

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
November 05, 2010

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 November 5, 2010

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 balance sheet  
at 30 September 2010 – pro forma

|   | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 31<br>December<br>2009<br>£m |
|---|-------------------------------|-----------------------|------------------------------|
| <b>Assets</b>                                     |                               |                       |                              |
| Cash and balances at central banks                | 61,416                        | 29,591                | 51,548                       |
| Net loans and advances to banks                   | 60,330                        | 54,471                | 48,777                       |
| Reverse repurchase agreements and stock borrowing | 48,407                        | 47,663                | 35,097                       |
| Loans and advances to banks                       | 108,737                       | 102,134               | 83,874                       |
| Net loans and advances to customers               | 528,049                       | 539,340               | 554,654                      |
| Reverse repurchase agreements and stock borrowing | 44,503                        | 39,396                | 41,040                       |
| Loans and advances to customers                   | 572,552                       | 578,736               | 595,694                      |
| Debt securities                                   | 226,410                       | 236,260               | 249,095                      |
| Equity shares                                     | 21,755                        | 17,326                | 15,960                       |
| Settlement balances                               | 22,874                        | 20,718                | 12,024                       |
| Derivatives                                       | 548,805                       | 522,871               | 438,199                      |
| Intangible assets                                 | 14,369                        | 14,482                | 14,786                       |
| Property, plant and equipment                     | 17,398                        | 17,608                | 17,773                       |
| Deferred taxation                                 | 5,907                         | 5,841                 | 6,492                        |
| Prepayments, accrued income and other assets      | 11,903                        | 13,630                | 18,604                       |
| Assets of disposal groups                         | 16,537                        | 21,656                | 18,432                       |
| <b>Total assets</b>                               | <b>1,628,663</b>              | <b>1,580,853</b>      | <b>1,522,481</b>             |
| <b>Liabilities</b>                                |                               |                       |                              |
| Bank deposits                                     | 80,186                        | 96,614                | 115,642                      |
| Repurchase agreements and stock lending           | 41,465                        | 44,165                | 38,006                       |
| Deposits by banks                                 | 121,651                       | 140,779               | 153,648                      |
| Customer deposits                                 | 420,639                       | 420,890               | 414,251                      |
| Repurchase agreements and stock lending           | 87,287                        | 70,655                | 68,353                       |
| Customer accounts                                 | 507,926                       | 491,545               | 482,604                      |
| Debt securities in issue                          | 235,083                       | 217,317               | 246,329                      |
| Settlement balances                               | 20,628                        | 19,730                | 10,412                       |
| Short positions                                   | 44,004                        | 42,994                | 40,463                       |
| Derivatives                                       | 543,397                       | 508,966               | 421,534                      |
| Accruals, deferred income and other liabilities   | 23,650                        | 24,842                | 24,624                       |
| Retirement benefit liabilities                    | 2,606                         | 2,600                 | 2,715                        |
| Deferred taxation                                 | 2,237                         | 2,126                 | 2,161                        |
| Insurance liabilities                             | 6,782                         | 6,521                 | 7,633                        |
| Subordinated liabilities                          | 27,890                        | 27,523                | 31,538                       |

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|                                   |           |           |           |
|-----------------------------------|-----------|-----------|-----------|
| Liabilities of disposal groups    | 15,667    | 16,999    | 18,857    |
| Total liabilities                 | 1,551,521 | 1,501,942 | 1,442,518 |
| Equity                            |           |           |           |
| Minority interests                | 1,542     | 2,109     | 2,227     |
| Owners' equity*                   | 75,600    | 76,802    | 77,736    |
| Total equity                      | 77,142    | 78,911    | 79,963    |
| Total liabilities and equity      | 1,628,663 | 1,580,853 | 1,522,481 |
| * Owners' equity attributable to: |           |           |           |
| Ordinary and B shareholders       | 70,856    | 72,058    | 69,890    |
| Other equity owners               | 4,744     | 4,744     | 7,846     |
|                                   | 75,600    | 76,802    | 77,736    |

RBS Group – Q3 2010 Results

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Commentary on condensed consolidated balance sheet – pro forma

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Total assets of £1,628.7 billion at 30 September 2010 were up £47.8 billion, 3%, compared with 30 June 2010.

Cash and balances at central banks were up £31.8 billion, 108% to £61.4 billion.

Loans and advances to banks increased by £6.6 billion, 6%, to £108.7 billion. Reverse repurchase agreements and stock borrowing ('reverse repos') were up £0.7 billion, 2% to £48.4 billion and bank placings rose £5.9 billion, 11%, to £60.3 billion as a result of increased placings on the inter-bank markets.

Loans and advances to customers were down £6.2 billion, 1%, at £572.6 billion. Within this, reverse repos were up £5.1 billion, 13%, to £44.5 billion. Excluding reverse repos, customer lending decreased by £11.3 billion, 2%, to £528.0 billion or £9.8 billion before impairment provisions. This reflected reductions, in constant currency terms, in Non-Core of £6.8 billion, together with declines in UK Corporate, £1.7 billion, Global Transaction Services, £1.2 billion, Global Banking & Markets, £1.2 billion and US Retail & Commercial, £1.1 billion together with the effect of exchange rate movements, £0.2 billion. These were offset by growth in UK Retail, £1.9 billion, and Wealth, £0.6 billion.

Equity shares increased £4.4 billion, 26%, to £21.8 billion driven by increased holdings within Global Banking & Markets.

Settlement balances rose £2.2 billion, 10%, to £22.9 billion as a result of customer activity principally within Global Banking & Markets.

Movements in the value of derivative assets, up £25.9 billion, 5%, to £548.8 billion, and liabilities, up £34.4 billion, 7%, to £543.4 billion, primarily reflect changes in interest rates, currency movements, with Sterling strengthening against the US dollar offset in part by weakening against the Euro, and growth in trading volumes.

Assets of disposal groups reduced by £5.1 billion, 24%, to £16.5 billion resulting primarily from the completion of disposals of RBS Sempra's Oil, Metals and European Gas & Power business, the Eurosales Finance businesses in France and Germany and certain of the Group's Asian and Latin American businesses.

Deposits by banks declined £19.1 billion, 14%, to £121.7 billion, reflecting reduced inter-bank deposits, down £16.4 billion, 17%, to £80.2 billion and decreased repurchase agreements and stock lending ('repos'), down £2.7 billion, 6%, to £41.5 billion.

Customer accounts rose £16.4 billion, 3%, to £507.9 billion. Within this, repos increased £16.6 billion, 24%, to £87.3 billion. Excluding repos, customer deposits were down £0.2 billion, to £420.6 billion, with reductions, in constant currency terms, in Global Banking & Markets, £4.8 billion, Wealth, £1.4 billion and Ulster Bank, £0.2 billion, together with the effect of exchange rate movements of £1.5 billion. This was partially offset by growth in UK Corporate, £2.6 billion, Global Transaction Services, £2.3 billion, UK Retail, £1.4 billion and US Retail & Commercial, £1.1 billion.



Commentary on condensed consolidated balance sheet – pro forma

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Debt securities in issue were up £17.8 billion, 8%, to £235.1 billion, principally as a result of the Group's capital raising programme in the third quarter, coupled with movements in Global Banking & Markets.

Liabilities of disposal groups declined £1.3 billion, 8%, to £15.7 billion primarily reflecting the completion of several disposals in the quarter.

Owners' equity reduced by £1.2 billion, 2%, to £75.6 billion. The attributable loss for the period, £1.1 billion, and exchange rate movements, £0.7 billion, were offset in part by an increase in cash flow hedging reserves, £0.4 billion, and reduced losses in available-for-sale reserves, £0.2 billion.

RBS Group – Q3 2010 Results

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Condensed consolidated statement of changes in equity  
for the period ended 30 September 2010 – pro forma

|  | Nine months<br>ended<br>30<br>September<br>2010<br>£m | Six<br>months<br>ended<br>30 June<br>2010<br>£m | Year<br>ended<br>31<br>December<br>2009<br>£m |
|--|---|---|---|
| Called-up share capital  |   |   |   |
| At beginning of period   | 14,630  | 14,630  | 9,898   |
| Ordinary shares issued in respect of placing and open offers                             | -   | -   | 4,227   |
| B shares issued  | -   | -   | 510   |
| Other shares issued during the period  | 402   | 401   | -   |
| Preference shares redeemed during the period   | (2)   | (2)   | (5)   |
| At end of period   | 15,030  | 15,029  | 14,630  |
| Paid-in equity   |   |   |   |
| At beginning of period   | 565   | 565   | 1,073   |
| Securities redeemed during the period  | (132)   | (132)   | (308)   |
| Transfer to retained earnings  | (2)   | (2)   | (200)   |
| At end of period   | 431   | 431   | 565   |
| Share premium account  |   |   |   |
| At beginning of period   | 23,523  | 23,523  | 27,471  |
| Ordinary shares issued in respect of placing and open offer, net of £95 million expenses | -   | -   | 1,047   |
| Other shares issued during the period  | 217   | 217   | -   |
| Preference shares redeemed during the period   | -   | -   | (4,995)                                       |
| Redemption of preference shares classified as debt                                       | 118   | 118   | -   |
| At end of period   | 23,858  | 23,858  | 23,523  |
| Merger reserve   |   |   |   |
| At beginning of period   | 25,522  | 25,522  | 10,881  |
| Issue of B shares, net of £399 million expenses  | -   | -   | 24,591  |
| Transfer to retained earnings  | (12,250)  | (12,250)  | (9,950)                                       |
| At end of period   | 13,272  | 13,272  | 25,522  |
| Available-for-sale reserves  |   |   |   |
| At beginning of period   | (1,755)   | (1,755)   | (3,561)                                       |

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|  |         |         |         |
|--|---------|---------|---------|
| Unrealised gains in the period   | 1,327   | 647     | 1,202   |
| Realised (gains)/losses in the period  | (535)   | (127)   | 981     |
| Taxation   | (263)   | (208)   | (377)   |
| Recycled to profit or loss on disposal of businesses, net of £6 million tax  | (16)    | (16)    | -       |
| At end of period   | (1,242) | (1,459) | (1,755) |
| Cash flow hedging reserve  |         |         |         |
| At beginning of period   | (252)   | (252)   | (876)   |
| Amount recognised in equity during the period                                | 329     | (58)    | 380     |
| Amount transferred from equity to earnings in the period                     | 138     | 17      | 513     |
| Taxation   | (154)   | -       | (269)   |
| Recycled to profit or loss on disposal of businesses, net of £20 million tax | 58      | 58      | -       |
| At end of period   | 119     | (235)   | (252)   |

RBS Group – Q3 2010 Results

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Condensed consolidated statement of changes in equity  
for the period ended 30 September 2010 – pro forma (continued)

|   | Nine<br>months<br>ended<br>30<br>September<br>2010<br>£m | Six<br>months<br>ended<br>30 June<br>2010<br>£m | Year<br>ended<br>31<br>December<br>2009<br>£m |
|---|--|---|---|
| <b>Foreign exchange reserve</b>   |  |   |   |
| At beginning of period  | 4,528  | 4,528   | 6,385   |
| Retranslation of net assets   | 997  | 1,775   | (2,322)                                       |
| Foreign currency (losses)/gains on hedges of net assets                     | (452)  | (609)   | 456   |
| Taxation  | 29   | 72  | 9   |
| Recycled to profit or loss on disposal of businesses                        | (17)   | (11)  | -   |
| At end of period  | 5,085  | 5,755   | 4,528   |
| <b>Capital redemption reserve</b>   |  |   |   |
| At beginning of period  | 170  | 170   | 170   |
| Preference shares redeemed during the period                                | 2  | 2   | -   |
| At end of period  | 172  | 172   | 170   |
| <b>Contingent capital reserve</b>   |  |   |   |
| At beginning of period  | (1,208)  | (1,208)   | -   |
| Contingent capital agreement – consideration payable                        | -  | -   | (1,208)                                       |
| At end of period  | (1,208)  | (1,208)   | (1,208)                                       |
| <b>Retained earnings</b>  |  |   |   |
| At beginning of period  | 12,134   | 12,134  | 7,542   |
| (Loss)/profit attributable to ordinary shareholders and other equity owners |  |   |   |
| - continuing operations   | (985)  | 163   | (2,600)                                       |
| - discontinued operations   | (28)   | (30)  | (72)  |
| Equity preference dividends paid  | (105)  | (105)   | (878)   |
| Paid-in equity dividends paid, net of tax                                   | (19)   | (19)  | (57)  |
| Transfer from paid-in equity  |  |   |   |
| - gross   | 2  | 2   | 200   |
| - taxation  | (1)  | (1)   | -   |
| Equity owners gain on withdrawal of minority interest                       |  |   |   |
| - gross   | 40   | 40  | 629   |
| - taxation  | (11)   | (11)  | (176)   |
| Redemption of equity preference shares                                      | (2,968)  | (2,968)   | -   |
| Gain on redemption of equity preference shares                              | 609  | 609   | -   |

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|  |        |        |         |
|--|--------|--------|---------|
| Redemption of preference shares classified as debt                 | (118)  | (118)  | -       |
| Transfer from merger reserve                                       | 12,250 | 12,250 | 9,950   |
| Actuarial losses recognised in retirement benefit schemes          |        |        |         |
| - gross  | -      | -      | (3,756) |
| - taxation   | -      | -      | 1,043   |
| Net cost of shares bought and used to satisfy share-based payments | (11)   | (9)    | (16)    |
| Share-based payments   |        |        |         |
| - gross  | 103    | 61     | 325     |
| - taxation   | 12     | 5      | -       |
| At end of period   | 20,904 | 22,003 | 12,134  |
| Own shares held  |        |        |         |
| At beginning of period   | (121)  | (121)  | (104)   |
| Shares purchased during the period                                 | (711)  | (704)  | (33)    |
| Shares issued under employee share schemes                         | 11     | 9      | 16      |
| At end of period   | (821)  | (816)  | (121)   |
| Owners' equity at end of period                                    | 75,600 | 76,802 | 77,736  |

Condensed consolidated statement of changes in equity  
for the period ended 30 September 2010 – pro forma (continued)

|  | Nine<br>months<br>ended<br>30<br>September<br>2010<br>£m | Six<br>months<br>ended<br>30 June<br>2010<br>£m | Year<br>ended<br>31<br>December<br>2009<br>£m |
|--|--|---|---|
| Minority interests                                   |  |   |   |
| At beginning of period                               | 2,227  | 2,227   | 5,436   |
| Currency translation adjustments and other movements | 57   | 91  | (152)   |
| Profit attributable to minority interests            | 72   | 42  | 648   |
| Dividends paid                                       | (172)  | (143)   | (313)   |
| Movements in available-for-sale securities           |  |   |   |
| - unrealised gains in the period                     | -  | -   | 23  |
| - realised gains in the period                       | -  | -   | (359)   |
| Equity raised  | -  | -   | 9   |
| Equity withdrawn and disposals                       | (602)  | (68)  | (2,436)                                       |
| Transfer to retained earnings                        | (40)   | (40)  | (629)   |
| At end of period                                     | 1,542  | 2,109   | 2,227   |
| Total equity at end of period                        | 77,142   | 78,911  | 79,963  |

Total comprehensive income/(loss) recognised in the statement of

changes in equity is attributable as follows:

|                             |     |       |         |
|-----------------------------|-----|-------|---------|
| Minority interests          | 129 | 133   | 160     |
| Preference shareholders     | 105 | 105   | 878     |
| Paid-in equity holders      | 19  | 19    | 57      |
| Ordinary and B shareholders | 304 | 1,549 | (5,747) |
|                             | 557 | 1,806 | (4,652) |

RBS Group – Q3 2010 Results

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Notes to pro forma results

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1. Basis of preparation

Pro forma results

The pro forma financial information, prepared using the Group's accounting policies, shows the underlying performance of the Group including the results of the ABN AMRO businesses retained by the Group. This information is provided to give a better understanding of the results of the Group's operations. Group operating profit on a pro forma basis excludes:

- amortisation of purchased intangible assets;
- integration and restructuring costs;
- gain on redemption of own debt;
- strategic disposals;
- bonus tax;
- Asset Protection Scheme credit default swap – fair value changes;
- write-down of goodwill and other intangible assets; and
- other Consortium Members' interest in shared assets.

From 1 April 2010, other than these differences in presentation, the Group's pro forma and statutory results are substantially the same.

Acquisition and separation of ABN AMRO

On 17 October 2007, RFS Holdings B.V, completed the acquisition of ABN AMRO Holding N.V which was renamed RBS Holdings N.V. on 1 April 2010 when the shares in ABN AMRO Bank N.V. were transferred to ABN AMRO Group N.V., a holding company for the interests of the Dutch State. This marked the substantial completion of the restructuring of the activities of ABN AMRO Holding N.V. in accordance with the agreement between the RBSG, the Dutch State and Banco Santander, SA. RBS Holdings N.V. has one direct subsidiary, The Royal Bank of Scotland N.V., a fully operational bank within the Group, which is independently rated and regulated by the Dutch Central Bank.



## Notes to pro forma results (continued)

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

|   | Quarter ended                 |                       | Nine months ended             |                               |                               |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|   | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| Loans and advances to customers             | 4,720                         | 4,749                 | 4,628                         | 14,171                        | 16,555                        |
| Loans and advances to banks                 | 153                           | 132                   | 196                           | 424                           | 676                           |
| Debt securities                             | 702                           | 1,003                 | 873                           | 2,560                         | 3,115                         |
| Interest receivable                         | 5,575                         | 5,884                 | 5,697                         | 17,155                        | 20,346                        |
| Customer accounts                           | 961                           | 954                   | 962                           | 2,795                         | 3,692                         |
| Deposits by banks                           | 328                           | 418                   | 574                           | 1,043                         | 2,345                         |
| Debt securities in issue                    | 733                           | 824                   | 785                           | 2,411                         | 3,772                         |
| Subordinated liabilities                    | 175                           | 60                    | 263                           | 435                           | 995                           |
| Internal funding of trading businesses      | (26)                          | (56)                  | (148)                         | (151)                         | (579)                         |
| Interest payable                            | 2,171                         | 2,200                 | 2,436                         | 6,533                         | 10,225                        |
| Net interest income                         | 3,404                         | 3,684                 | 3,261                         | 10,622                        | 10,121                        |
| Fees and commissions receivable             | 2,044                         | 2,046                 | 1,919                         | 6,141                         | 6,385                         |
| Fees and commissions payable                |                               |                       |                               |                               |                               |
| - banking                                   | (493)                         | (541)                 | (450)                         | (1,500)                       | (1,614)                       |
| - insurance related                         | (118)                         | (38)                  | (95)                          | (262)                         | (282)                         |
| Net fees and commissions                    | 1,433                         | 1,467                 | 1,374                         | 4,379                         | 4,489                         |
| Foreign exchange                            | 442                           | 375                   | 108                           | 1,269                         | 1,767                         |
| Interest rate                               | 866                           | 202                   | 1,460                         | 2,028                         | 4,317                         |
| Credit                                      | (95)                          | 598                   | (591)                         | 968                           | (4,142)                       |
| Other                                       | 219                           | 327                   | 320                           | 894                           | 1,267                         |
| Income from trading activities              | 1,432                         | 1,502                 | 1,297                         | 5,159                         | 3,209                         |
| Operating lease and other rental income     | 338                           | 344                   | 320                           | 1,025                         | 982                           |
| Changes in the fair value of securities and | 22                            | (165)                 | 45                            | (129)                         | (12)                          |

|  |       |       |       |        |        |
|--|-------|-------|-------|--------|--------|
| other financial assets and liabilities                       |       |       |       |        |        |
| Changes in the fair value of investment properties           | (4)   | (105) | (6)   | (112)  | (153)  |
| Profit/(loss) on sale of securities                          | 390   | 5     | 26    | 542    | (148)  |
| Profit on sale of property, plant and equipment              | 9     | 3     | 2     | 21     | 27     |
| Loss on sale of subsidiaries and associates                  | (111) | -     | (8)   | (111)  | (19)   |
| Life business profits/(losses)                               | 49    | (23)  | 108   | 61     | 132    |
| Dividend income  | 17    | 21    | 18    | 58     | 57     |
| Share of profits less losses of associated entities          | -     | 17    | (13)  | 31     | (67)   |
| Other income   | (351) | 135   | (148) | (199)  | (279)  |
| Other operating income                                       | 359   | 232   | 344   | 1,187  | 520    |
| Non-interest income (excluding insurance net premium income) | 3,224 | 3,201 | 3,015 | 10,725 | 8,218  |
| Insurance net premium income                                 | 1,289 | 1,278 | 1,301 | 3,856  | 3,958  |
| Total non-interest income                                    | 4,513 | 4,479 | 4,316 | 14,581 | 12,176 |
| Total income   | 7,917 | 8,163 | 7,577 | 25,203 | 22,297 |

Notes to pro forma results (continued)

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

|   | Quarter ended     |              |                   | Nine months ended |                   |
|---|-------------------|--------------|-------------------|-------------------|-------------------|
|   | 30 September 2010 | 30 June 2010 | 30 September 2009 | 30 September 2010 | 30 September 2009 |
|   | £m                | £m           | £m                | £m                | £m                |
| Staff costs                             |                   |              |                   |                   |                   |
| - wages, salaries and other staff costs | 1,860             | 1,929        | 1,840             | 5,984             | 5,869             |
| - social security costs                 | 153               | 159          | 131               | 504               | 423               |
| - pension costs                         | 153               | 90           | 204               | 409               | 543               |
| Premises and equipment                  | 596               | 516          | 619               | 1,640             | 1,850             |

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|                               |       |       |       |        |        |
|-------------------------------|-------|-------|-------|--------|--------|
| Other                         | 869   | 974   | 943   | 2,778  | 2,904  |
| Administrative expenses       | 3,631 | 3,668 | 3,737 | 11,315 | 11,589 |
| Depreciation and amortisation | 465   | 435   | 458   | 1,314  | 1,339  |
| Operating expenses            | 4,096 | 4,103 | 4,195 | 12,629 | 12,928 |
| General insurance             | 1,092 | 1,348 | 1,054 | 3,547  | 2,919  |
| Bancassurance                 | 50    | (25)  | 91    | 54     | 117    |
| Insurance net claims          | 1,142 | 1,323 | 1,145 | 3,601  | 3,036  |
| Loan impairment losses        | 1,908 | 2,479 | 3,262 | 6,989  | 10,058 |
| Securities impairment losses  | 45    | 8     | 17    | 126    | 742    |
| Impairment losses             | 1,953 | 2,487 | 3,279 | 7,115  | 10,800 |

Note:

The data above excludes fair value of own debt, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, Asset Protection Scheme credit default swap – fair value changes and write-down of goodwill and other intangible assets.

RBS Group – Q3 2010 Results

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## Notes to pro forma results (continued)

## 3. Loan impairment provisions

Operating profit/(loss) is stated after charging loan impairment losses of £1,908 million (half year ended 30 June 2010 – £5,081 million; year ended 31 December 2009 – £13,090 million). The balance sheet loan impairment provisions increased in the quarter ended 30 September 2010 from £16,166 million to £17,670 million and the movements thereon were:

|  | Quarter ended<br>30 September 2010 |                |             | Half year<br>ended<br>30 June<br>2010 | Year<br>ended<br>31<br>December<br>2009 |
|--|------------------------------------|----------------|-------------|---------------------------------------|---|
|  | Core<br>£m                         | Non-Core<br>£m | Total<br>£m | £m                                    | £m                                      |
| At beginning of period                             | 7,633                              | 8,533          | 16,166      | 15,173                                | 9,451                                   |
| Transfers to disposal groups                       | -                                  | -              | -           | (67)                                  | (321)                                   |
| Intra-group transfers                              | (351)                              | 351            | -           | -                                     | -                                       |
| Currency translation and other<br>adjustments      | 116                                | 175            | 291         | (160)                                 | (428)                                   |
| Disposals  | -                                  | -              | -           | (17)                                  | (65)                                    |
| Amounts written-off                                | (416)                              | (329)          | (745)       | (3,781)                               | (6,478)                                 |
| Recoveries of amounts<br>previously<br>written-off | 80                                 | 85             | 165         | 150                                   | 325                                     |
| Charge to income statement                         | 779                                | 1,129          | 1,908       | 5,081                                 | 13,090                                  |
| Unwind of discount                                 | (50)                               | (65)           | (115)       | (213)                                 | (401)                                   |
| At end of period                                   | 7,791                              | 9,879          | 17,670      | 16,166                                | 15,173                                  |

Provisions at 30 September 2010 include £127 million (30 June 2010 – £139 million; 31 December 2009 – £157 million) in respect of loans and advances to banks. The table above excludes impairment charges relating to securities.

## 4. Strategic disposals

|   | Quarter ended                 |                          | Nine months ended             |                               |                               |
|---|-------------------------------|--------------------------|-------------------------------|-------------------------------|-------------------------------|
|   | 30<br>September<br>2010<br>£m | 30<br>June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| Gain/(loss) on sale of<br>investments in:                     |                               |                          |                               |                               |                               |
| - RBS Asset Management's<br>investment<br>strategies business | -                             | -                        | -                             | 80                            | -                             |
|   | -                             | (10)                     | -                             | (10)                          | -                             |

|   |     |       |       |       |       |
|---|-----|-------|-------|-------|-------|
| - Asian branches and businesses   |     |       |       |       |       |
| - Latin American businesses   | 3   | -     | -     | 3     | -     |
| - RBS Sempra Commodities – oils, metals and European gas & power business | 11  | -     | -     | 11    | -     |
| - Factoring businesses in France and Germany                              | 8   | -     | -     | 8     | -     |
| - Bank of China (1)   | -   | -     | (5)   | -     | 236   |
| - Linea Directa   | -   | -     | -     | -     | 212   |
| Provision for loss on disposal of:  |     |       |       |       |       |
| - Latin American business   | 1   | (142) | -     | (163) | -     |
| - Asian branches and businesses   | 5   | 3     | (150) | 13    | (150) |
| - Life assurance business   | -   | (235) | -     | (235) | -     |
| - Other   | (1) | (27)  | -     | (38)  | -     |
|   | 27  | (411) | (155) | (331) | 298   |

Note:

(1) Including £359 million attributable to minority interests.

#### Notes to pro forma results (continued)

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#### 5. Taxation

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

|                                     | Quarter ended           |                    |                         | Nine months ended       |                         |
|-------------------------------------|-------------------------|--------------------|-------------------------|-------------------------|-------------------------|
|                                     | 30 September 2010<br>£m | 30 June 2010<br>£m | 30 September 2009<br>£m | 30 September 2010<br>£m | 30 September 2009<br>£m |
| (Loss)/profit before tax            | (1,379)                 | 1,157              | (2,077)                 | (243)                   | (2,062)                 |
| Expected tax credit/(charge) at 28% | 386                     | (324)              | 582                     | 68                      | 578                     |
| Unrecognised timing differences     | -                       | 52                 | 223                     | -                       | 207                     |
| Other non-deductible items          | (77)                    | (198)              | (35)                    | (306)                   | (108)                   |
| Non-taxable items:                  |                         |                    |                         |                         |                         |
| - gain on redemption of own debt    | -                       | 12                 | -                       | 12                      | 692                     |
| - other                             | 37                      | 62                 | 27                      | 101                     | 203                     |
|                                     | (5)                     | 7                  | (9)                     | 2                       | 14                      |

|  |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|
| Taxable foreign exchange movements   |       |       |       |       |       |
| Foreign profits taxed at other rates   | (56)  | (210) | (126) | (394) | (173) |
| Reduction in deferred tax asset following change in the rate of UK corporation tax | (90)  | -     | -     | (90)  | -     |
| Losses in period not recognised  | 9     | (280) | (83)  | (354) | (267) |
| Losses brought forward and utilised  | (1)   | 3     | 6     | 10    | 29    |
| Adjustments in respect of prior periods  | 58    | 51    | (9)   | 281   | (187) |
| Actual tax credit/(charge)   | 261   | (825) | 576   | (670) | 988   |
| Effective tax rate   | 18.9% | 71.3% | 27.7% | nm    | 47.9% |

The unusually high tax charge in the first nine months of 2010 reflects profits in high tax regimes and losses in low tax regimes, together with £354 million relating to losses in overseas subsidiaries for which a deferred tax asset has not been recognised, and £166 million mainly in respect of losses on disposal of businesses for which no tax relief is available. This was offset in part by the release of provisions of £281 million mainly due to settlement of a number of tax issues relating to prior years.

The Group has recognised a deferred tax asset at 30 September 2010 of £5,907 million, of which £3,741 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 30 September 2010 and concluded that it is recoverable based on base case future profit projections.

## Notes to pro forma results (continued)

## 6. Profit attributable to minority interests

|   | Quarter ended                 |                       |                               | Nine months ended             |                               |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|   | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| Trust preferred securities                | -                             | -                     | 2                             | 10                            | 47                            |
| Investment in Bank of China               | -                             | -                     | -                             | -                             | 359                           |
| Sempra                                    | 26                            | 20                    | 35                            | 46                            | 179                           |
| RBS N.V.                                  | (2)                           | 1                     | 2                             | (1)                           | 4                             |
| Other                                     | 6                             | 9                     | 8                             | 17                            | 12                            |
| Profit attributable to minority interests | 30                            | 30                    | 47                            | 72                            | 601                           |

## 7. Profit attributable to preference shareholders and paid-in equity holders

|   | Quarter ended                 |                       |                               | Nine months ended             |                               |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|   | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| Preference shareholders                                 |                               |                       |                               |                               |                               |
| Non-cumulative preference shares of US\$0.01            | -                             | -                     | 100                           | 105                           | 279                           |
| Non-cumulative preference shares of €0.01               | -                             | -                     | 81                            | -                             | 138                           |
| Non-cumulative preference shares of £1                  |                               |                       |                               |                               |                               |
| - issued to UK Financial Investments Limited (1)        | -                             | -                     | -                             | -                             | 274                           |
| - other   | -                             | -                     | 61                            | -                             | 61                            |
| Paid-in equity holders                                  |                               |                       |                               |                               |                               |
| Interest on securities classified as equity, net of tax | -                             | 19                    | 3                             | 19                            | 39                            |
|   | -                             | 19                    | 245                           | 124                           | 791                           |

Note:

- (1) Includes £50 million redemption premium on repayment of preference shares.

RBS Group – Q3 2010 Results

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## Notes to pro forma results (continued)

## 8. Earnings per ordinary and B share

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

|   | Quarter ended                 |                       | Nine months ended             |                               |                               |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|   | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| Earnings<br>(Loss)/profit from continuing<br>operations<br>attributable to ordinary and B<br>shareholders | (1,148)                       | 283                   | (1,793)                       | (1,109)                       | (2,777)                       |
| Gain on redemption of<br>preference shares and<br>paid-in equity  | -                             | 610                   | -                             | 610                           | 200                           |
| Adjusted (loss)/profit from<br>continuing<br>operations attributable to<br>ordinary and B<br>shareholders | (1,148)                       | 893                   | (1,793)                       | (499)                         | (2,577)                       |
| Profit/(loss) from discontinued<br>operations<br>attributable to ordinary and B<br>shareholders           | 2                             | (26)                  | (7)                           | (28)                          | (65)                          |
| Ordinary shares in issue during<br>the period<br>(millions)   | 56,164                        | 56,413                | 56,230                        | 56,271                        | 49,899                        |
| B shares in issue during the<br>period (millions)   | 51,000                        | 51,000                | -                             | 51,000                        | -                             |
| Weighted average number of<br>ordinary and<br>B shares in issue during the<br>period (millions)           | 107,164                       | 107,413               | 56,230                        | 107,271                       | 49,899                        |
| Basic (loss)/earnings per<br>ordinary and B<br>share from continuing<br>operations                        | (1.1p)                        | 0.8p                  | (3.2p)                        | (0.5p)                        | (5.2p)                        |

|   |        |        |        |        |         |
|---|--------|--------|--------|--------|---------|
| Amortisation of purchased intangible assets                                       | 0.1p   | 0.1p   | 0.1p   | 0.2p   | 0.3p    |
| Integration and restructuring costs   | 0.2p   | 0.2p   | 0.4p   | 0.5p   | 1.5p    |
| Gain on redemption of own debt (1)  | -      | (1.0p) | -      | (1.0p) | (7.2p)  |
| Strategic disposals   | -      | 0.4p   | 0.3p   | 0.3p   | (0.6p)  |
| Bonus tax   | -      | -      | -      | 0.1p   | -       |
| Asset Protection Scheme credit default swap – fair value changes                  | 0.6p   | (0.3p) | -      | 0.6p   | -       |
| Write-down of goodwill and other intangible assets                                | -      | -      | -      | -      | 0.6p    |
| Adjusted (loss)/earnings per ordinary and B share from continuing operations      | (0.2p) | 0.2p   | (2.4p) | 0.2p   | (10.6p) |
| Loss from Non-Core attributable to ordinary and B shareholders                    | -      | 0.2p   | 3.1p   | 1.1p   | 20.3p   |
| Core adjusted (loss)/earnings per ordinary and B share from continuing operations | (0.2p) | 0.4p   | 0.7p   | 1.3p   | 9.7p    |
| Core impairment losses  | -      | 0.3p   | 1.6p   | 0.8p   | 5.4p    |
| Pre-impairment Core adjusted (loss)/earnings per ordinary and B share             | (0.2p) | 0.7p   | 2.3p   | 2.1p   | 15.1p   |
| Basic loss per ordinary and B share from discontinued operations                  | -      | -      | -      | -      | (0.1p)  |

## Note:

- (1) Gain on redemption of own debt includes gains on redemption of instruments classified as equity which are included in basic earnings.

## Notes to pro forma results (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 30 September 2010, 30 June 2010 and for the nine month period ended 30 September 2010, by main income statement captions. The pro forma divisional income statements on pages 24 to 56 reflect certain presentational reallocations as described in the notes below. These do not affect the overall operating profit/(loss).

|   | 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 30<br>September 2010                        | £m                        | £m                         | £m              | £m                    | £m                      | £m                   | £m                         |
| UK Retail (1)   | 1,056                     | 376                        | 1,432           | (733)                 | (50)                    | (251)                | 398                        |
| UK Corporate<br>Wealth                                    | 662                       | 324                        | 986             | (406)                 | -                       | (158)                | 422                        |
|   | 156                       | 108                        | 264             | (189)                 | -                       | (1)                  | 74                         |
| Global Transaction<br>Services                            | 257                       | 411                        | 668             | (356)                 | -                       | (3)                  | 309                        |
| Ulster Bank   | 192                       | 52                         | 244             | (134)                 | -                       | (286)                | (176)                      |
| US Retail & Commercial<br>Global Banking &<br>Markets (2) | 480                       | 271                        | 751             | (553)                 | -                       | (125)                | 73                         |
|   | 309                       | 1,245                      | 1,554           | (1,005)               | -                       | 40                   | 589                        |
| RBS Insurance (3)   | 92                        | 999                        | 1,091           | (175)                 | (949)                   | -                    | (33)                       |
| Central items   | (154)                     | 193                        | 39              | 34                    | 1                       | 2                    | 76                         |
| Core (before fair value of<br>own<br>debt)                | 3,050                     | 3,979                      | 7,029           | (3,517)               | (998)                   | (782)                | 1,732                      |
| Fair value of own debt<br>(4)                             | -                         | (858)                      | (858)           | -                     | -                       | -                    | (858)                      |
| Core  | 3,050                     | 3,121                      | 6,171           | (3,517)               | (998)                   | (782)                | 874                        |
| Non-Core (5)  | 354                       | 534                        | 888             | (579)                 | (144)                   | (1,171)              | (1,006)                    |
|   | 3,404                     | 3,655                      | 7,059           | (4,096)               | (1,142)                 | (1,953)              | (132)                      |
| Amortisation of<br>purchased intangible<br>assets         | -                         | -                          | -               | (123)                 | -                       | -                    | (123)                      |
| Integration and<br>restructuring costs                    | -                         | -                          | -               | (311)                 | -                       | -                    | (311)                      |
| Strategic disposals                                       | -                         | 27                         | 27              | -                     | -                       | -                    | 27                         |
| Bonus tax   | -                         | -                          | -               | (15)                  | -                       | -                    | (15)                       |
| Asset Protection Scheme<br>credit                         | -                         | (825)                      | (825)           | -                     | -                       | -                    | (825)                      |



default swap – fair value  
changes

|                                   |       |       |       |         |         |         |         |
|-----------------------------------|-------|-------|-------|---------|---------|---------|---------|
|                                   | 3,404 | 2,857 | 6,261 | (4,545) | (1,142) | (1,953) | (1,379) |
| RFS Holdings minority<br>interest | 7     | (182) | (175) | (6)     | -       | -       | (181)   |
| Total statutory                   | 3,411 | 2,675 | 6,086 | (4,551) | (1,142) | (1,953) | (1,560) |

Notes:

- (1) Reallocation of netting of bancassurance claims of £50 million from non-interest income.
- (2) Reallocation of £8 million between net interest income and non-interest income in respect of funding costs of rental assets.
- (3) Total income includes £75 million investment income of which £55 million is included in net interest income and £20 million in non-interest income. Reallocation of £37 million between non-interest income and net interest income in respect of instalment income.
- (4) Comprises £598 million in relation to Global Banking & Markets and £260 million in relation to Group Centre.
- (5) Reallocation of £84 million between net interest income and non-interest income in respect of funding costs of rental assets, £79 million, and to record interest in financial assets and liabilities designated as fair value through profit or loss, £5 million.

RBS Group – Q3 2010 Results

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## Notes to pro forma results (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>claims | net<br>Impairment<br>losses | Operating<br>profit/(loss) |
|---|---------------------------|----------------------------|-----------------|-----------------------|---------------------|-----------------------------|----------------------------|
| Quarter ended 30 June<br>2010                     | £m                        | £m                         | £m              | £m                    | £m                  | £m                          | £m                         |
| UK Retail (1)                                     | 1,001                     | 294                        | 1,295           | (744)                 | 25                  | (300)                       | 276                        |
| UK Corporate<br>Wealth                            | 647                       | 340                        | 987             | (399)                 | -                   | (198)                       | 390                        |
| Global Transaction<br>Services                    | 150                       | 116                        | 266             | (178)                 | -                   | (7)                         | 81                         |
| Ulster Bank                                       | 237                       | 411                        | 648             | (366)                 | -                   | (3)                         | 279                        |
| US Retail &<br>Commercial                         | 194                       | 53                         | 247             | (143)                 | -                   | (281)                       | (177)                      |
| Global Banking &<br>Markets (2)                   | 502                       | 275                        | 777             | (504)                 | -                   | (144)                       | 129                        |
| RBS Insurance (3)                                 | 320                       | 1,627                      | 1,947           | (1,033)               | -                   | (164)                       | 750                        |
| Central items                                     | 90                        | 1,015                      | 1,105           | (176)                 | (1,132)             | -                           | (203)                      |
| Core (before fair value<br>of own<br>debt)        | 71                        | (53)                       | 18              | 32                    | (1)                 | -                           | 49                         |
| Fair value of own debt<br>(4)                     | 3,212                     | 4,078                      | 7,290           | (3,511)               | (1,108)             | (1,097)                     | 1,574                      |
| Core  | -                         | 619                        | 619             | -                     | -                   | -                           | 619                        |
| Non-Core (5)                                      | 3,212                     | 4,697                      | 7,909           | (3,511)               | (1,108)             | (1,097)                     | 2,193                      |
| Amortisation of<br>purchased<br>intangible assets | 472                       | 401                        | 873             | (592)                 | (215)               | (1,390)                     | (1,324)                    |
| Integration and<br>restructuring costs            | 3,684                     | 5,098                      | 8,782           | (4,103)               | (1,323)             | (2,487)                     | 869                        |
| Gain on redemption of<br>own debt                 | -                         | -                          | -               | (85)                  | -                   | -                           | (85)                       |
| Strategic disposals                               | -                         | -                          | -               | (254)                 | -                   | -                           | (254)                      |
| Bonus tax   | -                         | 553                        | 553             | -                     | -                   | -                           | 553                        |
| Asset Protection<br>Scheme credit                 | -                         | (411)                      | (411)           | -                     | -                   | -                           | (411)                      |
|   | -                         | -                          | -               | (15)                  | -                   | -                           | (15)                       |
|   | -                         | 500                        | 500             | -                     | -                   | -                           | 500                        |

default swap – fair value  
changes

|                                   |       |       |       |         |         |         |       |
|-----------------------------------|-------|-------|-------|---------|---------|---------|-------|
|                                   | 3,684 | 5,740 | 9,424 | (4,457) | (1,323) | (2,487) | 1,157 |
| RFS Holdings minority<br>interest | (8)   | 21    | 13    | 4       | -       | -       | 17    |
| Total statutory                   | 3,676 | 5,761 | 9,437 | (4,453) | (1,323) | (2,487) | 1,174 |

Notes:

- (1) Reallocation of netting of bancassurance claims of £25 million from non-interest income.
- (2) Reallocation of £15 million between net interest income and non-interest income in respect of funding costs of rental assets, £9 million, and to record interest in financial assets and liabilities designated as fair value through profit or loss, £6 million.
- (3) Total income includes £74 million investment income of which £55 million is included in net interest income and £19 million in non-interest income. Reallocation of £35 million between non-interest income and net interest income in respect of instalment income.
- (4) Comprises £331 million in relation to Global Banking & Markets and £288 million in relation to Group Centre.
- (5) Reallocation of £62 million between net interest income and non-interest income in respect of funding costs of rental assets, £78 million, and to record interest in financial assets and liabilities designated as fair value through profit or loss, £16 million.

RBS Group – Q3 2010 Results

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## Notes to pro forma results (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<br>claims | Impairment<br>losses | Operating<br>profit/(loss) |
|---|---------------------------|----------------------------|-----------------|-----------------------|----------------------------|----------------------|----------------------------|
| Nine months ended 30<br>September 2010                                    | £m                        | £m                         | £m              | £m                    | £m                         | £m                   | £m                         |
| UK Retail (1)   | 2,990                     | 1,014                      | 4,004           | (2,198)               | (54)                       | (938)                | 814                        |
| UK Corporate<br>Wealth  | 1,919                     | 993                        | 2,912           | (1,240)               | -                          | (542)                | 1,130                      |
| Global Transaction Services   | 449                       | 336                        | 785             | (556)                 | -                          | (12)                 | 217                        |
| Ulster Bank   | 711                       | 1,212                      | 1,923           | (1,096)               | -                          | (6)                  | 821                        |
| US Retail & Commercial  | 574                       | 158                        | 732             | (437)                 | -                          | (785)                | (490)                      |
| Global Banking & Markets<br>(2)   | 1,450                     | 798                        | 2,248           | (1,594)               | -                          | (412)                | 242                        |
| RBS Insurance (3)   | 1,001                     | 5,324                      | 6,325           | (3,332)               | -                          | (156)                | 2,837                      |
| Central items   | 271                       | 3,024                      | 3,295           | (526)                 | (3,055)                    | -                    | (286)                      |
|   | (68)                      | 352                        | 284             | 177                   | -                          | 1                    | 462                        |
| Core (before fair value of<br>own debt)                                   | 9,297                     | 13,211                     | 22,508          | (10,802)              | (3,109)                    | (2,850)              | 5,747                      |
| Fair value of own debt (4)  | -                         | (408)                      | (408)           | -                     | -                          | -                    | (408)                      |
| Core  | 9,297                     | 12,803                     | 22,100          | (10,802)              | (3,109)                    | (2,850)              | 5,339                      |
| Non-Core (5)  | 1,325                     | 1,370                      | 2,695           | (1,827)               | (492)                      | (4,265)              | (3,889)                    |
|   | 10,622                    | 14,173                     | 24,795          | (12,629)              | (3,601)                    | (7,115)              | 1,450                      |
| Amortisation of purchased<br>intangible assets                            | -                         | -                          | -               | (273)                 | -                          | -                    | (273)                      |
| Integration and restructuring<br>costs                                    | -                         | -                          | -               | (733)                 | -                          | -                    | (733)                      |
| Gain on redemption of own<br>debt   | -                         | 553                        | 553             | -                     | -                          | -                    | 553                        |
| Strategic disposals   | -                         | (331)                      | (331)           | -                     | -                          | -                    | (331)                      |
| Bonus tax   | -                         | -                          | -               | (84)                  | -                          | -                    | (84)                       |
| Asset Protection Scheme<br>credit<br>default swap – fair value<br>changes | -                         | (825)                      | (825)           | -                     | -                          | -                    | (825)                      |
|   | 10,622                    | 13,570                     | 24,192          | (13,719)              | (3,601)                    | (7,115)              | (243)                      |
| RFS Holdings minority<br>interest   | 7                         | (153)                      | (146)           | (2)                   | -                          | -                    | (148)                      |

|                 |        |        |        |          |         |         |       |
|-----------------|--------|--------|--------|----------|---------|---------|-------|
| Total statutory | 10,629 | 13,417 | 24,046 | (13,721) | (3,601) | (7,115) | (391) |
|-----------------|--------|--------|--------|----------|---------|---------|-------|

Notes:

- (1) Reallocation of netting of bancassurance claims of £54 million from non-interest income.
- (2) Reallocation of £30 million between net interest income and non-interest income in respect of funding costs of rental assets, £26 million, and to record interest in financial assets and liabilities designated as fair value through profit or loss, £4 million.
- (3) Total income includes £200 million investment income, £164 million included in net interest income and £36 million in non-interest income. Reallocation of £107 million between non-interest income and net interest income in respect of instalment income.
- (4) Comprises £299 million in relation to Global Banking & Markets and £109 million in relation to Group Centre.
- (5) Reallocation of £215 million between net interest income and non-interest income in respect of funding assets, £226 million, and to record interest in financial assets and liabilities designated as fair value through profit or loss, £11 million.

RBS Group – Q3 2010 Results

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## Notes to pro forma results (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 through profit or loss (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            | Other<br>financial<br>instruments | Non<br>financial<br>instruments | Finance<br>leases | Total            |
|--|----------------|--------------|----------------|----------------|-----------------------------------|---------------------------------|-------------------|------------------|
| 30 September 2010                            | £m             | £m           | £m             | £m             | £m                                | £m                              | £m                | £m               |
| Cash and balances at central banks           | -              | -            | -              | 61,416         | -                                 | -                               | -                 | 61,416           |
| Loans and advances to banks                  |                |              |                |                |                                   |                                 |                   |                  |
| - net loans and advances                     | 26,044         | -            | -              | 34,286         | -                                 | -                               | -                 | 60,330           |
| - reverse repos                              | 43,536         | -            | -              | 4,871          | -                                 | -                               | -                 | 48,407           |
| Loans and advances to customers              |                |              |                |                |                                   |                                 |                   |                  |
| - net loans and advances                     | 27,987         | 1,478        | -              | 487,415        | -                                 | -                               | 11,169            | 528,049          |
| - reverse repos                              | 32,907         | -            | -              | 11,596         | -                                 | -                               | -                 | 44,503           |
| Debt securities                              | 105,390        | 603          | 113,151        | 7,266          | -                                 | -                               | -                 | 226,410          |
| Equity shares                                | 18,007         | 1,611        | 2,137          | -              | -                                 | -                               | -                 | 21,755           |
| Settlement balances                          | -              | -            | -              | 22,874         | -                                 | -                               | -                 | 22,874           |
| Derivatives (1)                              | 548,805        | -            | -              | -              | -                                 | -                               | -                 | 548,805          |
| Intangible assets                            | -              | -            | -              | -              | -                                 | 14,369                          | -                 | 14,369           |
| Property, plant and equipment                | -              | -            | -              | -              | -                                 | 17,398                          | -                 | 17,398           |
| Deferred taxation                            | -              | -            | -              | -              | -                                 | 5,907                           | -                 | 5,907            |
| Prepayments, accrued income and other assets | -              | -            | -              | 1,209          | -                                 | 10,694                          | -                 | 11,903           |
| Assets of disposal groups                    | -              | -            | -              | -              | -                                 | 16,537                          | -                 | 16,537           |
| <b>Total assets</b>                          | <b>802,676</b> | <b>3,692</b> | <b>115,288</b> | <b>630,933</b> | <b>-</b>                          | <b>64,905</b>                   | <b>11,169</b>     | <b>1,628,663</b> |
| Deposits by banks                            |                |              |                |                |                                   |                                 |                   |                  |
| - bank deposits                              | 39,781         | -            | -              | -              | 40,405                            | -                               | -                 | 80,186           |
| - repos                                      | 24,871         | -            | -              | -              | 16,594                            | -                               | -                 | 41,465           |
| Customer accounts                            |                |              |                |                |                                   |                                 |                   |                  |
| - customer deposits                          | 11,220         | 4,494        | -              | -              | 404,925                           | -                               | -                 | 420,639          |
| - repos                                      | 59,295         | -            | -              | -              | 27,992                            | -                               | -                 | 87,287           |
| Debt securities in issue                     | 6,279          | 44,141       | -              | -              | 184,663                           | -                               | -                 | 235,083          |
| Settlement balances                          | -              | -            | -              | -              | 20,628                            | -                               | -                 | 20,628           |

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|   |         |        |   |   |         |        |     |           |
|---|---------|--------|---|---|---------|--------|-----|-----------|
| Short positions                                       | 44,004  | -      | - | - | -       | -      | -   | 44,004    |
| Derivatives (1)                                       | 543,397 | -      | - | - | -       | -      | -   | 543,397   |
| Accruals, deferred<br>income and other<br>liabilities | -       | -      | - | - | 1,737   | 21,449 | 464 | 23,650    |
| Retirement benefit<br>liabilities                     | -       | -      | - | - | -       | 2,606  | -   | 2,606     |
| Deferred taxation                                     | -       | -      | - | - | -       | 2,237  | -   | 2,237     |
| Insurance liabilities                                 | -       | -      | - | - | -       | 6,782  | -   | 6,782     |
| Subordinated liabilities                              | -       | 1,152  | - | - | 26,738  | -      | -   | 27,890    |
| Liabilities of disposal<br>groups                     | -       | -      | - | - | -       | 15,667 | -   | 15,667    |
| Total liabilities                                     | 728,847 | 49,787 | - | - | 723,682 | 48,741 | 464 | 1,551,521 |
| Equity  |         |        |   |   |         |        |     | 77,142    |
|   |         |        |   |   |         |        |     | 1,628,663 |

Note:

(1) Held-for-trading derivatives include hedging derivatives.

RBS Group – Q3 2010 Results

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## Notes to pro forma results (continued)

## 10. Financial instruments (continued)

## Classification (continued)

| At 30 June 2010                              | HFT<br>£m      | DFV<br>£m    | AFS<br>£m      | LAR<br>£m      | Other<br>financial<br>instruments<br>£m | Non<br>financial<br>instruments<br>£m | Finance<br>leases<br>£m | Total<br>£m      |
|--|----------------|--------------|----------------|----------------|---|---------------------------------------|-------------------------|------------------|
| Cash and balances at central banks           | -              | -            | -              | 29,591         | -                                       | -                                     | -                       | 29,591           |
| Loans and advances to banks                  |                |              |                |                |   |                                       |                         |                  |
| - net loans and advances                     | 22,966         | -            | -              | 31,505         | -                                       | -                                     | -                       | 54,471           |
| - reverse repos                              | 43,787         | -            | -              | 3,876          | -                                       | -                                     | -                       | 47,663           |
| Loans and advances to customers              |                |              |                |                |   |                                       |                         |                  |
| - net loans and advances                     | 21,236         | 1,631        | -              | 504,541        | -                                       | -                                     | 11,932                  | 539,340          |
| - reverse repos                              | 27,655         | -            | -              | 11,741         | -                                       | -                                     | -                       | 39,396           |
| Debt securities                              | 103,161        | 619          | 123,941        | 8,539          | -                                       | -                                     | -                       | 236,260          |
| Equity shares                                | 13,768         | 688          | 2,870          | -              | -                                       | -                                     | -                       | 17,326           |
| Settlement balances                          | -              | -            | -              | 20,718         | -                                       | -                                     | -                       | 20,718           |
| Derivatives (1)                              | 522,871        | -            | -              | -              | -                                       | -                                     | -                       | 522,871          |
| Intangible assets                            | -              | -            | -              | -              | -                                       | 14,482                                | -                       | 14,482           |
| Property, plant and equipment                | -              | -            | -              | -              | -                                       | 17,608                                | -                       | 17,608           |
| Deferred taxation                            | -              | -            | -              | -              | -                                       | 5,841                                 | -                       | 5,841            |
| Prepayments, accrued income and other assets | -              | -            | -              | 1,175          | -                                       | 12,455                                | -                       | 13,630           |
| Assets of disposal groups                    | -              | -            | -              | -              | -                                       | 21,656                                | -                       | 21,656           |
| <b>Total assets</b>                          | <b>755,444</b> | <b>2,938</b> | <b>126,811</b> | <b>611,686</b> | <b>-</b>                                | <b>72,042</b>                         | <b>11,932</b>           | <b>1,580,853</b> |
| Deposits by banks                            |                |              |                |                |   |                                       |                         |                  |
| - bank deposits                              | 37,270         | -            | -              | -              | 59,344                                  | -                                     | -                       | 96,614           |
| - repos                                      | 24,594         | -            | -              | -              | 19,571                                  | -                                     | -                       | 44,165           |
| Customer accounts                            |                |              |                |                |   |                                       |                         |                  |
| - customer deposits                          | 12,268         | 4,037        | -              | -              | 404,585                                 | -                                     | -                       | 420,890          |
| - repos                                      | 45,869         | -            | -              | -              | 24,786                                  | -                                     | -                       | 70,655           |
| Debt securities in issue                     | 5,703          | 39,947       | -              | -              | 171,667                                 | -                                     | -                       | 217,317          |
| Settlement balances                          | -              | -            | -              | -              | 19,730                                  | -                                     | -                       | 19,730           |
| Short positions                              | 42,994         | -            | -              | -              | -                                       | -                                     | -                       | 42,994           |
| Derivatives (1)                              | 508,966        | -            | -              | -              | -                                       | -                                     | -                       | 508,966          |



|   |         |        |   |   |         |        |     |           |
|---|---------|--------|---|---|---------|--------|-----|-----------|
| Accruals, deferred income and other liabilities | -       | -      | - | - | 1,898   | 22,456 | 488 | 24,842    |
| Retirement benefit liabilities                  | -       | -      | - | - | -       | 2,600  | -   | 2,600     |
| Deferred taxation                               | -       | -      | - | - | -       | 2,126  | -   | 2,126     |
| Insurance liabilities                           | -       | -      | - | - | -       | 6,521  | -   | 6,521     |
| Subordinated liabilities                        | -       | 1,107  | - | - | 26,416  | -      | -   | 27,523    |
| Liabilities of disposal groups                  | -       | -      | - | - | -       | 16,999 | -   | 16,999    |
| Total liabilities                               | 677,664 | 45,091 | - | - | 727,997 | 50,702 | 488 | 1,501,942 |
| Equity  |         |        |   |   |         |        |     | 78,911    |
|   |         |        |   |   |         |        |     | 1,580,853 |

## Note:

(1) Held-for-trading derivatives include hedging derivatives.

## Notes to pro forma results (continued)

## 10. Financial instruments (continued)

## Classification (continued)

| At 31 December 2009                          | HFT<br>£m      | DFV<br>£m    | AFS<br>£m      | LAR<br>£m      | Other<br>financial<br>instruments<br>£m | Non<br>financial<br>instruments<br>£m | Finance<br>leases<br>£m | Total<br>£m      |
|--|----------------|--------------|----------------|----------------|---|---------------------------------------|-------------------------|------------------|
| Cash and balances at central banks           | -              | -            | -              | 51,548         | -                                       | -                                     | -                       | 51,548           |
| Loans and advances to banks                  |                |              |                |                |   |                                       |                         |                  |
| - net loans and advances                     | 18,563         | -            | -              | 30,214         | -                                       | -                                     | -                       | 48,777           |
| - reverse repos                              | 26,886         | -            | -              | 8,211          | -                                       | -                                     | -                       | 35,097           |
| Loans and advances to customers              |                |              |                |                |   |                                       |                         |                  |
| - net loans and advances                     | 15,371         | 1,981        | -              | 524,204        | -                                       | -                                     | 13,098                  | 554,654          |
| - reverse repos                              | 26,313         | -            | -              | 14,727         | -                                       | -                                     | -                       | 41,040           |
| Debt securities                              | 111,413        | 2,429        | 125,382        | 9,871          | -                                       | -                                     | -                       | 249,095          |
| Equity shares                                | 11,318         | 2,083        | 2,559          | -              | -                                       | -                                     | -                       | 15,960           |
| Settlement balances                          | -              | -            | -              | 12,024         | -                                       | -                                     | -                       | 12,024           |
| Derivatives (1)                              | 438,199        | -            | -              | -              | -                                       | -                                     | -                       | 438,199          |
| Intangible assets                            | -              | -            | -              | -              | -                                       | 14,786                                | -                       | 14,786           |
| Property, plant and equipment                | -              | -            | -              | -              | -                                       | 17,773                                | -                       | 17,773           |
| Deferred taxation                            | -              | -            | -              | -              | -                                       | 6,492                                 | -                       | 6,492            |
| Prepayments, accrued income and other assets | -              | -            | -              | 1,421          | -                                       | 17,183                                | -                       | 18,604           |
| Assets of disposal groups                    | -              | -            | -              | -              | -                                       | 18,432                                | -                       | 18,432           |
| <b>Total assets</b>                          | <b>648,063</b> | <b>6,493</b> | <b>127,941</b> | <b>652,220</b> | <b>-</b>                                | <b>74,666</b>                         | <b>13,098</b>           | <b>1,522,481</b> |
| Deposits by banks                            |                |              |                |                |   |                                       |                         |                  |
| - bank deposits                              | 32,647         | -            | -              | -              | 82,995                                  | -                                     | -                       | 115,642          |
| - repos                                      | 20,962         | -            | -              | -              | 17,044                                  | -                                     | -                       | 38,006           |
| Customer accounts                            |                |              |                |                |   |                                       |                         |                  |
| - customer deposits                          | 11,217         | 5,256        | -              | -              | 397,778                                 | -                                     | -                       | 414,251          |
| - repos                                      | 41,520         | -            | -              | -              | 26,833                                  | -                                     | -                       | 68,353           |
| Debt securities in issue                     | 3,925          | 41,444       | -              | -              | 200,960                                 | -                                     | -                       | 246,329          |
| Settlement balances                          | -              | -            | -              | -              | 10,412                                  | -                                     | -                       | 10,412           |
| Short positions                              | 40,463         | -            | -              | -              | -                                       | -                                     | -                       | 40,463           |
| Derivatives (1)                              | 421,534        | -            | -              | -              | -                                       | -                                     | -                       | 421,534          |
|  | -              | -            | -              | -              | 1,889                                   | 22,269                                | 466                     | 24,624           |

|   |         |        |   |   |         |        |               |
|---|---------|--------|---|---|---------|--------|---------------|
| Accruals, deferred<br>income and<br>other liabilities |         |        |   |   |         |        |               |
| Retirement benefit<br>liabilities                     | -       | -      | - | - | -       | 2,715  | - 2,715       |
| Deferred taxation                                     | -       | -      | - | - | -       | 2,161  | - 2,161       |
| Insurance liabilities                                 | -       | -      | - | - | -       | 7,633  | - 7,633       |
| Subordinated liabilities                              | -       | 1,277  | - | - | 30,261  | -      | - 31,538      |
| Liabilities of disposal<br>groups                     | -       | -      | - | - | -       | 18,857 | - 18,857      |
| Total liabilities                                     | 572,268 | 47,977 | - | - | 768,172 | 53,635 | 466 1,442,518 |
| Equity  |         |        |   |   |         |        | 79,963        |
|   |         |        |   |   |         |        | 1,522,481     |

## Note:

(1) Held-for-trading derivatives include hedging derivatives.

RBS Group – Q3 2010 Results

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## Notes to pro forma results (continued)

## 10. Financial instruments (continued)

## Reclassification of financial instruments

As permitted by amended IAS 39, the Group reclassified certain financial assets from the HFT and AFS categories into the LAR category and from the HFT category into the AFS category in 2008 and 2009. There were no reclassifications in the nine months ended 30 September 2010. The following tables detail the effect of the reclassifications and the balance sheet values of the assets.

|              | Reduction in profit for the<br>quarter ended<br>30<br>September 2010 as a result of<br>reclassifications<br>£m |            |              |            |                  |            |
|--------------|--|------------|--------------|------------|------------------|------------|
| From HFT to: |  |            |              |            |                  |            |
| AFS          |  |            |              |            |                  | 81         |
| LAR          |  |            |              |            |                  | 162        |
|              |  |            |              |            |                  | 243        |
|              | 30 September 2010  |            | 30 June 2010 |            | 31 December 2009 |            |
|              | Carrying   |            | Carrying     |            | Carrying         |            |
|              | value  | Fair value | value        | Fair value | value            | Fair value |
|              | £m   | £m         | £m           | £m         | £m               | £m         |
| From HFT to: |  |            |              |            |                  |            |
| AFS          | 6,843  | 6,843      | 7,343        | 7,343      | 7,629            | 7,629      |
| LAR          | 9,703  | 8,131      | 10,596       | 8,861      | 12,933           | 10,644     |
|              | 16,546   | 14,974     | 17,939       | 16,204     | 20,562           | 18,273     |
| From AFS to: |  |            |              |            |                  |            |
| LAR          | 449  | 405        | 969          | 808        | 869              | 745        |
|              | 16,995   | 15,379     | 18,908       | 17,012     | 21,431           | 19,018     |

During the quarter ended 30 September 2010, the balance sheet value of reclassified assets decreased by £1.9 billion, primarily due to disposals and repayments across a range of securities and loans.

For assets reclassified from HFT to AFS, net unrealised losses recorded in equity at 30 September 2010 were £0.3 billion (30 June 2010 - £0.4 billion; 31 December 2009 - £0.6 billion).

RBS Group – Q3 2010 Results

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## Notes to pro forma results (continued)

## 10. Financial instruments (continued)

## Financial instruments carried at fair value

Refer to Note 11 Financial instruments of the 2009 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, credit risk and future administrative costs.

Valuation reserves and adjustments comprise:

|   | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 31 March<br>2010<br>£m | 31<br>December<br>2009<br>£m |
|---|-------------------------------|-----------------------|------------------------|------------------------------|
| Credit valuation adjustments:               |                               |                       |                        |                              |
| Monoline insurers                           | 2,678                         | 3,599                 | 3,870                  | 3,796                        |
| Credit derivative product companies         | 622                           | 791                   | 465                    | 499                          |
| Other counterparties                        | 1,937                         | 1,916                 | 1,737                  | 1,588                        |
|   | 5,237                         | 6,306                 | 6,072                  | 5,883                        |
| Bid-offer and liquidity reserves            | 3,092                         | 2,826                 | 2,965                  | 2,814                        |
|   | 8,329                         | 9,132                 | 9,037                  | 8,697                        |
| Debit valuation adjustments ('own credit'): |                               |                       |                        |                              |
| Debt securities in issue                    | (1,786)                       | (2,604)               | (2,151)                | (2,331)                      |
| Derivatives                                 | (485)                         | (551)                 | (475)                  | (467)                        |
| Total debit valuation adjustments           | (2,271)                       | (3,155)               | (2,626)                | (2,798)                      |

Credit valuation adjustments (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. CVA is discussed in Risk and capital management - Other risk exposures: Credit valuation adjustments on page 123. Bid-offer and liquidity reserves and own credit is discussed on pages 78 and 79 below.



Notes to pro forma results (continued)

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10. Financial instruments (continued)

Valuation reserves (continued)

Bid-offer and liquidity reserves

Fair value positions are adjusted to bid or offer levels, by marking individual cash based positions directly to bid or offer or by taking bid-offer reserves calculated on a portfolio basis for derivatives exposures.

The bid-offer approach is based on current market spreads and standard market bucketing of risk. Risk data are used as the primary sources of information within bid-offer calculations and are aggregated when they are more granular than market standard buckets.

Bid-offer adjustments for each risk factor are determined by aggregating similar risk exposures arising on different products. Additional basis bid-offer reserves are taken where these are charged in the market. Risk associated with non identical underlying exposures is not netted down unless there is evidence that the cost of closing the combined risk exposure is less than the cost of closing on an individual basis.

Bid-offer spreads vary by maturity and risk type to reflect different spreads in the market. For positions where there is no observable quote, the bid-offer spreads are widened in comparison to proxies to reflect reduced liquidity or observability. Bid-offer methodologies also incorporate liquidity triggers whereby wider spreads are applied to risks above pre-defined thresholds.

Netting is applied across risk buckets where there is market evidence to support this. For example calendar netting and cross strike netting effects are taken into account where such trades occur regularly within the market. Netting will also apply where long and short risk in two different risk buckets can be closed out in a single market transaction at less cost than by way of two separate transactions (closing out the individual bucketed risk in isolation).

Vanilla risk on exotic products is typically reserved as part of the overall portfolio based calculation e.g. delta and vega risk is included within the delta and vega bid-offer calculations. Aggregation of risk arising from different models is in line with the Group's risk management practices; the model review control process considers the appropriateness of model selection in this respect.

Product related risks such as correlation risk attract specific bid-offer reserves. Additional reserves are provided for exotic products to ensure overall reserves match market close-out costs. These market close-out costs inherently incorporate risk decay and cross-effects which are unlikely to be adequately reflected in the static hedge based on vanilla instruments.

Where there is limited bid-offer information for a product a conservative approach is taken, taking into account pricing approach and risk management strategy.



RBS Group – Q3 2010 Results

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Notes to pro forma results (continued)

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10. Financial instruments (continued)

Own credit

The Group takes into account the effect of its own credit standing, when valuing financial liabilities recorded at fair value, in accordance with IFRS. The categories of financial liabilities on which own credit spread adjustments are made are issued debt, including issued structured notes, and derivatives. An own credit adjustment is applied to positions where it is believed that counterparties would consider the Group's creditworthiness when pricing trades.

The own credit adjustment does not alter cash flows, is not used for performance management, and is disregarded for regulatory capital reporting processes.

For issued debt and structured notes, this adjustment is based on independent quotes from market participants for the debt issuance spreads above average inter-bank rates, (at a range of tenors) which the market would demand when purchasing new senior or subordinated debt issuances from the Group. Where necessary, these quotes are interpolated using a curve shape derived from credit default swap prices.

The fair value of the Group's derivative financial liabilities has also been adjusted to reflect the Group's own credit risk. The adjustment takes into account collateral posted by the Group and the effects of master netting agreements.

The reserve movement between periods will not equate to the reported profit or loss for own credit. The balance sheet reserves are stated by the conversion of underlying currency balances at spot rates for each period, however the income statement includes intra-period foreign exchange sell-offs.

The effect of change in credit spreads could reverse in future periods provided the liability is not repaid at a premium or a discount.

## Notes to pro forma results (continued)

## 10. Financial instruments (continued)

## Valuation hierarchy

|  | 30 September 2010 |         |         |         | 30 June 2010 |         |         |         | 31 December 2009 |         |         |         |
|--|-------------------|---------|---------|---------|--------------|---------|---------|---------|------------------|---------|---------|---------|
|  | Total             | Level 1 | Level 2 | Level 3 | Total        | Level 1 | Level 2 | Level 3 | Total            | Level 1 | Level 2 | Level 3 |
| Assets                                 | £bn               | £bn     | £bn     | £bn     | £bn          | £bn     | £bn     | £bn     | £bn              | £bn     | £bn     | £bn     |
| <b>Loans and advances to banks</b>     |                   |         |         |         |              |         |         |         |                  |         |         |         |
| - reverse repos                        | 43.5              | -       | 43.5    | -       | 43.8         | -       | 43.8    | -       | 26.9             | -       | 26.9    | -       |
| - collateral                           | 25.1              | -       | 25.1    | -       | 22.3         | -       | 22.3    | -       | 18.4             | -       | 18.4    | -       |
| - other                                | 1.0               | -       | 1.0     | -       | 0.7          | -       | 0.7     | -       | 0.1              | -       | 0.1     | -       |
|  | 69.6              | -       | 69.6    | -       | 66.8         | -       | 66.8    | -       | 45.4             | -       | 45.4    | -       |
| <b>Loans and advances to customers</b> |                   |         |         |         |              |         |         |         |                  |         |         |         |
| - reverse repos                        | 32.9              | -       | 32.9    | -       | 27.7         | -       | 27.7    | -       | 26.3             | -       | 26.3    | -       |
| - collateral                           | 21.7              | -       | 21.7    | -       | 15.7         | -       | 15.7    | -       | 9.9              | -       | 9.9     | -       |
| - other                                | 7.8               | -       | 6.9     | 0.9     | 7.1          | -       | 5.8     | 1.3     | 7.5              | -       | 6.4     | 1.1     |
|  | 62.4              | -       | 61.5    | 0.9     | 50.5         | -       | 49.2    | 1.3     | 43.7             | -       | 42.6    | 1.1     |
| <b>Debt securities</b>                 |                   |         |         |         |              |         |         |         |                  |         |         |         |
| - government                           | 132.5             | 118.5   | 14.0    | -       | 132.7        | 119.0   | 13.7    | -       | 134.1            | 118.2   | 15.9    | -       |
| - RMBS (2)                             | 45.1              | -       | 44.6    | 0.5     | 48.6         | -       | 48.1    | 0.5     | 57.1             | -       | 56.6    | 0.5     |
| - CMBS (3)                             | 4.0               | -       | 3.8     | 0.2     | 4.6          | -       | 4.1     | 0.5     | 4.1              | -       | 4.0     | 0.1     |
| - CDOs (4)                             | 2.8               | -       | 0.9     | 1.9     | 3.8          | -       | 0.9     | 2.9     | 3.6              | -       | 2.6     | 1.0     |
| - CLOs (5)                             | 6.0               | -       | 4.2     | 1.8     | 9.0          | -       | 7.7     | 1.3     | 8.8              | -       | 8.0     | 0.8     |
| - other ABS (6)                        | 5.6               | -       | 4.2     | 1.4     | 5.6          | -       | 4.0     | 1.6     | 6.1              | -       | 5.2     | 0.9     |
| - corporate                            | 10.4              | -       | 9.6     | 0.8     | 9.4          | -       | 8.7     | 0.7     | 10.5             | -       | 9.9     | 0.6     |
| - other (7)                            | 12.7              | 0.1     | 12.4    | 0.2     | 14.0         | -       | 13.8    | 0.2     | 14.9             | -       | 14.7    | 0.2     |
|  | 219.1             | 118.6   | 93.7    | 6.8     | 227.7        | 119.0   | 101.0   | 7.7     | 239.2            | 118.2   | 116.9   | 4.1     |
| Equity shares                          | 21.8              | 17.6    | 2.2     | 2.0     | 17.3         | 13.1    | 2.4     | 1.8     | 16.0             | 12.2    | 2.5     | 1.3     |
| <b>Derivatives</b>                     |                   |         |         |         |              |         |         |         |                  |         |         |         |
| - foreign exchange                     | 89.6              | 0.1     | 89.4    | 0.1     | 85.1         | -       | 85.0    | 0.1     | 68.3             | -       | 68.1    | 0.2     |
| - interest rate                        | 422.1             | 0.1     | 420.3   | 1.7     | 392.8        | 0.2     | 390.7   | 1.9     | 321.5            | 0.3     | 319.7   | 1.5     |
| - equities and commodities             | 6.3               | -       | 6.1     | 0.2     | 5.9          | 0.1     | 5.8     | -       | 6.7              | 0.3     | 6.1     | 0.3     |
| - credit - APS (8)                     | 0.6               | -       | -       | 0.6     | 1.4          | -       | -       | 1.4     | 1.4              | -       | -       | 1.4     |

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|  |       |       |       |      |       |       |       |      |       |       |       |      |
|--|-------|-------|-------|------|-------|-------|-------|------|-------|-------|-------|------|
| - credit - other                                 | 30.2  | -     | 26.9  | 3.3  | 37.7  | -     | 33.4  | 4.3  | 40.3  | 0.1   | 37.2  | 3.0  |
|  | 548.8 | 0.2   | 542.7 | 5.9  | 522.9 | 0.3   | 514.9 | 7.7  | 438.2 | 0.7   | 431.1 | 6.4  |
| Total assets                                     | 921.7 | 136.4 | 769.7 | 15.6 | 885.2 | 132.4 | 734.3 | 18.5 | 782.5 | 131.1 | 638.5 | 12.9 |
| Of which<br>classified as AFS<br>debt securities |       |       |       |      |       |       |       |      |       |       |       |      |
| - government                                     | 60.5  | 54.0  | 6.5   | -    | 66.2  | 59.6  | 6.6   | -    | 64.9  | 58.3  | 6.6   | -    |
| - RMBS (2)                                       | 30.3  | -     | 30.1  | 0.2  | 34.1  | -     | 33.9  | 0.2  | 37.2  | -     | 37.0  | 0.2  |
| - CMBS (3)                                       | 1.4   | -     | 1.4   | -    | 1.5   | -     | 1.5   | -    | 1.6   | -     | 1.6   | -    |
| - CDOs (4)                                       | 1.9   | -     | 0.5   | 1.4  | 2.1   | -     | 0.6   | 1.5  | 1.6   | -     | 1.2   | 0.4  |
| - CLOs (5)                                       | 5.0   | -     | 3.7   | 1.3  | 5.7   | -     | 5.0   | 0.7  | 5.5   | -     | 5.4   | 0.1  |
| - other ABS (6)                                  | 4.4   | -     | 3.2   | 1.2  | 4.3   | -     | 3.0   | 1.3  | 4.6   | -     | 4.0   | 0.6  |
| - corporate                                      | 2.6   | -     | 2.6   | -    | 2.3   | -     | 2.3   | -    | 2.5   | -     | 2.5   | -    |
| - other (7)                                      | 7.1   | 0.1   | 7.0   | -    | 7.7   | -     | 7.7   | -    | 7.5   | -     | 7.5   | -    |
|  | 113.2 | 54.1  | 55.0  | 4.1  | 123.9 | 59.6  | 60.6  | 3.7  | 125.4 | 58.3  | 65.8  | 1.3  |
| Equity shares                                    | 2.1   | 0.3   | 1.3   | 0.5  | 2.9   | 0.3   | 1.5   | 1.1  | 2.6   | 0.3   | 1.6   | 0.7  |
|  | 115.3 | 54.4  | 56.3  | 4.6  | 126.8 | 59.9  | 62.1  | 4.8  | 128.0 | 58.6  | 67.4  | 2.0  |

For notes to this table refer to page 81.

RBS Group – Q3 2010 Results

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## Notes to pro forma results (continued)

## 10. Financial instruments (continued)

## Valuation hierarchy (continued)

|                            | 30 September 2010 |         |         |         | 30 June 2010 |         |         |         | 31 December 2009 |         |         |         |
|----------------------------|-------------------|---------|---------|---------|--------------|---------|---------|---------|------------------|---------|---------|---------|
|                            | Total             | Level 1 | Level 2 | Level 3 | Total        | Level 1 | Level 2 | Level 3 | Total            | Level 1 | Level 2 | Level 3 |
| Liabilities                | £bn               | £bn     | £bn     | £bn     | £bn          | £bn     | £bn     | £bn     | £bn              | £bn     | £bn     | £bn     |
| Deposits by banks          |                   |         |         |         |              |         |         |         |                  |         |         |         |
| - repos                    | 24.9              | -       | 24.9    | -       | 24.6         | -       | 24.6    | -       | 21.0             | -       | 21.0    | -       |
| - collateral               | 36.8              | -       | 36.8    | -       | 33.6         | -       | 33.6    | -       | 28.5             | -       | 28.5    | -       |
| - other                    | 3.0               | -       | 3.0     | -       | 3.7          | -       | 3.7     | -       | 4.1              | -       | 4.1     | -       |
|                            | 64.7              | -       | 64.7    | -       | 61.9         | -       | 61.9    | -       | 53.6             | -       | 53.6    | -       |
| Customer accounts          |                   |         |         |         |              |         |         |         |                  |         |         |         |
| - repos                    | 59.3              | -       | 59.3    | -       | 45.8         | -       | 45.8    | -       | 41.5             | -       | 41.5    | -       |
| - collateral               | 9.1               | -       | 9.1     | -       | 9.3          | -       | 9.3     | -       | 9.0              | -       | 9.0     | -       |
| - other                    | 6.6               | -       | 6.6     | -       | 7.0          | -       | 6.9     | 0.1     | 7.5              | -       | 7.4     | 0.1     |
|                            | 75.0              | -       | 75.0    | -       | 62.1         | -       | 62.0    | 0.1     | 58.0             | -       | 57.9    | 0.1     |
| Debt securities in issue   | 50.4              | -       | 48.9    | 1.5     | 45.7         | -       | 44.4    | 1.3     | 45.4             | -       | 43.1    | 2.3     |
| Short positions            | 44.0              | 34.0    | 9.3     | 0.7     | 43.0         | 31.7    | 10.2    | 1.1     | 40.5             | 27.1    | 13.2    | 0.2     |
| Derivatives                |                   |         |         |         |              |         |         |         |                  |         |         |         |
| - foreign exchange         | 98.4              | 0.1     | 98.0    | 0.3     | 88.7         | -       | 88.6    | 0.1     | 63.6             | -       | 63.6    | -       |
| - interest rate            | 407.5             | 0.1     | 406.8   | 0.6     | 377.5        | 0.4     | 376.2   | 0.9     | 309.3            | 0.1     | 308.4   | 0.8     |
| - equities and commodities | 9.7               | -       | 9.5     | 0.2     | 9.0          | -       | 8.9     | 0.1     | 9.5              | 0.8     | 8.5     | 0.2     |
| - credit - other           | 27.8              | -       | 27.4    | 0.4     | 33.8         | -       | 33.3    | 0.5     | 39.1             | -       | 38.2    | 0.9     |
|                            | 543.4             | 0.2     | 541.7   | 1.5     | 509.0        | 0.4     | 507.0   | 1.6     | 421.5            | 0.9     | 418.7   | 1.9     |
| Other                      | 1.1               | -       | 1.1     | -       | 1.1          | -       | 1.1     | -       | 1.3              | -       | 1.3     | -       |
| Total liabilities          | 778.6             | 34.2    | 740.7   | 3.7     | 722.8        | 32.1    | 686.6   | 4.1     | 620.3            | 28.0    | 587.8   | 4.5     |

## Notes:

- (1) For details on levels 1, 2 and 3 refer to Note 11 - Financial instruments of the 2009 Annual Report and Accounts.
- (2) Residential mortgage-backed securities.
- (3) Commercial mortgage-backed securities.
- (4) Collateralised debt obligations.

- (5) Collateralised loan obligation.
- (6) Asset-backed securities.
- (7) Primarily includes debt securities issued by banks and building societies.
- (8) Asset Protection Scheme.

RBS Group – Q3 2010 Results

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Notes to pro forma results (continued)

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10. Financial instruments (continued)

Valuation hierarchy (continued)

Key points

- Total assets carried at fair value increased by £36.5 billion in the quarter to £921.7 billion at 30 September 2010, principally reflecting an increase in derivatives of £25.9 billion, collateral of £8.8 billion, reverse repos of £4.9 billion, partially offset by a decrease in debt securities of £8.6 billion.
- Total liabilities carried at fair value were up by £55.8 billion, with increases in derivatives of £34.4 billion, repos of £13.8 billion, debt securities in issue of £4.7 billion and collateral of £3.0 billion.
- Level 3 assets represented 1.7% (30 June 2010 – 2.1%; 31 December 2009 – 1.6%) of total assets carried at fair value and decreased by £2.9 billion to £15.6 billion primarily due to disposals and tightening credit spreads.
- Level 3 liabilities decreased by £0.4 billion, mainly reflecting the impact of tighter credit spreads on short positions.
- The favourable and unfavourable effects of reasonably possible alternative assumptions on financial instruments carried at fair value were £3.1 billion and £3.0 billion respectively of which £1.2 billion and £1.5 billion related to the APS credit derivative. These sensitivities are not indicative of the total potential effect on the income statement or other comprehensive income.

## Notes to pro forma results (continued)

## 11. Debt securities

| Measurement<br>classification | Central and local<br>government |        |        | Banks<br>and<br>building<br>societies | ABS (2) | Corporate | Other | Total   |
|-------------------------------|---------------------------------|--------|--------|---------------------------------------|---------|-----------|-------|---------|
|                               | UK                              | US     | Other  |                                       |         |           |       |         |
|                               | £m                              | £m     | £m     | £m                                    | £m      | £m        | £m    | £m      |
| 30 September 2010             |                                 |        |        |                                       |         |           |       |         |
| Held-for-trading              | 5,302                           | 17,164 | 49,204 | 4,884                                 | 20,475  | 7,733     | 628   | 105,390 |
| DFV (1)                       | 1                               | -      | 353    | 3                                     | 227     | 18        | 1     | 603     |
| Available-for-sale            | 9,511                           | 17,604 | 33,323 | 6,910                                 | 42,923  | 2,654     | 226   | 113,151 |
| Loans and<br>receivables      | 11                              | -      | -      | 12                                    | 6,387   | 759       | 97    | 7,266   |
|                               | 14,825                          | 34,768 | 82,880 | 11,809                                | 70,012  | 11,164    | 952   | 226,410 |
| 30 June 2010                  |                                 |        |        |                                       |         |           |       |         |
| Held-for-trading              | 8,993                           | 16,642 | 40,589 | 5,471                                 | 23,614  | 7,077     | 775   | 103,161 |
| DFV (1)                       | 1                               | -      | 357    | 3                                     | 234     | 24        | -     | 619     |
| Available-for-sale            | 11,584                          | 17,194 | 37,459 | 7,371                                 | 47,709  | 2,324     | 300   | 123,941 |
| Loans and<br>receivables      | 11                              | -      | -      | 18                                    | 7,148   | 1,274     | 88    | 8,539   |
|                               | 20,589                          | 33,836 | 78,405 | 12,863                                | 78,705  | 10,699    | 1,163 | 236,260 |
| 31 December 2009              |                                 |        |        |                                       |         |           |       |         |
| Held-for-trading              | 8,128                           | 10,427 | 50,150 | 6,103                                 | 28,820  | 6,892     | 893   | 111,413 |
| DFV (1)                       | 122                             | 3      | 385    | 418                                   | 394     | 1,087     | 20    | 2,429   |
| Available-for-sale            | 18,350                          | 12,789 | 33,727 | 7,472                                 | 50,464  | 2,550     | 30    | 125,382 |
| Loans and<br>receivables      | 1                               | -      | -      | -                                     | 7,924   | 1,853     | 93    | 9,871   |
|                               | 26,601                          | 23,219 | 84,262 | 13,993                                | 87,602  | 12,382    | 1,036 | 249,095 |

## Notes

(1) Designated as at fair value through profit or loss.

(2) Asset-backed securities.

See Risk and capital management section for information on ratings.



RBS Group – Q3 2010 Results

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## Notes to pro forma results (continued)

## 12. Derivatives

|                                | 30 September 2010 |                   | 30 June 2010 |                   | 31 December 2009 |                   |
|--------------------------------|-------------------|-------------------|--------------|-------------------|------------------|-------------------|
|                                | Assets<br>£m      | Liabilities<br>£m | Assets<br>£m | Liabilities<br>£m | Assets<br>£m     | Liabilities<br>£m |
| Exchange rate contracts        |                   |                   |              |                   |                  |                   |
| Spot, forwards and futures     | 43,109            | 45,986            | 37,670       | 38,402            | 26,559           | 24,763            |
| Currency swaps                 | 31,816            | 38,813            | 28,232       | 32,336            | 25,221           | 23,337            |
| Options purchased              | 14,603            | -                 | 19,191       | -                 | 16,572           | -                 |
| Options written                | -                 | 13,586            | -            | 17,921            | -                | 15,499            |
| Interest rate contracts        |                   |                   |              |                   |                  |                   |
| Interest rate swaps            | 345,631           | 335,541           | 324,978      | 313,019           | 263,902          | 251,829           |
| Options purchased              | 74,395            | -                 | 65,818       | -                 | 55,471           | -                 |
| Options written                | -                 | 69,919            | -            | 62,766            | -                | 55,462            |
| Futures and forwards           | 2,151             | 2,051             | 2,033        | 1,702             | 2,088            | 2,033             |
| Credit derivatives             | 30,810            | 27,766            | 38,981       | 33,795            | 41,748           | 39,127            |
| Equity and commodity contracts | 6,290             | 9,735             | 5,968        | 9,025             | 6,638            | 9,484             |
|                                | 548,805           | 543,397           | 522,871      | 508,966           | 438,199          | 421,534           |

The Group enters into master netting agreements in respect of its derivative activities. These arrangements, which give the Group a legal right to set-off derivative assets and liabilities with the same counterparty, do not result in a net presentation in the Group's balance sheet for which IFRS requires an intention to settle net or to realise the asset and settle the liability simultaneously, as well as a legally enforceable right to set-off. They are, however, effective in reducing the Group's credit exposure from derivative assets. The Group has executed master netting agreements with the majority of its derivative counterparties resulting in a significant reduction in its net exposure to derivative assets. Of the £549 billion derivative assets shown above, £449 billion (30 June 2010 - £422 billion; 31 December 2009 - £359 billion) were subject to such agreements. Furthermore, the Group holds substantial collateral against this net derivative asset exposure, see Risk and capital management: Credit risk: Derivatives on page 106.



## Notes to pro forma results (continued)

## 13. Available-for-sale financial assets

Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs and are subsequently measured at fair value with changes in fair value reported in shareholders' equity until disposal, at which stage the cumulative gain or loss is recognised in profit or loss. When there is objective evidence that an available-for-sale financial asset is impaired, any decline in its fair value below original cost is removed from equity and recognised in profit or loss.

Impairment losses are recognised when there is objective evidence of impairment. The Group reviews its portfolios of available-for-sale financial assets for such evidence which includes: default or delinquency in interest or principal payments; significant financial difficulty of the issuer or obligor; and it becoming probable that the issuer will enter bankruptcy or other financial reorganisation. However, the disappearance of an active market because an entity's financial instruments are no longer publicly traded is not evidence of impairment. Furthermore, a downgrade of an entity's credit rating is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a financial asset below its cost or amortised cost is not necessarily evidence of impairment. Determining whether objective evidence of impairment exists requires the exercise of management judgment. The unrecognised losses on the Group's available-for-sale debt securities are concentrated in its portfolios of mortgage-backed securities. The losses reflect the widening of credit spreads as a result of the reduced market liquidity in these securities and the current uncertain macroeconomic outlook in the US and Europe. The underlying securities remain unimpaired.

During the third quarter of 2010 gains were realised by US Retail & Commercial (£215 million) and RBS N.V. (£216 million). The gain in US Retail & Commercial, which was part of its balance sheet restructuring exercise, was largely offset in the income statement by losses crystallised on the termination of swaps hedging fixed-rate funding related hedges. The gain in RBS N.V., which is included in Central items was offset by negative movements relating to IFRS volatility. Available-for-sale reserves at 30 September 2010 amounted to net losses of £1,242 million (30 June 2010 – net losses £1,459 million; 31 December 2009 – net losses £1,755 million), and the movements were as follows:

|   | Quarter<br>ended<br>30<br>September<br>2010 | Half year<br>ended<br>30 June<br>2010 | Year<br>ended<br>31<br>December<br>2009 |
|---|---|---------------------------------------|---|
| Available-for-sale reserves   | £m  | £m                                    | £m                                      |
| At beginning of period  | (1,459)                                     | (1,755)                               | (3,561)                                 |
| Unrealised gains in the period  | 680   | 647                                   | 1,202                                   |
| Realised (gains)/losses in the period                                       | (408)                                       | (127)                                 | 981                                     |
| Taxation  | (55)  | (208)                                 | (377)                                   |
| Recycled to profit or loss on disposal of businesses, net of £6 million tax | -   | (16)                                  | -                                       |
| At end of period  | (1,242)                                     | (1,459)                               | (1,755)                                 |

The above excludes losses attributable to minority interests of £336 million in the year ended 31 December 2009.

RBS Group – Q3 2010 Results

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## Notes to pro forma results (continued)

## 14. Contingent liabilities and commitments

|  | 30 September 2010 |                |             | 30 June 2010 |                |             | 31                     |
|--|-------------------|----------------|-------------|--------------|----------------|-------------|------------------------|
|  | Core<br>£m        | Non-Core<br>£m | Total<br>£m | Core<br>£m   | Non-Core<br>£m | Total<br>£m | December<br>2009<br>£m |
| Contingent liabilities   |                   |                |             |              |                |             |                        |
| Guarantees and assets<br>pledged as  |                   |                |             |              |                |             |                        |
| collateral security  | 35,334            | 2,616          | 37,950      | 33,391       | 2,529          | 35,920      | 36,579                 |
| Other contingent liabilities   | 12,606            | 376            | 12,982      | 12,503       | 485            | 12,988      | 13,410                 |
|  | 47,940            | 2,992          | 50,932      | 45,894       | 3,014          | 48,908      | 49,989                 |
| Commitments  |                   |                |             |              |                |             |                        |
| Undrawn formal standby<br>facilities,<br>credit lines and other<br>commitments |                   |                |             |              |                |             |                        |
| to lend  | 240,560           | 26,126         | 266,686     | 245,053      | 25,478         | 270,531     | 289,135                |
| Other commitments  | 867               | 2,637          | 3,504       | 2,084        | 2,631          | 4,715       | 3,483                  |
|  | 241,427           | 28,763         | 270,190     | 247,137      | 28,109         | 275,246     | 292,618                |
| Total contingent liabilities<br>and<br>commitments                             | 289,367           | 31,755         | 321,122     | 293,031      | 31,123         | 324,154     | 342,607                |

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.

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: 5 November 2010

THE ROYAL BANK OF  
SCOTLAND GROUP plc  
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill  
Title: Deputy Secretary