
| Property, plant and equipment                     | 15,846           | 16,543           |
| Deferred tax                                      | 6,299            | 6,373            |
| Prepayments, accrued income and other assets      | 11,355           | 12,576           |
| Assets of disposal groups                         | 8,992            | 12,484           |
| <b>Total assets</b>                               | <b>1,413,253</b> | <b>1,453,576</b> |
| Liabilities                                       |                  |                  |
| Bank deposits                                     | 63,829           | 66,051           |
| Repurchase agreements and stock lending           | 39,615           | 32,739           |
| Deposits by banks                                 | 103,444          | 98,790           |
| Customer deposits                                 | 428,474          | 428,599          |
| Repurchase agreements and stock lending           | 90,432           | 82,094           |
| Customer accounts                                 | 518,906          | 510,693          |
| Debt securities in issue                          | 215,968          | 218,372          |
| Settlement balances                               | 21,394           | 10,991           |
| Short positions                                   | 50,065           | 43,118           |
| Derivatives                                       | 360,625          | 423,967          |
| Accruals, deferred income and other liabilities   | 23,069           | 23,089           |
| Retirement benefit liabilities                    | 2,257            | 2,288            |
| Deferred tax                                      | 2,094            | 2,142            |
| Insurance liabilities                             | 6,754            | 6,794            |
| Subordinated liabilities                          | 26,515           | 27,053           |
| Liabilities of disposal groups                    | 6,376            | 9,428            |
| <b>Total liabilities</b>                          | <b>1,337,467</b> | <b>1,376,725</b> |
| Equity  |                  |                  |



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|                                   |           |           |
|-----------------------------------|-----------|-----------|
| Non-controlling interests         | 1,710     | 1,719     |
| Owners' equity*                   |           |           |
| Called up share capital           | 15,156    | 15,125    |
| Reserves                          | 58,920    | 60,007    |
| Total equity                      | 75,786    | 76,851    |
| Total liabilities and equity      | 1,413,253 | 1,453,576 |
| * Owners' equity attributable to: |           |           |
| Ordinary and B shareholders       | 69,332    | 70,388    |
| Other equity owners               | 4,744     | 4,744     |
|                                   | 74,076    | 75,132    |

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Commentary on condensed consolidated balance sheet

Total assets of £1,413.3 billion at 31 March 2011 were down £40.3 billion, 3%, compared with 31 December 2010. This principally reflects the reduction in the mark-to-market value of derivatives within Global Banking & Markets and the continuing planned disposal of Non-Core assets, offset in part by higher settlement balances as a result of increased customer activity from seasonal year-end lows.

Loans and advances to banks increased by £3.9 billion, 4%, to £104.5 billion including reverse repurchase agreements and stock borrowing ('reverse repos'), up £2.5 billion, 6%, to £45.2 billion and bank placings up £1.4 billion, 2%, to £59.3 billion.

Loans and advances to customers declined £0.6 billion to £554.7 billion. Within this, reverse repurchase agreements were up £8.0 billion, 15%, to £60.5 billion. Customer lending decreased by £8.6 billion to £494.1 billion, or £513.3 billion before impairments. This reflected planned reductions in Non-Core of £7.3 billion along with declines in Global Banking & Markets, £4.7 billion and Ulster Bank, £0.4 billion. These were partially offset by growth in Global Transaction Services, £2.7 billion, UK Retail, £1.6 billion, UK Corporate, £0.8 billion and Wealth, £0.3 billion, together with the effect of exchange rate and other movements.

Debt securities were up £13.9 billion, 6%, to £231.4 billion, driven mainly by increased holdings of government bonds within Global Banking & Markets.

Settlement asset balances rose £11.4 billion, 98%, to £23.0 billion as a result of increased customer activity from seasonal year-end lows.

Movements in the value of derivative assets, down £66.0 billion, 15%, to £361.0 billion, and liabilities, down £63.3 billion 15% to £360.6 billion, primarily reflect decreases in interest rate contracts, higher interest rates and the net effect of currency movements, with Sterling strengthening against the US dollar but weakening against the Euro.

The reduction in assets and liabilities of disposal groups primarily resulted from the completion of parts of the RBS Sempra Commodities JV business disposal.

Deposits by banks increased £4.7 billion, 5%, to £103.4 billion, with higher repurchase agreements and stock lending ('repos'), up £6.9 billion, 21%, to £39.6 billion offset by reduced inter-bank deposits, down £2.2 billion, 3%, to £63.8 billion.

Customer accounts increased £8.2 billion, 2%, to £518.9 billion. Within this, repos increased £8.3 billion, 10%, to £90.4 billion. Excluding repos, customer deposits were down £0.1 billion at £428.5 billion, reflecting decreases in Global Banking & Markets, £2.2 billion, offset by growth in Wealth, £1.1 billion, UK Corporate, £0.6 billion, Non-Core £0.4 billion and Ulster Bank £0.3 billion, together with exchange and other movements.

Settlement liability balances were up £10.4 billion, 95%, to £21.4 billion and short positions rose £6.9 billion, 16% to £50.1 billion due to increased customer activity from seasonal year-end lows.

Commentary on condensed consolidated balance sheet

Subordinated liabilities decreased by £0.5 billion, 2% to £26.5 billion. This reflected the redemption of £0.2 billion US dollar subordinated notes, together with the effect of exchange rate movements and other adjustments of £0.3 billion.

Owner's equity decreased by £1.1 billion, 1%, to £74.1 billion, driven by the £0.5 billion attributable loss for the period together with movements in foreign exchange reserve, £0.4 billion and cash flow hedging reserves, £0.2 billion.

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## Average balance sheet

|   | Quarter ended       |                        |
|---|---------------------|------------------------|
|   | 31<br>March<br>2011 | 31<br>December<br>2010 |
| Average yields, spreads and margins of the banking business | %                   | %                      |
| Gross yield on interest-earning assets of banking business  | 3.33                | 3.35                   |
| Cost of interest-bearing liabilities of banking business    | (1.57)              | (1.57)                 |
| Interest spread of banking business                         | 1.76                | 1.78                   |
| Benefit from interest-free funds                            | 0.27                | 0.24                   |
| Net interest margin of banking business                     | 2.03                | 2.02                   |
| Average interest rates                                      |                     |                        |
| The Group's base rate                                       | 0.50                | 0.50                   |
| London inter-bank three month offered rates                 |                     |                        |
| - Sterling  | 0.79                | 0.74                   |
| - Eurodollar  | 0.31                | 0.29                   |
| - Euro  | 1.04                | 0.96                   |

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## Average balance sheet (continued)

|  | Quarter ended<br>31 March 2011 |                |           | Quarter ended<br>31 December 2010 |                |           |
|--|--------------------------------|----------------|-----------|-----------------------------------|----------------|-----------|
|  | Average<br>balance<br>£m       | Interest<br>£m | Rate<br>% | Average<br>balance<br>£m          | Interest<br>£m | Rate<br>% |
| <b>Assets</b>                              |                                |                |           |                                   |                |           |
| Loans and advances<br>to banks             | 64,021                         | 172            | 1.09      | 61,826                            | 167            | 1.07      |
| Loans and advances<br>to<br>customers      | 474,177                        | 4,593          | 3.93      | 481,973                           | 4,757          | 3.92      |
| Debt securities                            | 120,380                        | 638            | 2.15      | 117,581                           | 654            | 2.21      |
| <b>Interest-earning<br/>assets -</b>       |                                |                |           |                                   |                |           |
| banking business                           | 658,578                        | 5,403          | 3.33      | 661,380                           | 5,578          | 3.35      |
| Trading business                           | 279,164                        |                |           | 276,306                           |                |           |
| Non-interest earning<br>assets             | 507,209                        |                |           | 646,384                           |                |           |
| Total assets                               | 1,444,951                      |                |           | 1,584,070                         |                |           |
| <b>Memo: Funded<br/>assets</b>             |                                |                |           |                                   |                |           |
|  | 1,066,690                      |                |           | 1,072,447                         |                |           |
| <b>Liabilities</b>                         |                                |                |           |                                   |                |           |
| Deposits by banks                          | 66,671                         | 259            | 1.58      | 70,567                            | 287            | 1.61      |
| Customer accounts                          | 329,825                        | 831            | 1.02      | 333,895                           | 928            | 1.10      |
| Debt securities in<br>issue                | 175,585                        | 846            | 1.95      | 189,751                           | 825            | 1.72      |
| Subordinated<br>liabilities                | 25,078                         | 170            | 2.75      | 27,756                            | 203            | 2.90      |
| Internal funding of<br>trading<br>business | (52,013)                       | 8              | (0.06)    | (63,213)                          | (30)           | 0.19      |
| <b>Interest-bearing<br/>liabilities -</b>  |                                |                |           |                                   |                |           |
| banking business                           | 545,146                        | 2,114          | 1.57      | 558,756                           | 2,213          | 1.57      |
| Trading business                           | 301,753                        |                |           | 288,431                           |                |           |
| Non-interest-bearing<br>liabilities        |                                |                |           |                                   |                |           |
| - demand deposits                          | 63,701                         |                |           | 67,707                            |                |           |

|   |           |           |
|---|-----------|-----------|
| - other liabilities                     | 459,981   | 593,802   |
| Owners' equity                          | 74,370    | 75,374    |
| Total liabilities and<br>Owners' equity | 1,444,951 | 1,584,070 |

## Notes:

- (1) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
- (2) Interest-earning assets and interest-bearing liabilities exclude the Retail bancassurance long-term assets and liabilities, attributable to policyholders, in view of their distinct nature. As a result, net interest income has been increased by nil for Q1 2011 (Q4 2010 - £2 million).
- (3) Interest receivable has been decreased by £1 million for Q1 2011 (Q4 2010 - £1 million) and interest payable has been increased by nil for Q1 2011 (Q4 2010 - £1 million) to exclude the RFS Holdings minority interest. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (4) Interest receivable has been increased by £3 million for Q1 2011 (Q4 2010 - £35 million decrease) and interest payable has been increased by £29 million for Q1 2011 (Q4 2010 - £45 million decrease) to record interest on financial assets and liabilities designated as at fair value through profit or loss. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (5) Interest payable has been decreased by £15 million for Q1 2011 (Q4 2010 - increased by £225 million) in respect of non-recurring adjustments.



Condensed consolidated statement of changes in equity  
for the quarter ended 31 March 2011

|  | Quarter ended             |                              |                           |
|--|---------------------------|------------------------------|---------------------------|
|  | 31<br>March<br>2011<br>£m | 31<br>December<br>2010<br>£m | 31<br>March<br>2010<br>£m |
| Called-up share capital                    |                           |                              |                           |
| At beginning of period                     | 15,125                    | 15,030                       | 14,630                    |
| Ordinary shares issued                     | 31                        | 121                          | 401                       |
| Preference shares redeemed                 | -                         | 1                            | -                         |
| Cancellation of non-voting deferred shares | -                         | (27)                         | -                         |
| At end of period                           | 15,156                    | 15,125                       | 15,031                    |
| Paid-in equity                             |                           |                              |                           |
| At beginning and end of period             | 431                       | 431                          | 565                       |
| Share premium account                      |                           |                              |                           |
| At beginning of period                     | 23,922                    | 23,858                       | 23,523                    |
| Ordinary shares issued                     | -                         | 64                           | 217                       |
| At end of period                           | 23,922                    | 23,922                       | 23,740                    |
| Merger reserve                             |                           |                              |                           |
| At beginning of period                     | 13,272                    | 13,272                       | 25,522                    |
| Transfer to retained earnings              | -                         | -                            | (12,250)                  |
| At end of period                           | 13,272                    | 13,272                       | 13,272                    |
| Available-for-sale reserve                 |                           |                              |                           |
| At beginning of period                     | (2,037)                   | (1,242)                      | (1,755)                   |
| Unrealised gains/(losses)                  | 162                       | (1,148)                      | 528                       |
| Realised (gains)/losses                    | (197)                     | 16                           | (147)                     |
| Tax  | 9                         | 337                          | (153)                     |
| At end of period                           | (2,063)                   | (2,037)                      | (1,527)                   |
| Cash flow hedging reserve                  |                           |                              |                           |
| At beginning of period                     | (140)                     | 119                          | (252)                     |
| Amount recognised in equity                | 14                        | (149)                        | (11)                      |
| Amount transferred from equity to earnings | (241)                     | (197)                        | 10                        |
| Tax  | 53                        | 87                           | (19)                      |
| At end of period                           | (314)                     | (140)                        | (272)                     |





Condensed consolidated statement of changes in equity  
for the quarter ended 31 March 2011 (continued)

|   | Quarter ended             |                              |                           |
|---|---------------------------|------------------------------|---------------------------|
|   | 31<br>March<br>2011<br>£m | 31<br>December<br>2010<br>£m | 31<br>March<br>2010<br>£m |
| Foreign exchange reserve  |                           |                              |                           |
| At beginning of period  | 5,138                     | 5,085                        | 4,528                     |
| Retranslation of net assets   | (429)                     | -                            | 1,109                     |
| Foreign currency gains/(losses) on hedges of net assets                           | 76                        | (6)                          | (420)                     |
| Tax   | (31)                      | 34                           | 12                        |
| Recycled to profit or loss on disposal of businesses                              | -                         | 25                           | -                         |
| At end of period  | 4,754                     | 5,138                        | 5,229                     |
| Capital redemption reserve  |                           |                              |                           |
| At beginning of period  | 198                       | 172                          | 170                       |
| Preference shares redeemed  | -                         | (1)                          | -                         |
| Cancellation of non-voting deferred shares  | -                         | 27                           | -                         |
| At end of period  | 198                       | 198                          | 170                       |
| Contingent capital reserve  |                           |                              |                           |
| At beginning and end of period  | (1,208)                   | (1,208)                      | (1,208)                   |
| Retained earnings   |                           |                              |                           |
| At beginning of period  | 21,239                    | 20,904                       | 12,134                    |
| (Loss)/profit attributable to ordinary and B shareholders and other equity owners |                           |                              |                           |
| - continuing operations   | (530)                     | 12                           | (139)                     |
| - discontinued operations   | 2                         | -                            | (4)                       |
| Equity preference dividends paid  | -                         | -                            | (105)                     |
| Transfer from merger reserve  | -                         | -                            | 12,250                    |
| Actuarial gains/(losses) recognised in retirement benefit schemes                 |                           |                              |                           |
| - gross   | -                         | 158                          | -                         |
| - tax   | -                         | (71)                         | -                         |
| Purchase of non-controlling interests   | -                         | (38)                         | -                         |
| Shares issued under employee share schemes  | (41)                      | (2)                          | (7)                       |
| Share-based payments  |                           |                              |                           |
| - gross   | 38                        | 282                          | 35                        |
| - tax   | 5                         | (6)                          | -                         |

|  |        |        |        |
|--|--------|--------|--------|
| At end of period                           | 20,713 | 21,239 | 24,164 |
| Own shares held                            |        |        |        |
| At beginning of period                     | (808)  | (821)  | (121)  |
| Shares disposed/(purchased)                | 12     | 11     | (374)  |
| Shares issued under employee share schemes | 11     | 2      | 7      |
| At end of period                           | (785)  | (808)  | (488)  |
| Owners' equity at end of period            | 74,076 | 75,132 | 78,676 |

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Condensed consolidated statement of changes in equity  
for the quarter ended 31 March 2011 (continued)

|  | Quarter ended             |                              |                           |
|--|---------------------------|------------------------------|---------------------------|
|  | 31<br>March<br>2011<br>£m | 31<br>December<br>2010<br>£m | 31<br>March<br>2010<br>£m |
| Non-controlling interests  |                           |                              |                           |
| At beginning of period   | 1,719                     | 1,780                        | 16,895                    |
| Currency translation adjustments and other movements   | (7)                       | 15                           | 96                        |
| (Loss)/profit attributable to non-controlling interests  |                           |                              |                           |
| - continuing operations  | (9)                       | (17)                         | 27                        |
| - discontinued operations  | 8                         | 55                           | 317                       |
| Dividends paid   | -                         | 17                           | (2,674)                   |
| Movements in available-for-sale securities   |                           |                              |                           |
| - unrealised gains/(losses)  | 1                         | (2)                          | 25                        |
| - realised (gains)/losses  | (3)                       | 1                            | 9                         |
| - tax  | 1                         | -                            | (3)                       |
| Movements in cash flow hedging reserves  |                           |                              |                           |
| - amounts recognised in equity   | -                         | (21)                         | (195)                     |
| - amounts transferred from equity to earnings  | -                         | -                            | 1                         |
| - tax  | -                         | 6                            | 48                        |
| - recycled to profit or loss on disposal of discontinued operations  | -                         | 15                           | -                         |
| Equity raised  | -                         | 58                           | 511                       |
| Equity withdrawn and disposals   | -                         | (188)                        | (4,693)                   |
| At end of period   | 1,710                     | 1,719                        | 10,364                    |
| Total equity at end of period  | 75,786                    | 76,851                       | 89,040                    |
| Total comprehensive (loss)/income recognised in the statement of changes in equity is attributable as follows: |                           |                              |                           |
| Non-controlling interests  | (9)                       | 52                           | 325                       |
| Preference shareholders  | -                         | -                            | 105                       |
| Ordinary and B shareholders  | (1,112)                   | (902)                        | 661                       |
|  | (1,121)                   | (850)                        | 1,091                     |

## Notes

## 1. Basis of preparation

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. Accordingly, the Interim Management Statement for the quarter ended 31 March 2011 has been prepared on a going concern basis.

## 2. Accounting policies

The annual accounts are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) of the IASB as adopted by the European Union (EU) (together IFRS). The Group's Financial Statements are prepared in accordance with IFRS as issued by the IASB. There have been no significant changes to the Group's principal accounting policies as set out on pages 275 to 283 of the 2010 Annual Report and Accounts.

## Notes (continued)

## 3. Analysis of income, expenses and impairment losses

|  | Quarter ended             |                              |                           |
|--|---------------------------|------------------------------|---------------------------|
|  | 31<br>March<br>2011<br>£m | 31<br>December<br>2010<br>£m | 31<br>March<br>2010<br>£m |
| Loans and advances to customers        | 4,593                     | 4,755                        | 4,697                     |
| Loans and advances to banks            | 172                       | 167                          | 140                       |
| Debt securities                        | 636                       | 690                          | 855                       |
| Interest receivable                    | 5,401                     | 5,612                        | 5,692                     |
| Customer accounts                      | 831                       | 926                          | 868                       |
| Deposits by banks                      | 259                       | 288                          | 297                       |
| Debt securities in issue               | 817                       | 866                          | 854                       |
| Subordinated liabilities               | 185                       | (18)                         | 200                       |
| Internal funding of trading businesses | 8                         | (30)                         | (69)                      |
| Interest payable                       | 2,100                     | 2,032                        | 2,150                     |
| Net interest income                    | 3,301                     | 3,580                        | 3,542                     |
| Fees and commissions receivable        | 1,642                     | 2,052                        | 2,051                     |
| Fees and commissions payable           |                           |                              |                           |
| - banking                              | (181)                     | (392)                        | (466)                     |
| - insurance related                    | (79)                      | (57)                         | (106)                     |



|  |       |       |       |
|--|-------|-------|-------|
| Net fees and commissions   | 1,382 | 1,603 | 1,479 |
| Foreign exchange   | 203   | 217   | 449   |
| Interest rate  | 893   | (165) | 954   |
| Credit   | (492) | 83    | (23)  |
| Other  | 231   | 229   | 386   |
| Income from trading activities   | 835   | 364   | 1,766 |
| Operating lease and other rental income  | 322   | 369   | 343   |
| Changes in fair value of own debt  | (294) | 472   | (210) |
| Changes in the fair value of securities and other financial assets and liabilities | 68    | (83)  | 14    |
| Changes in the fair value of investment properties                                 | (25)  | (293) | (3)   |
| Profit/(loss) on sale of securities  | 236   | (10)  | 148   |
| Profit on sale of property, plant and equipment                                    | 11    | 29    | 9     |
| (Loss)/profit on sale of subsidiaries and associates                               | (29)  | 511   | 70    |
| Life business (losses)/profits   | (2)   | 29    | 35    |
| Dividend income  | 15    | 11    | 20    |
| Share of profits less losses of associated entities                                | 7     | 14    | 22    |
| Other income   | 82    | (46)  | (1)   |
| Other operating income   | 391   | 1,003 | 447   |
| Non-interest income (excluding insurance net premium income)                       | 2,608 | 2,970 | 3,692 |
| Insurance net premium income   | 1,149 | 1,272 | 1,289 |
| Total non-interest income  | 3,757 | 4,242 | 4,981 |
| Total income   | 7,058 | 7,822 | 8,523 |

Notes (continued)

### 3. Analysis of income, expenses and impairment losses (continued)

|  | Quarter ended |          |       |
|--|---------------|----------|-------|
|  | 31            | 31       | 31    |
|  | March         | December | March |
|  | 2011          | 2010     | 2010  |
|  | £m            | £m       | £m    |

Staff costs

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|  |       |       |       |
|--|-------|-------|-------|
| - wages, salaries and other staff costs            | 2,059 | 1,859 | 2,294 |
| - bonus tax  | 11    | 15    | 54    |
| - social security costs                            | 192   | 166   | 194   |
| - pension costs                                    | 137   | 154   | 147   |
|  | 2,399 | 2,194 | 2,689 |
| Premises and equipment                             | 571   | 709   | 535   |
| Other  | 921   | 1,048 | 1,011 |
| Administrative expenses                            | 3,891 | 3,951 | 4,235 |
| Write-down of goodwill and other intangible assets | -     | 10    | -     |
| Depreciation and amortisation                      | 424   | 546   | 482   |
| Operating expenses                                 | 4,315 | 4,507 | 4,717 |
| General insurance                                  | 912   | 1,151 | 1,107 |
| Bancassurance                                      | -     | 31    | 29    |
| Insurance net claims                               | 912   | 1,182 | 1,136 |
| Loan impairment losses                             | 1,898 | 2,155 | 2,602 |
| Securities impairment losses                       | 49    | (14)  | 73    |
| Impairment losses                                  | 1,947 | 2,141 | 2,675 |

Note:

A reconciliation between key line items within the income statements on page 10 and page 57 is shown in Appendix 1 to this announcement.

Notes (continued)

4. Loan impairment provisions

Operating profit/(loss) is stated after charging loan impairment losses of £1,898 million (31 December 2010 - £2,155 million). The balance sheet loan impairment provisions increased in the quarter ended 31 March 2011 from £18,182 million to £19,258 million and the movements thereon were:

|  | Quarter ended<br>31 March 2011 |                |             | Quarter ended<br>31 December 2010 |                |             |
|--|--------------------------------|----------------|-------------|-----------------------------------|----------------|-------------|
|  | Core<br>£m                     | Non-Core<br>£m | Total<br>£m | Core<br>£m                        | Non-Core<br>£m | Total<br>£m |
| At beginning of period                     | 7,866                          | 10,316         | 18,182      | 7,791                             | 9,879          | 17,670      |
| Transfers to disposal groups               | -                              | (9)            | (9)         | -                                 | (5)            | (5)         |
| Intra-group transfers                      | 177                            | (177)          | -           | (217)                             | 217            | -           |
| Currency translation and other adjustments | 56                             | 95             | 151         | 147                               | (235)          | (88)        |
| Disposals                                  | -                              | -              | -           | -                                 | (3)            | (3)         |

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|  |       |        |        |       |        |         |
|--|-------|--------|--------|-------|--------|---------|
| Amounts written-off                          | (514) | (438)  | (952)  | (745) | (771)  | (1,516) |
| Recoveries of amounts previously written-off | 39    | 80     | 119    | 29    | 67     | 96      |
| Charge to income statement                   | 852   | 1,046  | 1,898  | 912   | 1,243  | 2,155   |
| Unwind of discount                           | (60)  | (71)   | (131)  | (51)  | (76)   | (127)   |
| At end of period                             | 8,416 | 10,842 | 19,258 | 7,866 | 10,316 | 18,182  |

Provisions at 31 March 2011 include £130 million (31 December 2010 - £127 million) in respect of loans and advances to banks.

The table above excludes impairment charges relating to securities.

5. Strategic disposals

|   | Quarter ended |                  |               |
|---|---------------|------------------|---------------|
|   | 31 March 2011 | 31 December 2010 | 31 March 2010 |
|   | £m            | £m               | £m            |
| (Loss)/gain on sale and provision for loss on disposal of investments in: |               |                  |               |
| - RBS Asset Management's investment strategies business                   | -             | -                | 80            |
| - Global Merchant Services  | 47            | 837              | -             |
| - Non-Core project finance assets   | -             | (221)            | -             |
| - Other   | (70)          | (114)            | (27)          |
|   | (23)          | 502              | 53            |



Notes (continued)

## 6. Tax

The (charge)/credit for tax differs from the tax credit computed by applying the standard UK corporation tax rate of 26.5% (2010 - 28%) as follows:

|   | Quarter ended             |                              |                           |
|---|---------------------------|------------------------------|---------------------------|
|   | 31<br>March<br>2011<br>£m | 31<br>December<br>2010<br>£m | 31<br>March<br>2010<br>£m |
| Loss before tax   | (116)                     | (8)                          | (5)                       |
| Tax credit based on the standard UK<br>corporation tax rate of 26.5% (2010-28%) | 31                        | 2                            | 1                         |
| Unrecognised timing differences   | 5                         | 11                           | (52)                      |
| Items not allowed for tax   |                           |                              |                           |
| - losses on strategic disposals and write<br>downs                              | (3)                       | (129)                        | (6)                       |
| - other   | (40)                      | (190)                        | (25)                      |
| Non-taxable items   |                           |                              |                           |
| - gain on sale of Global Merchant Services                                      | 12                        | 221                          | -                         |
| - gain on redemption of own debt  | -                         | (1)                          | -                         |
| - other   | 12                        | 240                          | 2                         |
| Taxable foreign exchange movements  | 2                         | 2                            | -                         |
| Foreign profits taxed at other rates  | (200)                     | (131)                        | (124)                     |
| UK tax rate change - deferred tax impact  | (87)                      | 8                            | -                         |
| Losses in period where no deferred tax asset<br>recognised                      | (166)                     | (96)                         | (83)                      |
| Losses brought forward and utilised   | 16                        | (8)                          | 8                         |
| Adjustments in respect of prior periods   | (5)                       | 74                           | 172                       |
| Actual tax (charge)/credit  | (423)                     | 3                            | (107)                     |

The high charge in the first three months of 2011 reflects profits in high tax regimes (principally US) and losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland and the Netherlands) and the effect of the reduction of 1% in the rate of UK Corporation Tax enacted in March 2011 on the net deferred tax balance.

The combined effect of the Irish tax losses and the 1% change in the standard rate of UK corporation tax accounts for £331 million (73%) of the difference between the actual tax charge and the tax credit derived from applying the standard UK Corporation Tax rate to the results for the period.

The Group has recognised a deferred tax asset at 31 March 2011 of £6,299 million (31 December 2010 - £6,373 million), of which £3,770 million (31 December 2010 - £3,849 million) relates to carried forward trading losses in the UK. Under UK tax legislation, these UK losses can be carried forward indefinitely to be utilised against profits arising in the future. The Group has considered the carrying value of this asset as at 31 March 2011 and concluded that it is recoverable based on future profit projections.

Notes (continued)

## 7. (Loss)/profit attributable to non-controlling interests

|   | Quarter ended |          |       |
|---|---------------|----------|-------|
|   | 31            | 31       | 31    |
|   | March         | December | March |
|   | 2011          | 2010     | 2010  |
|   | £m            | £m       | £m    |
| Trust preferred securities                              | -             | -        | 10    |
| RBS Sempra Commodities JV                               | (9)           | (11)     | -     |
| ABN AMRO  |               |          |       |
| - RFS Holdings minority interest                        | 10            | 49       | 332   |
| - other   | -             | (1)      | -     |
| RBS Life Holdings                                       | -             | 9        | 4     |
| Other   | (2)           | (8)      | (2)   |
| (Loss)/profit attributable to non-controlling interests | (1)           | 38       | 344   |

## 8. Earnings per ordinary and B share

Earnings per ordinary and B share have been calculated based on the following:

|  | Quarter ended |          |         |
|--|---------------|----------|---------|
|  | 31            | 31       | 31      |
|  | March         | December | March   |
|  | 2011          | 2010     | 2010    |
|  | £m            | £m       | £m      |
| Earnings   |               |          |         |
| (Loss)/profit from continuing operations attributable to ordinary and B shareholders   | (530)         | 12       | (244)   |
| Profit/(loss) from discontinued operations attributable to ordinary and B shareholders | 2             | -        | (4)     |
| Ordinary shares in issue during the period (millions)                                  | 56,798        | 56,166   | 56,238  |
| B shares in issue during the period (millions)   | 51,000        | 51,000   | 51,000  |
| Weighted average number of ordinary and B shares in issue during the period (millions) | 107,798       | 107,166  | 107,238 |
|  | (0.5p)        | -        | (0.2p)  |

|   |      |        |      |
|---|------|--------|------|
| Basic loss per ordinary and B share from continuing operations  |      |        |      |
| Fair value of own debt  | 0.3p | (0.4p) | 0.1p |
| Asset Protection Scheme credit default swap - fair value changes  | 0.3p | 0.5p   | 0.3p |
| Amortisation of purchased intangible assets   | -    | 0.1p   | -    |
| Integration and restructuring costs   | 0.2p | 0.3p   | 0.1p |
| Strategic disposals   | -    | (0.5p) | -    |
| Bonus tax   | -    | -      | 0.1p |
| Adjusted earnings per ordinary and B share from continuing operations   | 0.3p | -      | 0.4p |
| Loss from Non-Core attributable to ordinary and B shareholders  | 0.3p | 0.4p   | 0.9p |
| Core adjusted earnings per ordinary and B share from continuing operations  | 0.6p | 0.4p   | 1.3p |
| Core impairment losses  | 0.3p | 0.3p   | 0.5p |
| Pre-impairment Core adjusted earnings per ordinary and B share  | 0.9p | 0.7p   | 1.8p |
| Memo: Core adjusted earnings per ordinary and B share from continuing operations assuming normalised tax rate of 26.5% (2010 - 28.0%) | 1.4p | 1.1p   | 1.5p |

Notes (continued)

## 9. Segmental analysis

Analysis of divisional operating profit/(loss)

The following tables provide an analysis of the divisional profit/(loss) for the quarters ended 31 March 2011, 31 December 2010 and 31 March 2010, by main income statement captions. The divisional income statements on pages 22 to 56 reflect certain presentational reallocations as described in the notes below. These do not affect the overall operating profit/(loss).

| Quarter ended 31            | Net interest income | Non-interest income | Total Operating income | Operating expenses | Insurance net claims | Impairment losses | Operating profit/(loss) |
|-----------------------------|---------------------|---------------------|------------------------|--------------------|----------------------|-------------------|-------------------------|
| March 2011                  | £m                  | £m                  | £m                     | £m                 | £m                   | £m                | £m                      |
| UK Retail                   | 1,076               | 304                 | 1,380                  | (678)              | -                    | (194)             | 508                     |
| UK Corporate                | 689                 | 332                 | 1,021                  | (423)              | -                    | (105)             | 493                     |
| Wealth                      | 167                 | 114                 | 281                    | (196)              | -                    | (5)               | 80                      |
| Global Transaction Services | 260                 | 282                 | 542                    | (335)              | -                    | (20)              | 187                     |

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|  |       |       |       |         |       |         |         |
|--|-------|-------|-------|---------|-------|---------|---------|
| Ulster Bank  | 169   | 51    | 220   | (136)   | -     | (461)   | (377)   |
| US Retail & Commercial   | 451   | 243   | 694   | (504)   | -     | (110)   | 80      |
| Global Banking & Markets (1)   | 180   | 2,200 | 2,380 | (1,306) | -     | 24      | 1,098   |
| RBS Insurance (2)  | 88    | 982   | 1,070 | (219)   | (784) | -       | 67      |
| Central items  | (28)  | (13)  | (41)  | (1)     | -     | (1)     | (43)    |
| Core   | 3,052 | 4,495 | 7,547 | (3,798) | (784) | (872)   | 2,093   |
| Non-Core (3)   | 250   | 236   | 486   | (323)   | (128) | (1,075) | (1,040) |
|  | 3,302 | 4,731 | 8,033 | (4,121) | (912) | (1,947) | 1,053   |
| Fair value of own debt (4)   | -     | (480) | (480) | -       | -     | -       | (480)   |
| Asset Protection Scheme credit default swap - fair value changes (5) | -     | (469) | (469) | -       | -     | -       | (469)   |
| Amortisation of purchased intangible assets                          | -     | -     | -     | (44)    | -     | -       | (44)    |
| Integration and restructuring costs                                  | (2)   | (4)   | (6)   | (139)   | -     | -       | (145)   |
| Strategic disposals  | -     | (23)  | (23)  | -       | -     | -       | (23)    |
| Bonus tax  | -     | -     | -     | (11)    | -     | -       | (11)    |
| RFS Holdings minority interest                                       | 1     | 2     | 3     | -       | -     | -       | 3       |
| Total statutory  | 3,301 | 3,757 | 7,058 | (4,315) | (912) | (1,947) | (116)   |

## Notes:

- (1) Reallocation of £13 million between net interest income and non-interest income in respect of funding costs of rental assets, £10 million and to record interest on financial assets and liabilities designated as at fair value profit or loss, £3 million.
- (2) Total income includes £64 million investment income, £53 million in net interest income and £11 million in non-interest income. Reallocation of £35 million between non-interest income and net interest income in respect of instalment income.
- (3) Reallocation of £53 million between net interest income and non-interest income in respect of funding costs of rental assets, £51 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £2 million.
- (4) Comprises £186 million loss included in 'Income from trading activities' and £294 million loss included in 'Other operating income' on a statutory basis.
- (5) Included in 'Income from trading activities' on a statutory basis.







Notes (continued)

## 9. Segmental analysis (continued)

Analysis of divisional operating profit/(loss) (continued)

| Quarter ended 31  | Net<br>interest<br>income | Non-<br>interest<br>income | Total<br>income | Operating<br>expenses | Insurance<br>net claims | Impairment<br>losses | Operating<br>profit/(loss) |
|---|---------------------------|----------------------------|-----------------|-----------------------|-------------------------|----------------------|----------------------------|
| December 2010   | £m                        | £m                         | £m              | £m                    | £m                      | £m                   | £m                         |
| UK Retail (1)   | 1,088                     | 402                        | 1,490           | (679)                 | (31)                    | (222)                | 558                        |
| UK Corporate<br>Wealth  | 653                       | 330                        | 983             | (431)                 | -                       | (219)                | 333                        |
|   | 160                       | 111                        | 271             | (178)                 | -                       | (6)                  | 87                         |
| Global Transaction<br>Services  | 263                       | 375                        | 638             | (368)                 | -                       | (3)                  | 267                        |
| Ulster Bank   | 187                       | 56                         | 243             | (138)                 | -                       | (376)                | (271)                      |
| US Retail &<br>Commercial   | 467                       | 231                        | 698             | (529)                 | -                       | (105)                | 64                         |
| Global Banking &<br>Markets (2)   | 214                       | 1,373                      | 1,587           | (1,065)               | -                       | 5                    | 527                        |
| RBS Insurance (3)   | 96                        | 1,016                      | 1,112           | (223)                 | (898)                   | -                    | (9)                        |
| Central items   | 92                        | 24                         | 116             | 11                    | (8)                     | (4)                  | 115                        |
| Core  | 3,220                     | 3,918                      | 7,138           | (3,600)               | (937)                   | (930)                | 1,671                      |
| Non-Core (4)  | 358                       | (37)                       | 321             | (481)                 | (245)                   | (1,211)              | (1,616)                    |
|   | 3,578                     | 3,881                      | 7,459           | (4,081)               | (1,182)                 | (2,141)              | 55                         |
| Fair value of own<br>debt (5)   | -                         | 582                        | 582             | -                     | -                       | -                    | 582                        |
| Asset Protection<br>Scheme credit<br>default swap - fair<br>value changes (6) | -                         | (725)                      | (725)           | -                     | -                       | -                    | (725)                      |
| Amortisation of<br>purchased<br>intangible assets                             | -                         | -                          | -               | (96)                  | -                       | -                    | (96)                       |
| Integration and<br>restructuring costs  | -                         | -                          | -               | (299)                 | -                       | -                    | (299)                      |
| Strategic disposals   | -                         | 502                        | 502             | -                     | -                       | -                    | 502                        |
| Bonus tax   | -                         | -                          | -               | (15)                  | -                       | -                    | (15)                       |
| Write-down of<br>goodwill and<br>intangible assets                            | -                         | -                          | -               | (10)                  | -                       | -                    | (10)                       |
| RFS Holdings<br>minority interest   | 2                         | 2                          | 4               | (6)                   | -                       | -                    | (2)                        |

|                 |       |       |       |         |         |         |     |
|-----------------|-------|-------|-------|---------|---------|---------|-----|
| Total statutory | 3,580 | 4,242 | 7,822 | (4,507) | (1,182) | (2,141) | (8) |
|-----------------|-------|-------|-------|---------|---------|---------|-----|

## Notes:

- (1) Reallocation of bancassurance claims of £31 million from non-interest income.
- (2) Reallocation of £31 million between net interest income and non-interest income in respect of funding costs of rental assets, £11 million and to record interest on financial assets and liabilities designated as at fair value profit or loss, £20 million.
- (3) Total income includes £77 million investment income, £58 million in net interest income and £19 million in non-interest income. Reallocation of £38 million between non-interest income and net interest income in respect of instalment income.
- (4) Reallocation of £61 million between net interest income and non-interest income in respect of funding costs of rental assets, £57 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £4 million.
- (5) Comprises £110 million gain included in 'Income from trading activities' and £472 million gain included in 'Other operating income' on a statutory basis.
- (6) Included in 'Income from trading activities' on a statutory basis.

## Notes (continued)

## 9. Segmental analysis (continued)

## Analysis of divisional operating profit/(loss) (continued)

|                                 | Net<br>interest<br>income | Non-<br>interest<br>income | Total<br>income | Operating<br>expenses | Insurance<br>net claims | Impairment<br>losses | Operating<br>profit/(loss) |
|---------------------------------|---------------------------|----------------------------|-----------------|-----------------------|-------------------------|----------------------|----------------------------|
| Quarter ended 31                | £m                        | £m                         | £m              | £m                    | £m                      | £m                   | £m                         |
| March 2010                      |                           |                            |                 |                       |                         |                      |                            |
| UK Retail (1)                   | 933                       | 346                        | 1,279           | (723)                 | (29)                    | (387)                | 140                        |
| UK Corporate                    | 610                       | 329                        | 939             | (435)                 | -                       | (186)                | 318                        |
| Wealth                          | 143                       | 112                        | 255             | (189)                 | -                       | (4)                  | 62                         |
| Global Transaction              |                           |                            |                 |                       |                         |                      |                            |
| Services                        | 217                       | 390                        | 607             | (374)                 | -                       | -                    | 233                        |
| Ulster Bank                     | 188                       | 53                         | 241             | (160)                 | -                       | (218)                | (137)                      |
| US Retail &<br>Commercial       | 468                       | 252                        | 720             | (537)                 | -                       | (143)                | 40                         |
| Global Banking &<br>Markets (2) | 373                       | 2,451                      | 2,824           | (1,294)               | -                       | (32)                 | 1,498                      |
| RBS Insurance (3)               | 96                        | 1,041                      | 1,137           | (221)                 | (966)                   | -                    | (50)                       |
| Central items                   | 7                         | 197                        | 204             | 142                   | (8)                     | (1)                  | 337                        |
| Core                            | 3,035                     | 5,171                      | 8,206           | (3,791)               | (1,003)                 | (971)                | 2,441                      |
| Non-Core (4)                    | 499                       | 418                        | 917             | (639)                 | (133)                   | (1,704)              | (1,559)                    |

|  |       |       |       |         |         |         |       |
|--|-------|-------|-------|---------|---------|---------|-------|
|  | 3,534 | 5,589 | 9,123 | (4,430) | (1,136) | (2,675) | 882   |
| Fair value of own debt (5)   | -     | (169) | (169) | -       | -       | -       | (169) |
| Asset Protection Scheme credit default swap - fair value changes (6) | -     | (500) | (500) | -       | -       | -       | (500) |
| Amortisation of purchased intangible assets                          | -     | -     | -     | (65)    | -       | -       | (65)  |
| Integration and restructuring costs                                  | -     | -     | -     | (168)   | -       | -       | (168) |
| Strategic disposals  | -     | 53    | 53    | -       | -       | -       | 53    |
| Bonus tax  | -     | -     | -     | (54)    | -       | -       | (54)  |
| RFS Holdings minority interest                                       | 8     | 8     | 16    | -       | -       | -       | 16    |
| Total statutory  | 3,542 | 4,981 | 8,523 | (4,717) | (1,136) | (2,675) | (5)   |

## Notes:

- (1) Reallocation of bancassurance claims of £29 million from non-interest income.
- (2) Reallocation of £6 million between net interest income and non-interest income in respect of funding costs of rental assets, £9 million and to record interest on financial assets and liabilities designated as at fair value profit or loss, £3 million.
- (3) Total income includes £51 million of investment income, £54 million in net interest income and £3 million in non-interest income. Reallocation of £42 million between non-interest income and net interest income in respect of instalment income.
- (4) Reallocation of £69 million between net interest income and non-interest income in respect of funding costs of rental assets.
- (5) Comprises £41 million gain included in 'Income from trading activities' and £210 million loss included in 'Other operating income' on a statutory basis.
- (6) Included in 'Income from trading activities' on a statutory basis.

## Notes (continued)

## 10. Financial instruments

## Classification

The following tables analyse the Group's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39: held-for-trading (HFT), designated as at fair value (DFV), available-for-sale (AFS), loans and receivables (LAR) and other financial instruments. Assets and liabilities outside the scope of IAS 39 are shown separately.

| HFT | DFV | AFS | LAR | Finance | Non | Total |
|-----|-----|-----|-----|---------|-----|-------|
|-----|-----|-----|-----|---------|-----|-------|

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| 31 March 2011                                | £m      | £m    | £m      | £m      | leases | financial<br>assets | £m        |
|--|---------|-------|---------|---------|--------|---------------------|-----------|
| Assets                                       |         |       |         |         |        |                     |           |
| Cash and balances                            |         |       |         |         |        |                     |           |
| at central banks                             | -       | -     | -       | 59,591  |        |                     | 59,591    |
| Loans and advances                           |         |       |         |         |        |                     |           |
| to banks                                     |         |       |         |         |        |                     |           |
| - reverse repos                              | 39,838  | -     | -       | 5,310   |        |                     | 45,148    |
| - other                                      | 26,377  | 6     | -       | 32,921  |        |                     | 59,304    |
| Loans and advances                           |         |       |         |         |        |                     |           |
| to customers                                 |         |       |         |         |        |                     |           |
| - reverse repos                              | 49,007  | -     | -       | 11,504  |        |                     | 60,511    |
| - other                                      | 17,540  | 1,053 | -       | 465,673 | 9,882  |                     | 494,148   |
| Debt securities                              | 113,139 | 332   | 111,128 | 6,785   |        |                     | 231,384   |
| Equity shares                                | 19,134  | 1,051 | 2,027   | -       |        |                     | 22,212    |
| Settlement balances                          | -       | -     | -       | 23,006  |        |                     | 23,006    |
| Derivatives (1)                              | 361,048 |       |         |         |        |                     | 361,048   |
| Intangible assets                            |         |       |         |         |        | 14,409              | 14,409    |
| Property, plant and equipment                |         |       |         |         |        | 15,846              | 15,846    |
| Deferred tax                                 |         |       |         |         |        | 6,299               | 6,299     |
| Prepayments, accrued income and other assets | -       | -     | -       | 1,381   |        | 9,974               | 11,355    |
| Assets of disposal groups                    |         |       |         |         |        | 8,992               | 8,992     |
|  | 626,083 | 2,442 | 113,155 | 606,171 | 9,882  | 55,520              | 1,413,253 |

For the note to this table refer to page 78.

Additional analyses on loans and advances, debt securities and derivatives are included in Risk and balance sheet management.

Notes (continued)

10. Financial instruments (continued)

Classification (continued)

| HFT | DFV | Other Finance | Non | Total |
|-----|-----|---------------|-----|-------|
|-----|-----|---------------|-----|-------|

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| 31 March 2011  | £m             | £m            | financial<br>instruments<br>(amortised<br>cost)<br>£m | leases<br>£m | financial<br>liabilities<br>£m | £m               |
|--|----------------|---------------|---|--------------|--------------------------------|------------------|
| <b>Liabilities</b>   |                |               |   |              |                                |                  |
| <b>Deposits by banks</b>   |                |               |   |              |                                |                  |
| - repos  | 24,204         | -             | 15,411  |              |                                | 39,615           |
| - other  | 25,234         | -             | 38,595  |              |                                | 63,829           |
| <b>Customer accounts</b>   |                |               |   |              |                                |                  |
| - repos  | 59,246         | -             | 31,186  |              |                                | 90,432           |
| - other  | 13,704         | 4,933         | 409,837   |              |                                | 428,474          |
| <b>Debt securities in<br/>issue</b>                                |                |               |   |              |                                |                  |
|  | 9,383          | 43,681        | 162,904   |              |                                | 215,968          |
| <b>Settlement balances</b>   |                |               |   |              |                                |                  |
|  | -              | -             | 21,394  |              |                                | 21,394           |
| <b>Short positions</b>   |                |               |   |              |                                |                  |
|  | 50,065         | -             | -   |              |                                | 50,065           |
| <b>Derivatives (1)</b>   |                |               |   |              |                                |                  |
|  | 360,625        |               |   |              |                                | 360,625          |
| <b>Accruals, deferred<br/>income<br/>and other<br/>liabilities</b> |                |               |   |              |                                |                  |
|  | -              | -             | 1,560   | 476          | 21,033                         | 23,069           |
| <b>Retirement benefit<br/>liabilities</b>                          |                |               |   |              |                                |                  |
|  |                |               | -   |              | 2,257                          | 2,257            |
| <b>Deferred tax</b>  |                |               |   |              |                                |                  |
|  |                |               | -   |              | 2,094                          | 2,094            |
| <b>Insurance liabilities</b>                                       |                |               |   |              |                                |                  |
|  |                |               | -   |              | 6,754                          | 6,754            |
| <b>Subordinated<br/>liabilities</b>                                |                |               |   |              |                                |                  |
|  |                | 1,064         | 25,451  |              | -                              | 26,515           |
| <b>Liabilities of<br/>disposal groups</b>                          |                |               |   |              |                                |                  |
|  |                |               |   |              | 6,376                          | 6,376            |
| <b>Total liabilities</b>   | <b>542,461</b> | <b>49,678</b> | <b>706,338</b>  | <b>476</b>   | <b>38,514</b>                  | <b>1,337,467</b> |
| <b>Equity</b>  |                |               |   |              |                                |                  |
|  |                |               |   |              |                                | 75,786           |
|  |                |               |   |              |                                | 1,413,253        |

For the note to this table refer to page 78.

Notes (continued)

## 10. Financial instruments (continued)

Classification (continued)

|   | HFT     | DFV   | AFS     | LAR     | Other<br>financial<br>instruments<br>(amortised<br>cost) | Finance<br>leases | Non<br>financial<br>assets/<br>liabilities | Total   |
|---|---------|-------|---------|---------|--|-------------------|--|---------|
| 31 December<br>2010                                   | £m      | £m    | £m      | £m      | £m   | £m                | £m   | £m      |
| Assets  |         |       |         |         |  |                   |  |         |
| Cash and<br>balances at<br>central banks              | -       | -     | -       | 57,014  |  |                   |  | 57,014  |
| Loans and<br>advances to<br>banks                     |         |       |         |         |  |                   |  |         |
| - reverse repos                                       | 38,215  | -     | -       | 4,392   |  |                   |  | 42,607  |
| - other   | 26,082  | -     | -       | 31,829  |  |                   |  | 57,911  |
| Loans and<br>advances to<br>customers                 |         |       |         |         |  |                   |  |         |
| - reverse repos                                       | 41,110  | -     | -       | 11,402  |  |                   |  | 52,512  |
| - other   | 19,903  | 1,100 | -       | 471,308 | 10,437   |                   |  | 502,748 |
| Debt securities                                       | 98,869  | 402   | 111,130 | 7,079   |  |                   |  | 217,480 |
| Equity shares   | 19,186  | 1,013 | 1,999   | -       |  |                   |  | 22,198  |
| Settlement<br>balances                                | -       | -     | -       | 11,605  |  |                   |  | 11,605  |
| Derivatives (1)                                       | 427,077 |       |         |         |  |                   |  | 427,077 |
| Intangible assets                                     |         |       |         |         |  |                   | 14,448                                     | 14,448  |
| Property, plant<br>and equipment                      |         |       |         |         |  |                   | 16,543                                     | 16,543  |
| Deferred tax  |         |       |         |         |  |                   | 6,373                                      | 6,373   |
| Prepayments,<br>accrued<br>income and<br>other assets | -       | -     | -       | 1,306   |  |                   | 11,270                                     | 12,576  |
| Assets of<br>disposal groups                          |         |       |         |         |  |                   | 12,484                                     | 12,484  |
|   | 670,442 | 2,515 | 113,129 | 595,935 | 10,437   | 61,118            | 1,453,576                                  |         |

Liabilities



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|   |         |        |         |     |        |           |
|---|---------|--------|---------|-----|--------|-----------|
| Deposits by banks                               |         |        |         |     |        |           |
| - repos   | 20,585  | -      | 12,154  |     |        | 32,739    |
| - other   | 28,216  | -      | 37,835  |     |        | 66,051    |
| Customer accounts                               |         |        |         |     |        |           |
| - repos   | 53,031  | -      | 29,063  |     |        | 82,094    |
| - other   | 14,357  | 4,824  | 409,418 |     |        | 428,599   |
| Debt securities in issue                        | 7,730   | 43,488 | 167,154 |     |        | 218,372   |
| Settlement balances                             | -       | -      | 10,991  |     |        | 10,991    |
| Short positions                                 | 43,118  | -      |         |     |        | 43,118    |
| Derivatives (1)                                 | 423,967 |        |         |     |        | 423,967   |
| Accruals, deferred income and other liabilities | -       | -      | 1,793   | 458 | 20,838 | 23,089    |
| Retirement benefit liabilities                  |         |        | -       |     | 2,288  | 2,288     |
| Deferred tax                                    |         |        | -       |     | 2,142  | 2,142     |
| Insurance liabilities                           |         |        | -       |     | 6,794  | 6,794     |
| Subordinated liabilities                        |         | 1,129  | 25,924  |     |        | 27,053    |
| Liabilities of disposal groups                  |         |        |         |     | 9,428  | 9,428     |
| Total liabilities                               | 591,004 | 49,441 | 694,332 | 458 | 41,490 | 1,376,725 |
| Equity  |         |        |         |     |        | 76,851    |
|   |         |        |         |     |        | 1,453,576 |

Note:

(1) Held for trading derivatives include hedging derivatives.

Notes (continued)

10. Financial instruments (continued)

Financial instruments carried at fair value

Refer to Note 12 Financial instruments - valuation of the 2010 Annual Report and Accounts for valuation techniques.

Certain aspects relating to the valuation of financial instruments carried at fair value are discussed below.

Valuation reserves

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, liquidity and credit risk.

The table below shows the valuation reserves and adjustments.

|   | 31<br>March<br>2011<br>£m | 31<br>December<br>2010<br>£m |
|---|---------------------------|------------------------------|
| Credit valuation adjustments (CVA)          |                           |                              |
| Monoline insurers                           | 2,178                     | 2,443                        |
| Credit derivative product companies (CDPCs) | 445                       | 490                          |
| Other counterparties                        | 1,629                     | 1,714                        |
|   | 4,252                     | 4,647                        |
| Bid-offer, liquidity and other reserves     | 2,931                     | 2,797                        |
|   | 7,183                     | 7,444                        |

CVA represent an estimate of the adjustment to fair value that a market participant would make to incorporate the credit risk inherent in counterparty derivative exposures.

Key points

- The decrease in monoline CVA was driven by a reduction in exposure mainly due to higher prices of underlying reference instruments (see page 108).
- The CDPC CVA reduced as exposure decreased reflecting decline in relative value of senior tranches partially offset by wider credit spreads of the underlying portfolios (see page 108).
- CVA held against exposures to other counterparties decreased due to tighter credit spreads (specifically European names), changes to risk parameters and realised defaults.

Own credit

|  | Debt Subordinated<br>securities | liabilities | Total<br>£m | Derivatives<br>£m | Total<br>£m |
|--|---------------------------------|-------------|-------------|-------------------|-------------|
|--|---------------------------------|-------------|-------------|-------------------|-------------|

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| Cumulative own credit<br>adjustment | in issue<br>£m | £m  |       |     |       |
|-------------------------------------|----------------|-----|-------|-----|-------|
| 31 March 2011                       | 1,566          | 372 | 1,938 | 447 | 2,385 |
| 31 December 2010                    | 2,091          | 325 | 2,416 | 534 | 2,950 |

| Carrying values of<br>underlying liabilities | £bn  | £bn | £bn  |
|--|------|-----|------|
| 31 March 2011                                | 53.1 | 1.1 | 54.2 |
| 31 December 2010                             | 51.2 | 1.1 | 52.3 |

Notes (continued)

## 10. Financial instruments (continued)

## Valuation hierarchy

|                                 | 31 March 2011 |         |         |       | 31 December 2010 |         |         |       |
|---------------------------------|---------------|---------|---------|-------|------------------|---------|---------|-------|
|                                 | Level 1       | Level 2 | Level 3 | Total | Level 1          | Level 2 | Level 3 | Total |
| Assets                          | £bn           | £bn     | £bn     | £bn   | £bn              | £bn     | £bn     | £bn   |
| Loans and advances to banks     |               |         |         |       |                  |         |         |       |
| - reverse repos                 | -             | 39.8    | -       | 39.8  | -                | 38.2    | -       | 38.2  |
| - collateral                    | -             | 25.3    | -       | 25.3  | -                | 25.1    | -       | 25.1  |
| - other                         | -             | 0.4     | 0.7     | 1.1   | -                | 0.6     | 0.4     | 1.0   |
|                                 | -             | 65.5    | 0.7     | 66.2  | -                | 63.9    | 0.4     | 64.3  |
| Loans and advances to customers |               |         |         |       |                  |         |         |       |
| - reverse repos                 | -             | 49.0    | -       | 49.0  | -                | 41.1    | -       | 41.1  |
| - collateral                    | -             | 12.8    | -       | 12.8  | -                | 14.4    | -       | 14.4  |
| - other                         | -             | 5.3     | 0.5     | 5.8   | -                | 6.2     | 0.4     | 6.6   |
|                                 | -             | 67.1    | 0.5     | 67.6  | -                | 61.7    | 0.4     | 62.1  |
| Debt securities                 |               |         |         |       |                  |         |         |       |
| - government                    | 117.2         | 17.8    | -       | 135.0 | 110.2            | 13.7    | -       | 123.9 |
| - MBS (1)                       | -             | 52.9    | 0.4     | 53.3  | -                | 49.5    | 0.7     | 50.2  |
| - CDOs (2)                      | -             | 0.9     | 2.4     | 3.3   | -                | 1.0     | 2.4     | 3.4   |
| - CLOs (3)                      | -             | 3.4     | 2.1     | 5.5   | -                | 3.6     | 2.1     | 5.7   |
| - other ABS (4)                 | -             | 3.6     | 1.2     | 4.8   | -                | 4.0     | 1.4     | 5.4   |
| - corporate                     | -             | 9.3     | 0.8     | 10.1  | -                | 7.7     | 0.9     | 8.6   |
| - banks and building societies  | 0.1           | 11.7    | 0.3     | 12.1  | 0.1              | 12.2    | 0.7     | 13.0  |
| - other                         | -             | 0.5     | -       | 0.5   | -                | 0.2     | -       | 0.2   |
|                                 | 117.3         | 100.1   | 7.2     | 224.6 | 110.3            | 91.9    | 8.2     | 210.4 |
| Equity shares                   | 18.6          | 2.6     | 1.0     | 22.2  | 18.4             | 2.8     | 1.0     | 22.2  |
| Derivatives                     |               |         |         |       |                  |         |         |       |
| - foreign exchange              | -             | 73.5    | 0.1     | 73.6  | -                | 83.2    | 0.1     | 83.3  |
| - interest rate                 | 0.2           | 257.4   | 1.4     | 259.0 | 1.7              | 308.3   | 1.7     | 311.7 |
| - equities and commodities      | -             | 5.2     | 0.5     | 5.7   | 0.1              | 4.9     | 0.2     | 5.2   |
| - credit - APS (5)              | -             | -       | 0.1     | 0.1   | -                | -       | 0.6     | 0.6   |

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|                  |       |       |      |       |       |       |      |       |
|------------------|-------|-------|------|-------|-------|-------|------|-------|
| - credit - other | -     | 20.0  | 2.6  | 22.6  | -     | 23.2  | 3.1  | 26.3  |
|                  | 0.2   | 356.1 | 4.7  | 361.0 | 1.8   | 419.6 | 5.7  | 427.1 |
| Total            | 136.1 | 591.4 | 14.1 | 741.6 | 130.5 | 639.9 | 15.7 | 786.1 |
| Proportion       | 18.4% | 79.7% | 1.9% | 100%  | 16.6% | 81.4% | 2.0% | 100%  |
| Of which         |       |       |      |       |       |       |      |       |
| Core             | 134.9 | 572.6 | 6.5  | 714.0 | 129.4 | 617.6 | 7.2  | 754.2 |
| Non-Core         | 1.2   | 18.8  | 7.6  | 27.6  | 1.1   | 22.3  | 8.5  | 31.9  |
| Total            | 136.1 | 591.4 | 14.1 | 741.6 | 130.5 | 639.9 | 15.7 | 786.1 |

For notes to this table refer to page 82.

Notes (continued)

## 10. Financial instruments (continued)

## Valuation hierarchy (continued)

The following table details AFS assets included in total assets on page 80.

| Assets                         | 31 March 2011 |       |       |       | 31 December 2010 |       |       |       |
|--------------------------------|---------------|-------|-------|-------|------------------|-------|-------|-------|
|                                | Level         | Level | Level | Total | Level            | Level | Level | Total |
|                                | 1             | 2     | 3     |       | 1                | 2     | 3     |       |
| £bn                            | £bn           | £bn   | £bn   | £bn   | £bn              | £bn   | £bn   |       |
| Debt securities                |               |       |       |       |                  |       |       |       |
| - government                   | 51.3          | 7.1   | -     | 58.4  | 53.0             | 6.4   | -     | 59.4  |
| - MBS (1)                      | -             | 32.8  | 0.2   | 33.0  | -                | 31.1  | 0.4   | 31.5  |
| - CDOs (2)                     | -             | 0.5   | 1.4   | 1.9   | -                | 0.6   | 1.4   | 2.0   |
| - CLOs (3)                     | -             | 3.2   | 1.2   | 4.4   | -                | 3.5   | 1.5   | 5.0   |
| - other ABS (4)                | -             | 2.5   | 1.1   | 3.6   | -                | 2.9   | 1.1   | 4.0   |
| - corporate                    | -             | 2.0   | -     | 2.0   | -                | 2.0   | -     | 2.0   |
| - banks and building societies | 0.1           | 7.7   | -     | 7.8   | 0.1              | 7.1   | -     | 7.2   |
|                                | 51.4          | 55.8  | 3.9   | 111.1 | 53.1             | 53.6  | 4.4   | 111.1 |
| Equity shares                  | 0.3           | 1.4   | 0.3   | 2.0   | 0.3              | 1.4   | 0.3   | 2.0   |
| Total                          | 51.7          | 57.2  | 4.2   | 113.1 | 53.4             | 55.0  | 4.7   | 113.1 |
| Of which                       |               |       |       |       |                  |       |       |       |
| Core                           | 51.4          | 51.4  | 0.9   | 103.7 | 52.8             | 49.2  | 1.0   | 103.0 |
| Non-Core                       | 0.3           | 5.8   | 3.3   | 9.4   | 0.6              | 5.8   | 3.7   | 10.1  |
| Total                          | 51.7          | 57.2  | 4.2   | 113.1 | 53.4             | 55.0  | 4.7   | 113.1 |

For notes to this table refer to page 82.

Notes (continued)

## 10. Financial instruments (continued)

## Valuation hierarchy (continued)

| Liabilities | 31 March 2011 |       |       |       | 31 December 2010 |       |       |       |
|-------------|---------------|-------|-------|-------|------------------|-------|-------|-------|
|             | Level         | Level | Level | Total | Level            | Level | Level | Total |
|             | 1             | 2     | 3     |       | 1                | 2     | 3     |       |
| £bn         | £bn           | £bn   | £bn   | £bn   | £bn              | £bn   | £bn   |       |

|                            |      |       |      |       |      |       |      |       |  |
|----------------------------|------|-------|------|-------|------|-------|------|-------|--|
| Deposits by banks          |      |       |      |       |      |       |      |       |  |
| - repos                    | -    | 24.2  | -    | 24.2  | -    | 20.6  | -    | 20.6  |  |
| - collateral               | -    | 23.6  | -    | 23.6  | -    | 26.6  | -    | 26.6  |  |
| - other                    | -    | 1.6   | -    | 1.6   | -    | 1.6   | -    | 1.6   |  |
|                            | -    | 49.4  | -    | 49.4  | -    | 48.8  | -    | 48.8  |  |
| Customer accounts          |      |       |      |       |      |       |      |       |  |
| - repos                    | -    | 59.2  | -    | 59.2  | -    | 53.0  | -    | 53.0  |  |
| - collateral               | -    | 8.5   | -    | 8.5   | -    | 10.4  | -    | 10.4  |  |
| - other                    | -    | 10.0  | 0.1  | 10.1  | -    | 8.7   | 0.1  | 8.8   |  |
|                            | -    | 77.7  | 0.1  | 77.8  | -    | 72.1  | 0.1  | 72.2  |  |
| Debt securities in issue   |      |       |      |       |      |       |      |       |  |
|                            | -    | 50.5  | 2.6  | 53.1  | -    | 49.0  | 2.2  | 51.2  |  |
| Short positions            | 40.4 | 8.8   | 0.9  | 50.1  | 35.0 | 7.3   | 0.8  | 43.1  |  |
| Derivatives                |      |       |      |       |      |       |      |       |  |
| - foreign exchange         | -    | 78.7  | 0.3  | 79.0  | 0.1  | 89.3  | -    | 89.4  |  |
| - interest rate            | 0.1  | 249.9 | 0.5  | 250.5 | 0.2  | 298.0 | 1.0  | 299.2 |  |
| - equities and commodities | -    | 8.7   | 0.7  | 9.4   | 0.1  | 9.6   | 0.4  | 10.1  |  |
| - credit                   | -    | 21.4  | 0.3  | 21.7  | -    | 25.0  | 0.3  | 25.3  |  |
|                            | 0.1  | 358.7 | 1.8  | 360.6 | 0.4  | 421.9 | 1.7  | 424.0 |  |
| Subordinated liabilities   |      |       |      |       |      |       |      |       |  |
|                            | -    | 1.1   | -    | 1.1   | -    | 1.1   | -    | 1.1   |  |
| Total                      | 40.5 | 546.2 | 5.4  | 592.1 | 35.4 | 600.2 | 4.8  | 640.4 |  |
| Proportion                 | 6.9% | 92.2% | 0.9% | 100%  | 5.5% | 93.7% | 0.8% | 100%  |  |
| Of which                   |      |       |      |       |      |       |      |       |  |
| Core                       | 40.5 | 536.2 | 4.4  | 581.1 | 35.4 | 586.9 | 3.8  | 626.1 |  |
| Non-Core                   | -    | 10.0  | 1.0  | 11.0  | -    | 13.3  | 1.0  | 14.3  |  |
| Total                      | 40.5 | 546.2 | 5.4  | 592.1 | 35.4 | 600.2 | 4.8  | 640.4 |  |

## Notes:

- (1) Mortgage-backed securities.
- (2) Collateralised debt obligations.
- (3) Collateralised loan obligations.
- (4) Asset-backed securities.
- (5) Asset Protection Scheme.





Notes (continued)

10. Financial instruments (continued)

Valuation hierarchy (continued)

Key points

- Total assets carried at fair value decreased by £44.5 billion in the quarter to £741.6 billion, principally in derivatives (£66.1 billion) and collateral (£1.4 billion), partially offset by higher debt securities (£14.2 billion) and reverse repos (£9.5 billion).
- Total liabilities carried at fair value decreased by £48.3 billion to £592.1 billion, mainly in derivatives (£63.4 billion) and collateral (£4.9 billion) offset by higher debt securities in issue (£1.9 billion), repos (£9.8 billion) and short positions (£7.0 billion).
- Level 3 assets decreased by £1.6 billion to £14.1 billion, mainly reflecting French bank bond disposals and increased observability and liquidity in debt securities and credit derivatives. The APS derivative decreased from £550 million to £81 million primarily due to reduction in covered assets.
- Level 3 liabilities increased by £0.6 billion to £5.4 billion primarily due to refinements to structured note classifications in RBS N.V..
- The favourable and unfavourable effects of reasonably possible alternative assumptions on level 3 instruments were £1,730 million and £1,190 million respectively excluding £660 million and £400 million relating to the APS derivative. These sensitivities are calculated at sub- portfolio level and hence these aggregated figures do not reflect the correlation between some of the sensitivities.

Notes (continued)

11. Available-for-sale financial assets

During Q1 2011 gains were realised, mainly in Group Treasury (£163 million), which were offset by adverse movements relating to IFRS volatility and other volatile Treasury items.

|                            | Quarter ended       |                        |
|----------------------------|---------------------|------------------------|
|                            | 31<br>March<br>2011 | 31<br>December<br>2010 |
| Available-for-sale reserve | £m                  | £m                     |

|                           |         |         |
|---------------------------|---------|---------|
| At beginning of period    | (2,037) | (1,242) |
| Unrealised gains/(losses) | 162     | (1,148) |
| Realised (gains)/losses   | (197)   | 16      |
| Tax                       | 9       | 337     |
| At end of period          | (2,063) | (2,037) |

The above table excludes gains attributable to non-controlling interests of £2 million (Q4 2010 - £1 million loss).

## 12. Contingent liabilities and commitments

|  | 31 March 2011 |                |             | 31 December 2010 |                |             |
|--|---------------|----------------|-------------|------------------|----------------|-------------|
|  | Core<br>£m    | Non-Core<br>£m | Total<br>£m | Core<br>£m       | Non-Core<br>£m | Total<br>£m |
| Contingent liabilities   |               |                |             |                  |                |             |
| Guarantees and assets<br>pledged as  |               |                |             |                  |                |             |
| collateral security  | 26,849        | 3,156          | 30,005      | 28,859           | 2,242          | 31,101      |
| Other contingent<br>liabilities  | 11,407        | 469            | 11,876      | 11,833           | 421            | 12,254      |
|  | 38,256        | 3,625          | 41,881      | 40,692           | 2,663          | 43,355      |
| Commitments  |               |                |             |                  |                |             |
| Undrawn formal standby<br>facilities, credit<br>lines and other<br>commitments to lend | 236,096       | 18,460         | 254,556     | 245,425          | 21,397         | 266,822     |
| Other commitments  | 953           | 2,494          | 3,447       | 1,560            | 2,594          | 4,154       |
|  | 237,049       | 20,954         | 258,003     | 246,985          | 23,991         | 270,976     |
| Total contingent<br>liabilities and<br>commitments                                     | 275,305       | 24,579         | 299,884     | 287,677          | 26,654         | 314,331     |

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material loss will arise from these transactions.

## Notes (continued)

### 13. Litigation and investigations developments

Except for the developments noted below, there have been no material changes to the litigation or investigations as disclosed in the Annual Results for the year ended 31 December 2010.

#### Personal current accounts

On 29 March 2011, the Office of Fair Trading (OFT) published its update report in relation to personal current accounts. This noted further progress in improving consumer control over the use of unarranged overdrafts. In particular, the Lending Standards Board has led on producing standards and guidance included in a revised Lending Code published on 31 March 2011. The OFT will continue to monitor the market and will consider the need for, and appropriate timing of, further update reports in light of other developments, in particular the work of the Independent Commission on Banking. The OFT intends to conduct a more comprehensive review of the market in 2012.

#### Independent Commission on Banking

On 16 June 2010, HM Treasury published the terms of reference for the Government's Independent Commission on Banking (ICB). The ICB is considering the structure of the United Kingdom banking sector and is looking at structural and non-structural measures to reform the banking system and to promote competition. It is mandated to formulate policy recommendations with a view to: (i) reducing systemic risk in the banking sector, exploring the risk posed by banks of different size, scale and function; (ii) mitigating moral hazard in the banking system; (iii) reducing the likelihood and impact of a bank's failure; and (iv) promoting competition in retail and investment banking with a view to ensuring that the needs of banks' customers are served efficiently and considering the extent to which large banks can gain competitive advantage from being perceived as "too big to fail".

The ICB published its Interim Report on 11 April 2011 which contains the ICB's suggestions for changes to the UK banking sector. The report is complex, and while its proposals have potential implications for the Group and many of its stakeholders, they require further clarification and elaboration if they are to be implemented. At this stage it is not possible to estimate the effect of the ICB's report and recommendations upon the Group, if any.

The ICB reports to the Cabinet Committee on Banking Reform and is required to produce a final report by the end of September 2011.

Notes (continued)

### 13. Litigation and investigations developments (continued)

#### US dollar clearing activities

In May 2010, following a criminal investigation by the United States Department of Justice (DoJ) into its dollar clearing activities, Office of Foreign Assets Control compliance procedures and other Bank Secrecy Act compliance matters, RBS NV formally entered into a Deferred Prosecution Agreement (DPA) with the DoJ resolving the investigation. The investigation was in relation to activities before the Consortium Members acquired ABN AMRO Holding N.V. (now known as RBS Holdings N.V.). The agreement was signed by RBS NV and is binding on that entity and its subsidiaries. Pursuant to the DPA, RBS NV paid a penalty of US\$500 million and agreed that it will comply with the terms of the DPA and continue to co-operate fully with any further investigations. Payment of the penalty was made from a provision established in April 2007 when an agreement in principle to settle was first announced. At the joint request of the DoJ and RBS NV, in order to allow RBS NV sufficient time to fulfil its obligations, the U.S. District Court, on 6 April 2011, extended the duration of the DPA until 31 December 2011. Upon satisfaction of the conditions of the DPA within that period, the matter will be fully resolved. Failure to comply with the terms of the DPA could result in the DoJ recommencing its investigations, the outcome of which would be uncertain and could result in public censure and fines or have an adverse effect on RBS Holdings N.V.'s operations, any of which could have a material adverse effect on its business, reputation, results of operation and financial condition.

#### Payment Protection Insurance (PPI)

Following unsuccessful negotiations with the industry, the Financial Services Authority (FSA) issued consultation papers on PPI complaint handling and redress in September 2009 and again in March 2010. The FSA published its final policy statement on 10 August 2010 and instructed firms to implement the measures contained in it by 1 December 2010. The new rules impose significant changes with respect to the handling of mis-selling PPI complaints. On 8 October 2010, the British Bankers' Association (BBA) filed an application for judicial review of the FSA's policy statement and of related guidance issued by the Financial Ombudsman Service (FOS). The application was heard in January 2011. On 20 April 2011 the High Court issued judgment in favour of the FSA and the FOS. The BBA is considering whether to appeal the judgment. At this time, the Group is unable reliably to estimate any potential financial liability, although it could prove to be material.

#### LIBOR Investigation

The US Commodity Futures Trading Commission, the US Securities and Exchange Commission and the European Commission are conducting investigations into the submission of various LIBOR rates by relevant panel banks. As a panel bank in each instance, RBS Group is co-operating with these investigations and is keeping other relevant regulators informed. It is not possible to estimate with any certainty what effect these investigations and any related developments may have on the Group.

### 14. Other developments

#### Bank levy

The UK bank levy announced in the June 2010 Budget has been included in the Finance Bill 2011 published in March 2011. The levy is an annual charge based on period-end equity and liabilities. The legislation has yet to be enacted and no amounts have been accrued for the levy in the Group's Q1 2011 results. The estimated cost for 2011 is in the region of £350 million to £400 million.

Notes (continued)

14. Other developments (continued)

Proposed transfers of a substantial part of the business activities of RBS N.V. to The Royal Bank of Scotland plc (RBS plc)

On 19 April 2011, the Group announced its intention to transfer a substantial part of the business activities of RBS N.V. to RBS plc (the "Proposed Transfers"), subject, amongst other matters, to regulatory and other approvals, further tax and other analysis in respect of the assets and liabilities to be transferred and employee consultation procedures.

The Proposed Transfers will streamline the manner in which the GBM and GTS businesses of the Group interact with clients with simplified access to the GBM and GTS product suites.

It is expected that the Proposed Transfers will be implemented on a phased basis over a period ending 31 December 2013. A large part of the Proposed Transfers (including the transfers of certain securities issued by RBS N.V.) is expected to have taken place by the end of 2012.

Rating agencies

The Group and RBS plc's long term and short term ratings have remained unchanged in the quarter. On 9 March 2011, Standard & Poor's affirmed the A+ counterparty rating of RBS plc and upgraded its standalone credit profile from BBB+ to A-. The agency highlighted that they expect RBS plc's standalone credit profile to move toward the A+ counterparty rating by 2012 if continued progress is made, following the strategic plan. The counterparty rating contains 2 notches of uplift to account for the systemic importance of RBS.

Gender equality in insurance contracts

On 1 March 2011, the European Court of Justice (ECJ) upheld a ruling that insurers are no longer allowed to use gender as a rating factor across the insurance industry. This will have a significant impact on the insurance industry in calculating premiums and determining benefits. The Group is currently working through the findings, and any consequences arising will be rectified by December 2012 in line with the ruling from the ECJ. At this stage, it is not possible to estimate the impact which the ECJ's ruling may have on the Group's businesses, financial position or profitability.

15. Date of approval

This announcement was approved by the Board of directors on 5 May 2011.

16. Post balance sheet events

There have been no significant events between 31 March 2011 and the date of approval of this announcement which would require a change to or additional disclosure in the announcement.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 6 May 2011

THE ROYAL BANK OF  
SCOTLAND GROUP plc  
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill  
Title: Deputy Secretary