

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
November 04, 2011

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

Report of Foreign Private Issuer

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

For November 4, 2011

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F X

Form 40-F ___

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

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

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

Yes ___

No X

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

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

Condensed consolidated income statement
for the period ended 30 September 2011

| | Quarter ended | | | Nine months ended | |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2011 £m | 30 June 2011 £m | 30 September 2010 £m | 30 September 2011 £m | 30 September 2010 £m |
| Interest receivable | 5,371 | 5,404 | 5,584 | 16,176 | 17,164 |
| Interest payable | (2,294) | (2,177) | (2,173) | (6,571) | (6,535) |
| Net interest income | 3,077 | 3,227 | 3,411 | 9,605 | 10,629 |
| Fees and commissions receivable | 1,452 | 1,700 | 2,037 | 4,794 | 6,141 |
| Fees and commissions payable | (304) | (323) | (611) | (887) | (1,762) |
| Income from trading activities | 957 | 1,147 | 277 | 2,939 | 4,153 |
| Gain on redemption of own debt | 1 | 255 | - | 256 | 553 |
| Other operating income (excluding insurance premium income) | 2,384 | 1,142 | (317) | 3,917 | 476 |
| Insurance net premium income | 1,036 | 1,090 | 1,289 | 3,275 | 3,856 |
| Non-interest income | 5,526 | 5,011 | 2,675 | 14,294 | 13,417 |
| Total income | 8,603 | 8,238 | 6,086 | 23,899 | 24,046 |
| Staff costs | (2,076) | (2,210) | (2,423) | (6,685) | (7,477) |
| Premises and equipment | (604) | (602) | (611) | (1,777) | (1,693) |
| Other administrative expenses | (962) | (1,752) | (914) | (3,635) | (2,947) |
| Depreciation and amortisation | (485) | (453) | (603) | (1,362) | (1,604) |
| Operating expenses | (4,127) | (5,017) | (4,551) | (13,459) | (13,721) |
| Profit before other operating charges and impairment losses | 4,476 | 3,221 | 1,535 | 10,440 | 10,325 |
| Insurance net claims | (734) | (793) | (1,142) | (2,439) | (3,601) |
| Impairment losses | (1,738) | (3,106) | (1,953) | (6,791) | (7,115) |
| Operating profit/(loss) before tax | 2,004 | (678) | (1,560) | 1,210 | (391) |

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| | | | | | |
|---|-------|--------|---------|---------|---------|
| Tax (charge)/credit | (791) | (222) | 295 | (1,436) | (637) |
| Profit/(loss) from continuing operations | 1,213 | (900) | (1,265) | (226) | (1,028) |
| Profit/(loss) from discontinued operations, net of tax | 6 | 21 | 18 | 37 | (688) |
| Profit/(loss) for the period | 1,219 | (879) | (1,247) | (189) | (1,716) |
| Non-controlling interests | 7 | (18) | 101 | (10) | 703 |
| Preference share and other dividends | - | - | - | - | (124) |
| Profit/(loss) attributable to ordinary and B shareholders | 1,226 | (897) | (1,146) | (199) | (1,137) |
| Basic earnings/(loss) per ordinary and B share from continuing operations | 1.1p | (0.8p) | (1.1p) | (0.2p) | (0.5p) |
| Diluted earnings/(loss) per ordinary and B share from continuing operations | 1.1p | (0.8p) | (1.1p) | (0.2p) | (0.5p) |
| Basic (loss)/earnings per ordinary and B share from discontinued operations | - | - | - | - | - |
| Diluted (loss)/earnings per ordinary and B share from discontinued operations | - | - | - | - | - |

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

Condensed consolidated statement of comprehensive income
for the period ended 30 September 2011

| | | | | |
|--|---------------|---------|-------------------|-----------|
| | Quarter ended | | Nine months ended | |
| | 30 | 30 June | 30 | 30 |
| | September | 2011 | September | September |

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| | 2011 | | 2010 | 2011 | 2010 |
|--|-------|-------|---------|-------|---------|
| | £m | £m | £m | £m | £m |
| Profit/(loss) for the period | 1,219 | (879) | (1,247) | (189) | (1,716) |
| Other comprehensive income/(loss) | | | | | |
| Available-for-sale financial assets (1) | 996 | 1,406 | 235 | 2,365 | 743 |
| Cash flow hedges | 939 | 588 | 553 | 1,300 | 1,807 |
| Currency translation | (22) | 59 | (647) | (323) | 47 |
| Other comprehensive income before tax | 1,913 | 2,053 | 141 | 3,342 | 2,597 |
| Tax charge | (480) | (524) | (256) | (972) | (702) |
| Other comprehensive income/(loss) after tax | 1,433 | 1,529 | (115) | 2,370 | 1,895 |
| Total comprehensive income/(loss) for the period | 2,652 | 650 | (1,362) | 2,181 | 179 |
| Total comprehensive income/(loss) recognised in the statement of changes in equity is attributable as follows: | | | | | |
| Non-controlling interests | (6) | 3 | (117) | (12) | (249) |
| Preference shareholders | - | - | - | - | 105 |
| Paid-in equity holders | - | - | - | - | 19 |
| Ordinary and B shareholders | 2,658 | 647 | (1,245) | 2,193 | 304 |
| | 2,652 | 650 | (1,362) | 2,181 | 179 |

Note:

(1) Analysis provided on page 94.

Key point

- The Q3 2011 movement in available-for-sale financial assets reflects £1,207 million unrealised gains on securities, primarily in relation to high quality sovereign bonds, partially offset by realised gains of £214 million from routine portfolio management, mainly in Group Treasury.

Condensed consolidated balance sheet

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at 30 September 2011

| | 30 September 2011 £m | 30 June 2011 £m | 31 December 2010 £m |
|---|-------------------------------|-----------------------|------------------------------|
| Assets | | | |
| Cash and balances at central banks | 78,445 | 64,351 | 57,014 |
| Net loans and advances to banks | 52,602 | 53,133 | 57,911 |
| Reverse repurchase agreements and stock borrowing | 48,127 | 41,973 | 42,607 |
| Loans and advances to banks | 100,729 | 95,106 | 100,518 |
| Net loans and advances to customers | 485,573 | 489,572 | 502,748 |
| Reverse repurchase agreements and stock borrowing | 54,132 | 56,162 | 52,512 |
| Loans and advances to customers | 539,705 | 545,734 | 555,260 |
| Debt securities | 229,657 | 243,645 | 217,480 |
| Equity shares | 14,888 | 24,951 | 22,198 |
| Settlement balances | 21,526 | 24,566 | 11,605 |
| Derivatives | 572,344 | 394,872 | 427,077 |
| Intangible assets | 14,744 | 14,592 | 14,448 |
| Property, plant and equipment | 17,060 | 17,357 | 16,543 |
| Deferred tax | 4,988 | 6,245 | 6,373 |
| Prepayments, accrued income and other assets | 10,598 | 11,143 | 12,576 |
| Assets of disposal groups | 3,044 | 3,407 | 12,484 |
| Total assets | 1,607,728 | 1,445,969 | 1,453,576 |
| Liabilities | | | |
| Bank deposits | 78,370 | 71,573 | 66,051 |
| Repurchase agreements and stock lending | 36,227 | 35,381 | 32,739 |
| Deposits by banks | 114,597 | 106,954 | 98,790 |
| Customer deposits | 433,660 | 428,703 | 428,599 |
| Repurchase agreements and stock lending | 95,691 | 88,822 | 82,094 |
| Customer accounts | 529,351 | 517,525 | 510,693 |
| Debt securities in issue | 194,511 | 213,797 | 218,372 |
| Settlement balances | 17,983 | 22,905 | 10,991 |
| Short positions | 48,495 | 56,106 | 43,118 |
| Derivatives | 561,790 | 387,809 | 423,967 |
| Accruals, deferred income and other liabilities | 22,938 | 24,065 | 23,089 |
| Retirement benefit liabilities | 1,855 | 2,239 | 2,288 |
| Deferred tax | 1,913 | 2,092 | 2,142 |
| Insurance liabilities | 6,628 | 6,687 | 6,794 |
| Subordinated liabilities | 26,275 | 26,311 | 27,053 |
| Liabilities of disposal groups | 2,516 | 3,237 | 9,428 |
| Total liabilities | 1,528,852 | 1,369,727 | 1,376,725 |
| Equity | | | |
| Non-controlling interests | 1,433 | 1,498 | 1,719 |
| Owners' equity* | | | |

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| | | | |
|-----------------------------------|-----------|-----------|-----------|
| Called up share capital | 15,318 | 15,317 | 15,125 |
| Reserves | 62,125 | 59,427 | 60,007 |
| Total equity | 78,876 | 76,242 | 76,851 |
| Total liabilities and equity | 1,607,728 | 1,445,969 | 1,453,576 |
| * Owners' equity attributable to: | | | |
| Ordinary and B shareholders | 72,699 | 70,000 | 70,388 |
| Other equity owners | 4,744 | 4,744 | 4,744 |
| | 77,443 | 74,744 | 75,132 |

Commentary on condensed consolidated balance sheet

Total assets of £1,607.7 billion at 30 September 2011 were up £161.8 billion, 11%, compared with 30 June 2011. This was principally driven by an increase in the mark-to-market value of derivatives within Global Banking & Markets, together with higher cash and balances at central banks in stressed global financial markets. This increase was partly offset by the continuing planned disposal of Non-Core assets.

Cash and balances at central banks increased £14.1 billion, 22%, to £78.4 billion principally due to the placing of short-term cash surpluses.

Loans and advances to banks increased £5.6 billion, 6%, to £100.7 billion. Within this, reverse repurchase agreements and stock borrowing ('reverse repos') were up £6.2 billion, 15%, to £48.1 billion with bank placings declining £0.6 billion, 1%, to £52.6 billion.

Loans and advances to customers declined £6.0 billion, 1%, to £539.7 billion. Within this, reverse repurchase agreements were down £2.0 billion, 4%, to £54.1 billion. Customer lending decreased by £4.0 billion, 1%, to £485.6 billion, or £4.0 billion to £506.2 billion before impairments. This reflected planned reductions in Non-Core of £5.4 billion, along with declines in UK Corporate, £0.8 billion, UK Retail, £0.3 billion and Ulster Bank, £0.3 billion, together with the effect of exchange rate and other movements, £0.4 billion. These were partially offset by growth in Global Banking & Markets, £2.2 billion, Global Transaction Services, £0.5 billion, Wealth, £0.3 billion and US Retail & Commercial, £0.2 billion.

Debt securities were down £14.0 billion, 6%, to £229.7 billion, driven mainly by a reduction in holdings of government and financial institution bonds within Global Banking & Markets and Group Treasury.

Equity shares decreased £10.1 billion, 40%, to £14.9 billion reflecting primarily the closure of positions to reduce the Groups' level of unsecured funding requirements to mitigate the potential impact of unfavourable market conditions.

Settlement balances declined £3.0 billion, 12%, to £21.5 billion as a result of decreased customer activity.

Movements in the value of derivative assets up, £177.5 billion, 45%, to £572.3 billion, and liabilities, up £174.0 billion, 45% to £561.8 billion, primarily reflect increases in interest rate contracts as a result of a significant

downwards shift in interest rates across all major currencies, together with increases in the mark-to-market value of credit derivatives as a result of widening credit spreads and rising credit default swap prices. Further contributing to the increase was the net effect of currency movements, with sterling weakening against the US dollar but strengthening against the euro.

Deposits by banks increased £7.6 billion, 7%, to £114.6 billion, with higher repurchase agreements and stock lending ('repos'), up £0.8 billion, 2%, to £36.2 billion and inter-bank deposits up £6.8 billion, 9%, to £78.4 billion.

Commentary on condensed consolidated balance sheet (continued)

Customer accounts were up £11.8 billion, 2%, to £529.4 billion. Within this, repos increased £6.9 billion, 8%, to £95.7 billion. Excluding repos, customer deposits were up £4.9 billion, 1%, at £433.7 billion, reflecting growth in Global Banking & Markets, £4.1 billion, UK Retail, £2.7 billion, US Retail & Commercial, £0.4 billion and Wealth, £0.1 billion, together with exchange and other movements, £0.6 billion. This was partly offset by decreases in Global Transaction Services, £1.5 billion, UK Corporate, £0.7 billion, Non-Core, £0.7 billion and Ulster Bank, £0.1 billion.

Debt securities in issue declined £19.3 billion, 9%, to £194.5 billion as a result of reduced issuance by Global Banking & Markets and Group Treasury.

Settlement balances declined £4.9 billion, 21%, to £18.0 billion and short positions were down £7.6 billion, 14%, to £48.5 billion due to decreased customer activity.

Owner's equity increased by £2.7 billion, 4%, to £77.4 billion, driven by the attributable profit for the period of £1.2 billion and increases in available-for-sale reserves, £0.7 billion and cash flow hedging reserves, £0.7 billion.

Average balance sheet

| | Quarter ended | | Nine months ended | |
|---|------------------------------|----------------------|------------------------------|------------------------------|
| | 30 September 2011 % | 30 June 2011 % | 30 September 2011 % | 30 September 2010 % |
| Average yields, spreads and margins of the banking business | | | | |
| Gross yield on interest-earning assets of banking business | 3.21 | 3.28 | 3.27 | 3.27 |

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| | | | | |
|--|--------|--------|--------|--------|
| Cost of interest-bearing liabilities of banking business | (1.69) | (1.60) | (1.62) | (1.45) |
| Interest spread of banking business | 1.52 | 1.68 | 1.65 | 1.82 |
| Benefit from interest-free funds | 0.32 | 0.29 | 0.29 | 0.18 |
| Net interest margin of banking business | 1.84 | 1.97 | 1.94 | 2.00 |
| Average interest rates | | | | |
| The Group's base rate | 0.50 | 0.50 | 0.50 | 0.50 |
| London inter-bank three month offered rates | | | | |
| - Sterling | 0.87 | 0.82 | 0.83 | 0.69 |
| - Eurodollar | 0.30 | 0.26 | 0.29 | 0.36 |
| - Euro | 1.51 | 1.36 | 1.30 | 0.68 |

Average balance sheet (continued)

| | Quarter ended 30 September 2011 | | | Quarter ended 30 June 2011 | | |
|---------------------------------|------------------------------------|----------------|-----------|-------------------------------|----------------|-----------|
| | Average balance £m | Interest £m | Rate % | Average balance £m | Interest £m | Rate % |
| Assets | | | | | | |
| Loans and advances to banks | 72,461 | 154 | 0.84 | 67,191 | 164 | 0.98 |
| Loans and advances to customers | 469,910 | 4,506 | 3.80 | 470,593 | 4,545 | 3.87 |
| Debt securities | 121,585 | 713 | 2.33 | 123,888 | 705 | 2.28 |
| Interest-earning assets | | | | | | |
| - banking business | 663,956 | 5,373 | 3.21 | 661,672 | 5,414 | 3.28 |
| Trading business | 281,267 | | | 284,378 | | |
| Non-interest earning assets | 653,592 | | | 557,649 | | |
| Total assets | 1,598,815 | | | 1,503,699 | | |
| Memo: Funded assets | 1,087,227 | | | 1,089,400 | | |

| | | | | | | |
|--------------------------------------|-----------|-------|--------|-----------|-------|--------|
| Liabilities | | | | | | |
| Deposits by banks | 64,198 | 245 | 1.51 | 65,119 | 245 | 1.51 |
| Customer accounts | 338,469 | 921 | 1.08 | 336,317 | 857 | 1.02 |
| Debt securities in issue | 161,703 | 944 | 2.32 | 171,709 | 897 | 2.10 |
| Subordinated liabilities | 23,000 | 134 | 2.31 | 23,320 | 148 | 2.55 |
| Internal funding of trading business | (48,161) | 55 | (0.45) | (51,609) | 22 | (0.17) |
| Interest-bearing liabilities - | | | | | | |
| banking business | 539,209 | 2,299 | 1.69 | 544,856 | 2,169 | 1.60 |
| Trading business | 314,626 | | | 314,099 | | |
| Non-interest-bearing liabilities | | | | | | |
| - demand deposits | 66,496 | | | 64,811 | | |
| - other liabilities | 602,235 | | | 505,585 | | |
| Owners' equity | 76,249 | | | 74,348 | | |
| Total liabilities and owners' equity | 1,598,815 | | | 1,503,699 | | |

Notes:

- (1) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
- (2) Interest receivable has been increased by nil (Q2 2011 - £6 million) and interest payable has been decreased by £1 million (Q2 2011 - nil) to exclude the RFS Holdings minority interest. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (3) Interest receivable has been increased by £2 million (Q2 2011 - £2 million) and interest payable has been increased by £47 million (Q2 2011 - £34 million) to record interest on financial assets and liabilities designated as at fair value through profit or loss. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (4) Interest receivable has been increased by nil (Q2 2011 - £2 million) and interest payable has been decreased by £41 million (Q2 2011 - £42 million) in respect of non-recurring adjustments.

Average balance sheet (continued)

| Nine months ended 30 September 2011 | | | Nine months ended 30 September 2010 | | |
|--|----------|------|--|----------|------|
| Average balance | Interest | Rate | Average balance | Interest | Rate |

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| | £m | £m | % | £m | £m | % |
|---|------------------|--------|--------|------------------|--------|------|
| Assets | | | | | | |
| Loans and advances to banks | 67,916 | 490 | 0.96 | 49,686 | 425 | 1.14 |
| Loans and advances to customers | 471,551 | 13,644 | 3.87 | 517,209 | 14,086 | 3.64 |
| Debt securities | 121,949 | 2,056 | 2.25 | 132,589 | 2,604 | 2.63 |
| Interest-earning assets | | | | | | |
| - banking business | 661,416 | 16,190 | 3.27 | 699,484 | 17,115 | 3.27 |
| Trading business | 281,601 | | | 276,338 | | |
| Non-interest earning assets | 573,261 | | | 725,760 | | |
| Total assets | 1,516,278 | | | 1,701,582 | | |
| Memo: Funded assets | 1,081,562 | | | 1,197,599 | | |
| Liabilities | | | | | | |
| Deposits by banks | 65,323 | 749 | 1.53 | 84,955 | 1,043 | 1.64 |
| Customer accounts | 334,890 | 2,609 | 1.04 | 344,223 | 2,795 | 1.09 |
| Debt securities in issue | 169,622 | 2,687 | 2.12 | 198,051 | 2,426 | 1.64 |
| Subordinated liabilities | 23,795 | 452 | 2.54 | 29,860 | 529 | 2.37 |
| Internal funding of trading business | (50,581) | 85 | (0.22) | (43,349) | (151) | 0.47 |
| Interest-bearing liabilities - | | | | | | |
| - banking business | 543,049 | 6,582 | 1.62 | 613,740 | 6,642 | 1.45 |
| Trading business | 310,184 | | | 295,847 | | |
| Non-interest-bearing liabilities | | | | | | |
| - demand deposits | 65,011 | | | 48,119 | | |
| - other liabilities | 523,038 | | | 666,459 | | |
| Owners' equity | 74,996 | | | 77,417 | | |
| Total liabilities and owners' equity | 1,516,278 | | | 1,701,582 | | |

Notes:

- (1) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.

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- (2) Interest-earning assets and interest-bearing liabilities for 2010 exclude the Retail bancassurance long-term assets and liabilities, attributable to policyholders, in view of their distinct nature. As a result, net interest income has been increased by £4 million for the nine months ended 30 September 2010.
- (3) Interest receivable has been increased by £5 million (nine months ended 30 September 2010 - £9 million decrease) and interest payable has been decreased by £1 million (nine months ended 30 September 2010 - £2 million) to exclude the RFS Holdings minority interest. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (4) Interest receivable has been increased by £7 million for nine months ended 30 September 2011 (nine months ended 30 September 2010 - £46 million) and interest payable has been increased by £110 million (nine months ended 30 September 2010 - £15 million) to record interest on financial assets and liabilities designated as at fair value through profit or loss. Related interest-earning assets and interest-bearing liabilities have also been adjusted.
- (5) Interest receivable has been increased by £2 million (nine months ended 30 September 2010 - £90 million decrease) and interest payable has been decreased by £98 million (nine months ended 30 September 2010 - £94 million increase) in respect of non-recurring adjustments.

Condensed consolidated statement of changes in equity
for the period ended 30 September 2011

| | Quarter ended | | | Nine months ended | |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2011 £m | 30 June 2011 £m | 30 September 2010 £m | 30 September 2011 £m | 30 September 2010 £m |
| Called-up share capital | | | | | |
| At beginning of period | 15,317 | 15,156 | 15,029 | 15,125 | 14,630 |
| Ordinary shares issued | 1 | 161 | 1 | 193 | 402 |
| Preference shares redeemed | - | - | - | - | (2) |
| At end of period | 15,318 | 15,317 | 15,030 | 15,318 | 15,030 |
| Paid-in equity | | | | | |
| At beginning of period | 431 | 431 | 431 | 431 | 565 |
| Securities redeemed | - | - | - | - | (132) |
| Transfer to retained earnings | - | - | - | - | (2) |
| At end of period | 431 | 431 | 431 | 431 | 431 |
| Share premium account | | | | | |
| At beginning of period | 23,923 | 23,922 | 23,858 | 23,922 | 23,523 |
| Ordinary shares issued | - | 1 | - | 1 | 217 |
| Redemption of preference shares classified as debt | - | - | - | - | 118 |

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| | | | | | |
|--|---------|---------|---------|---------|----------|
| At end of period | 23,923 | 23,923 | 23,858 | 23,923 | 23,858 |
| Merger reserve | | | | | |
| At beginning of period | 13,222 | 13,272 | 13,272 | 13,272 | 25,522 |
| Transfer to retained earnings | - | (50) | - | (50) | (12,250) |
| At end of period | 13,222 | 13,222 | 13,272 | 13,222 | 13,272 |
| Available-for-sale reserve | | | | | |
| At beginning of period | (1,026) | (2,063) | (1,459) | (2,037) | (1,755) |
| Unrealised gains | 1,207 | 781 | 680 | 2,150 | 1,327 |
| Realised (gains)/losses (1) | (214) | 626 | (408) | 215 | (535) |
| Tax | (259) | (370) | (55) | (620) | (263) |
| Recycled to profit or loss on disposal of businesses (2) | - | - | - | - | (16) |
| At end of period | (292) | (1,026) | (1,242) | (292) | (1,242) |
| Cash flow hedging reserve | | | | | |
| At beginning of period | 113 | (314) | (235) | (140) | (252) |
| Amount recognised in equity | 1,203 | 811 | 387 | 2,028 | 329 |
| Amount transferred from equity to earnings | (264) | (223) | 121 | (728) | 138 |
| Tax | (254) | (161) | (154) | (362) | (154) |
| Recycled to profit or loss on disposal of businesses (3) | - | - | - | - | 58 |
| At end of period | 798 | 113 | 119 | 798 | 119 |

For the notes to this table refer to page 68.

Condensed consolidated statement of changes in equity
for the period ended 30 September 2011 (continued)

| | Quarter ended | | Nine months ended | |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|
| | 30 September 2011 £m | 30 June 2011 £m | 30 September 2010 £m | 30 September 2010 £m |
| Foreign exchange reserve | | | | |
| At beginning of period | 4,834 | 4,754 | 5,755 | 5,138 |
| Retranslation of net assets | (31) | 189 | (778) | (271) |
| Foreign currency gains/(losses) on hedges | 10 | (116) | 157 | (30) |

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| | | | | | |
|---|---------|---------|---------|---------|---------|
| of net assets | | | | | |
| Tax | 34 | 7 | (43) | 10 | 29 |
| Recycled to profit or loss on disposal of businesses | - | - | (6) | - | (17) |
| At end of period | 4,847 | 4,834 | 5,085 | 4,847 | 5,085 |
| Capital redemption reserve | | | | | |
| At beginning of period | 198 | 198 | 172 | 198 | 170 |
| Preference shares redeemed | - | - | - | - | 2 |
| At end of period | 198 | 198 | 172 | 198 | 172 |
| Contingent capital reserve | | | | | |
| At beginning and end of period | (1,208) | (1,208) | (1,208) | (1,208) | (1,208) |
| Retained earnings | | | | | |
| At beginning of period | 19,726 | 20,713 | 22,003 | 21,239 | 12,134 |
| Profit/(loss) attributable to ordinary and B shareholders and other equity owners | | | | | |
| - continuing operations | 1,225 | (899) | (1,148) | (204) | (985) |
| - discontinued operations | 1 | 2 | 2 | 5 | (28) |
| Equity preference dividends paid | - | - | - | - | (105) |
| Paid-in equity dividends paid, net of tax | - | - | - | - | (19) |
| Transfer from paid-in equity | | | | | |
| - gross | - | - | - | - | 2 |
| - tax | - | - | - | - | (1) |
| Equity owners gain on withdrawal of non-controlling interest | | | | | |
| - gross | - | - | - | - | 40 |
| - tax | - | - | - | - | (11) |
| Redemption of equity preference shares | - | - | - | - | (2,968) |
| Gain on redemption of equity preference shares | - | - | - | - | 609 |
| Redemption of preference shares classified as debt | - | - | - | - | (118) |
| Transfer from merger reserve | - | 50 | - | 50 | 12,250 |
| Shares issued under employee share schemes | (2) | (166) | (2) | (209) | (11) |
| Share-based payments | | | | | |
| - gross | 35 | 29 | 42 | 102 | 103 |
| - tax | (8) | (3) | 7 | (6) | 12 |

| | | | | | |
|------------------|--------|--------|--------|--------|--------|
| At end of period | 20,977 | 19,726 | 20,904 | 20,977 | 20,904 |
|------------------|--------|--------|--------|--------|--------|

Condensed consolidated statement of changes in equity
for the period ended 30 September 2011 (continued)

| | Quarter ended | | | Nine months ended | |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2011 £m | 30 June 2011 £m | 30 September 2010 £m | 30 September 2011 £m | 30 September 2010 £m |
| Own shares held | | | | | |
| At beginning of period | (786) | (785) | (816) | (808) | (121) |
| Shares disposed/(purchased) | 13 | (6) | (7) | 19 | (711) |
| Shares issued under employee share schemes | 2 | 5 | 2 | 18 | 11 |
| At end of period | (771) | (786) | (821) | (771) | (821) |
| Owners' equity at end of period | 77,443 | 74,744 | 75,600 | 77,443 | 75,600 |
| Non-controlling interests | | | | | |
| At beginning of period | 1,498 | 1,710 | 2,492 | 1,719 | 16,895 |
| Currency translation adjustments and other movements | (1) | (14) | (20) | (22) | (481) |
| (Loss)/profit attributable to non-controlling interests | | | | | |
| - continuing operations | (12) | (1) | (117) | (22) | (43) |
| - discontinued operations | 5 | 19 | 16 | 32 | (660) |
| Dividends paid | - | (39) | (46) | (39) | (4,217) |
| Movements in available-for-sale securities | | | | | |
| - unrealised (losses)/gains | - | (1) | (76) | - | (54) |
| - realised losses | 3 | - | 39 | - | 36 |
| - tax | (1) | - | 4 | - | 5 |
| - recycled to profit or loss on disposal of discontinued operations (4) | - | - | - | - | (7) |
| Movements in cash flow hedging reserves | | | | | |
| - amounts recognised in equity | - | - | 66 | - | (99) |
| - tax | - | - | (14) | - | 33 |
| - recycled to profit or loss on disposal of | - | - | (15) | - | 1,021 |

| | | | | | |
|--|--------|--------|---------|--------|----------|
| discontinued operations (5) | | | | | |
| Equity raised | - | - | - | - | 501 |
| Equity withdrawn and disposals | (59) | (176) | (549) | (235) | (11,110) |
| Transfer to retained earnings | - | - | - | - | (40) |
| At end of period | 1,433 | 1,498 | 1,780 | 1,433 | 1,780 |
| Total equity at end of period | 78,876 | 76,242 | 77,380 | 78,876 | 77,380 |
| Total comprehensive income/(loss) recognised in the statement of changes in equity is attributable as follows: | | | | | |
| Non-controlling interests | (6) | 3 | (117) | (12) | (249) |
| Preference shareholders | - | - | - | - | 105 |
| Paid-in equity holders | - | - | - | - | 19 |
| Ordinary and B shareholders | 2,658 | 647 | (1,245) | 2,193 | 304 |
| | 2,652 | 650 | (1,362) | 2,181 | 179 |

Notes:

- (1) Includes an impairment loss of £733 million in respect of the Group's holding of Greek government bonds, together with £109 million of related interest rate hedge adjustments, in the quarter ended 30 June 2011.
- (2) Net of tax (quarter ended 30 September 2010 - nil; nine months ended 30 September 2010 - £6 million credit).
- (3) Net of tax (quarter ended 30 September 2010 - nil; nine months ended 30 September 2010 - £20 million charge).
- (4) Net of tax (quarter ended 30 September 2010 - nil; nine months ended 30 September 2010 - £2 million credit).
- (5) Net of tax (quarter ended 30 September 2010 - £6 million credit; nine months ended 30 September 2010 - £340 million charge).

Notes

1. Basis of preparation

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. Accordingly, the Interim Management Statement for the period ended 30 September 2011 has been prepared on a going concern basis.

2. Accounting policies

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

Recent developments in IFRS

In May 2011, the IASB issued six new or revised standards:

IFRS 10 Consolidated Financial Statements which replaces SIC-12 Consolidation - Special Purpose Entities and the consolidation elements of the existing IAS 27 Consolidated and Separate Financial Statements. The new standard adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity to generate returns for the reporting entity.

IAS 27 Separate Financial Statements which comprises those parts of the existing IAS 27 that dealt with separate financial statements.

IFRS 11 Joint Arrangements which supersedes IAS 31 Interests in Joint Ventures. IFRS 11 distinguishes between joint operations and joint ventures. Joint operations are accounted for by the investor recognising its assets and liabilities including its share of any assets held and liabilities incurred jointly and its share of revenues and costs. Joint ventures are accounted for in the investor's consolidated accounts using the equity method.

IAS 28 Investments in Associates and Joint Ventures covers joint ventures as well as associates; both must be accounted for using the equity method. The mechanics of the equity method are unchanged.

IFRS 12 Disclosure of Interests in Other Entities covers disclosures for entities reporting under IFRS 10 and IFRS 11 replacing those in IAS 28 and IAS 27. Entities are required to disclose information that helps financial statement readers evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries, in associates and joint arrangements and in unconsolidated structured entities.

IFRS 13 Fair Value Measurement which sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements.

These standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group is reviewing the standards to determine their effect on the Group's financial reporting.

Notes (continued)

2. Accounting policies (continued)

Recent developments in IFRS (continued)

In June 2011, the IASB issued amendments to two standards:

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income that require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those that are subject to subsequent reclassification.

Amendments IAS 19 Employee Benefits - these require the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach'; interest cost to be calculated on the net pension liability or asset at the appropriate corporate bond rate; and all past service costs to be recognised immediately when a scheme is curtailed or amended.

These amendments are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group is reviewing the amendments to determine their effect on the Group's financial reporting.

Notes (continued)

3. Analysis of income, expenses and impairment losses

| | Quarter ended | | | Nine months ended | |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2011 £m | 30 June 2011 £m | 30 September 2010 £m | 30 September 2011 £m | 30 September 2010 £m |
| Loans and advances to customers | 4,505 | 4,535 | 4,683 | 13,633 | 14,134 |
| Loans and advances to banks | 154 | 164 | 153 | 490 | 424 |
| Debt securities | 712 | 705 | 748 | 2,053 | 2,606 |
| Interest receivable | 5,371 | 5,404 | 5,584 | 16,176 | 17,164 |
| Customer accounts | 919 | 853 | 961 | 2,603 | 2,795 |
| Deposits by banks | 248 | 249 | 330 | 756 | 1,045 |
| Debt securities in issue | 897 | 863 | 733 | 2,577 | 2,411 |
| Subordinated liabilities | 175 | 190 | 175 | 550 | 435 |
| Internal funding of trading businesses | 55 | 22 | (26) | 85 | (151) |
| Interest payable | 2,294 | 2,177 | 2,173 | 6,571 | 6,535 |
| Net interest income | 3,077 | 3,227 | 3,411 | 9,605 | 10,629 |
| Fees and commissions receivable | 1,452 | 1,700 | 2,037 | 4,794 | 6,141 |
| Fees and commissions payable | | | | | |
| - banking | (204) | (238) | (493) | (623) | (1,500) |
| - insurance related | (100) | (85) | (118) | (264) | (262) |
| Net fees and commissions | 1,148 | 1,377 | 1,426 | 3,907 | 4,379 |
| Foreign exchange | 441 | 375 | 442 | 1,019 | 1,274 |
| Interest rate | 33 | 2 | 866 | 684 | 2,027 |
| Credit | 366 | 562 | (1,250) | 680 | (42) |
| Other | 117 | 208 | 219 | 556 | 894 |
| Income from trading activities | 957 | 1,147 | 277 | 2,939 | 4,153 |
| Gain on redemption of own debt | 1 | 255 | - | 256 | 553 |

| | | | | | |
|--|-------|-------|-------|-------|-------|
| Operating lease and other rental income | 327 | 350 | 338 | 999 | 1,025 |
| Changes in fair value of own debt | 1,887 | 228 | (528) | 1,821 | (223) |
| Changes in the fair value of securities and other financial assets and liabilities | (148) | 224 | 54 | 144 | (97) |
| Changes in the fair value of investment properties | (22) | (27) | (4) | (74) | (112) |
| Profit on sale of securities | 274 | 193 | 352 | 703 | 506 |
| Profit on sale of property, plant and equipment | 5 | 11 | 9 | 27 | 21 |
| (Loss)/profit on sale of subsidiaries and associates | (39) | 55 | (260) | (13) | (618) |
| Life business (losses)/profits | (8) | (3) | 49 | (13) | 61 |
| Dividend income | 14 | 18 | 17 | 47 | 58 |
| Share of profits less losses of associated entities | 5 | 8 | 8 | 20 | 56 |
| Other income | 89 | 85 | (352) | 256 | (201) |
| Other operating income | 2,384 | 1,142 | (317) | 3,917 | 476 |

Refer to Appendix 1 for a reconciliation between the managed and statutory bases for key line items.

Notes (continued)

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

| | Quarter ended | | | Nine months ended | |
|--|-------------------|--------------|-------------------|-------------------|-------------------|
| | 30 September 2011 | 30 June 2011 | 30 September 2010 | 30 September 2011 | 30 September 2010 |
| | £m | £m | £m | £m | £m |
| Non-interest income (excluding insurance net premium income) | 4,490 | 3,921 | 1,386 | 11,019 | 9,561 |
| Insurance net premium income | 1,036 | 1,090 | 1,289 | 3,275 | 3,856 |
| Total non-interest income | 5,526 | 5,011 | 2,675 | 14,294 | 13,417 |

| | | | | | |
|---|-------|-------|-------|--------|--------|
| Total income | 8,603 | 8,238 | 6,086 | 23,899 | 24,046 |
| Staff costs | | | | | |
| - wages, salaries and other staff costs | 1,798 | 1,923 | 2,100 | 5,780 | 6,473 |
| - bonus tax | 5 | 11 | 15 | 27 | 84 |
| - social security costs | 145 | 168 | 153 | 505 | 505 |
| - pension costs | 128 | 108 | 155 | 373 | 415 |
| Total staff costs | 2,076 | 2,210 | 2,423 | 6,685 | 7,477 |
| Premises and equipment | 604 | 602 | 611 | 1,777 | 1,693 |
| Other (including Payment Protection Insurance costs) | 962 | 1,752 | 914 | 3,635 | 2,947 |
| Administrative expenses | 3,642 | 4,564 | 3,948 | 12,097 | 12,117 |
| Depreciation and amortisation | 485 | 453 | 603 | 1,362 | 1,604 |
| Operating expenses | 4,127 | 5,017 | 4,551 | 13,459 | 13,721 |
| General insurance | 734 | 793 | 1,092 | 2,439 | 3,547 |
| Bancassurance | - | - | 50 | - | 54 |
| Insurance net claims | 734 | 793 | 1,142 | 2,439 | 3,601 |
| Loan impairment losses | 1,452 | 2,237 | 1,908 | 5,587 | 6,989 |
| Securities impairment losses | | | | | |
| - sovereign debt impairment and related interest rate hedge adjustments | 202 | 842 | - | 1,044 | - |
| - other | 84 | 27 | 45 | 160 | 126 |
| Impairment losses | 1,738 | 3,106 | 1,953 | 6,791 | 7,115 |

Refer to Appendix 1 for a reconciliation between the managed and statutory bases for key line items.

Notes (continued)

4. Loan impairment provisions

Operating profit/(loss) is stated after charging loan impairment losses of £1,452 million (Q2 2011 - £2,237 million; Q3 2010 - £1,908 million). The balance sheet loan impairment provisions decreased in the quarter ended 30 September 2011 from £20,759 million to £20,723 million and the movements thereon were:

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| | 30 September 2011 | | | Quarter ended 30 June 2011 | | | | 30 September 2010 | | | |
|--|-------------------|--------|---------|-------------------------------|--------|------|--------|-------------------|-------|--------|-------|
| | Non- | | Total | Core | Non- | | RFS | Total | Non- | | Total |
| | Core | Core | | | Core | Core | | | Core | Core | |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | |
| At beginning of period | 8,752 | 12,007 | 20,759 | 8,416 | 10,842 | - | 19,258 | 7,633 | 8,533 | 16,166 | |
| Transfers to disposal groups | - | - | - | - | 9 | - | 9 | - | - | - | |
| Intra-group transfers | - | - | - | - | - | - | - | (351) | 351 | - | |
| Currency translation and other adjustments | (90) | (285) | (375) | 33 | 145 | - | 178 | 116 | 175 | 291 | |
| Disposals | - | - | - | - | - | 11 | 11 | - | - | - | |
| Amounts written-off | (593) | (497) | (1,090) | (504) | (474) | - | (978) | (416) | (329) | (745) | |
| Recoveries of amounts previously written-off | 39 | 55 | 94 | 41 | 126 | - | 167 | 80 | 85 | 165 | |
| Charge to income statement | | | | | | | | | | | |
| - continued | 817 | 635 | 1,452 | 810 | 1,427 | - | 2,237 | 779 | 1,129 | 1,908 | |
| - discontinued | - | - | - | - | - | (11) | (11) | - | - | - | |
| Unwind of discount | (52) | (65) | (117) | (44) | (68) | - | (112) | (50) | (65) | (115) | |
| At end of period | 8,873 | 11,850 | 20,723 | 8,752 | 12,007 | - | 20,759 | 7,791 | 9,879 | 17,670 | |

| | Nine months ended | | | | | | | |
|--|-------------------|---------|------|---------|-------------------|---------|---------|---------|
| | 30 September 2011 | | | | 30 September 2010 | | | |
| | Core | Non- | RFS | Total | Core | Non- | RFS | Total |
| £m | Core | MI | £m | £m | Core | Core | MI | £m |
| | £m | £m | £m | £m | £m | £m | £m | £m |
| At beginning of period | 7,866 | 10,316 | - | 18,182 | 6,921 | 8,252 | 2,110 | 17,283 |
| Transfers to disposal groups | - | - | - | - | - | (67) | - | (67) |
| Intra-group transfers | 177 | (177) | - | - | (351) | 351 | - | - |
| Currency translation and other adjustments | (1) | (45) | - | (46) | (163) | 294 | - | 131 |
| Disposals | - | - | 11 | 11 | - | (17) | (2,149) | (2,166) |
| Amounts written-off | (1,611) | (1,409) | - | (3,020) | (1,479) | (3,047) | - | (4,526) |
| Recoveries of amounts previously written-off | 119 | 261 | - | 380 | 184 | 131 | - | 315 |
| Charge to income statement | | | | | | | | |
| - continued | 2,479 | 3,108 | - | 5,587 | 2,825 | 4,164 | - | 6,989 |
| - discontinued | - | - | (11) | (11) | - | - | 39 | 39 |
| Unwind of discount | (156) | (204) | - | (360) | (146) | (182) | - | (328) |

At end of period 8,873 11,850 - 20,723 7,791 9,879 - 17,670

Provisions at 30 September 2011 include £126 million (30 June 2011 - £132 million; 30 September 2010 - £127 million) in respect of loans and advances to banks.

The table above excludes impairments relating to securities.

Notes (continued)

5. Tax

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

| | Quarter ended | | Nine months ended | | |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2011 £m | 30 June 2011 £m | 30 September 2010 £m | 30 September 2011 £m | 30 September 2010 £m |
| Profit/(loss) before tax | 2,004 | (678) | (1,560) | 1,210 | (391) |
| Tax (charge)/credit based on the standard UK corporation tax rate of 26.5% (2010 - 28%) | (531) | 179 | 437 | (321) | 109 |
| Sovereign debt impairment and related interest rate hedge adjustments where no deferred tax asset recognised | (42) | (219) | - | (261) | - |
| Other losses in period where no deferred tax asset recognised | (61) | (66) | 1 | (293) | (354) |
| Foreign profits taxed at other rates | (71) | (100) | (48) | (371) | (386) |
| UK tax rate change - deferred tax impact | (50) | - | (90) | (137) | (90) |
| Unrecognised timing differences | (10) | (15) | (7) | (20) | (7) |
| Items not allowed for tax | | | | | |
| - losses on strategic disposals and write-downs | (4) | (7) | (37) | (14) | (182) |
| - other disallowable items | (50) | (70) | (50) | (160) | (133) |
| Non-taxable items | | | | | |

| | | | | | |
|--|-------|-------|-----|---------|-------|
| - gain on sale of Global Merchant Services | - | - | - | 12 | - |
| - gain on redemption of own debt | - | - | - | - | 12 |
| - other non-taxable items | 16 | 9 | 37 | 37 | 101 |
| Taxable foreign exchange movements | 2 | (2) | (5) | 2 | 2 |
| Losses brought forward and utilised | 2 | 13 | (1) | 31 | 10 |
| Adjustments in respect of prior periods | 8 | 56 | 58 | 59 | 281 |
| Actual tax (charge)/credit | (791) | (222) | 295 | (1,436) | (637) |

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

The combined effect of the tax losses in Ireland and the Netherlands (including the sovereign debt impairment and related interest rate hedge adjustments) in the nine months ended 30 September 2011 for which no deferred tax asset has been recognised and the two 1% changes in the standard rate of UK corporation tax account for £855 million (77%) of the difference between the actual tax charge and the tax credit derived from applying the standard UK Corporation Tax rate to the results for the period.

Notes (continued)

5. Tax (continued)

The Group has recognised a deferred tax asset at 30 September 2011 of £4,988 million (30 June 2011 - £6,245 million; 31 December - £6,373 million), of which £3,014 million (30 June 2011 - £3,880 million; 31 December 2010 - £3,849 million) relates to carried forward trading losses in the UK. Under UK tax legislation, these UK losses can be carried forward indefinitely to be utilised against profits arising in the future. The deferred tax asset balance has reduced over the period primarily as a result of the utilisation of tax losses brought forward and the impact of the reductions in the rate of UK corporation tax. The Group has considered the carrying value of this asset as at 30 September 2011 and concluded that it is recoverable based on future profit projections.

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

| Quarter ended | | | Nine months ended | |
|---------------|---------|-----------|-------------------|-----------|
| 30 | | 30 | 30 | 30 |
| September | 30 June | September | September | September |
| 2011 | 2011 | 2010 | 2011 | 2010 |
| £m | £m | £m | £m | £m |

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| | | | | | |
|---|-----|----|-------|------|-------|
| Trust preferred securities | - | - | - | - | 10 |
| RBS Sempra Commodities JV | (8) | 4 | 26 | (13) | 46 |
| ABN AMRO | | | | | |
| - RFS Holdings minority interest | 3 | 14 | (131) | 27 | (775) |
| - other | - | - | (2) | - | (1) |
| RBS Life Holdings | - | - | 6 | - | 17 |
| Other | (2) | - | - | (4) | - |
| (Loss)/profit attributable to non-controlling interests | (7) | 18 | (101) | 10 | (703) |

Notes (continued)

7. 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 September 2011 £m | 30 June 2011 £m | 30 September 2010 £m | 30 September 2011 £m | 30 September 2010 £m |
| Earnings | | | | | |
| Profit/(loss) from continuing operations attributable to ordinary and B shareholders | 1,225 | (899) | (1,148) | (204) | (1,109) |
| Gain on redemption of preference shares and paid-in equity | - | - | - | - | 610 |
| Adjusted profit/(loss) from continuing operations attributable to ordinary and B shareholders | 1,225 | (899) | (1,148) | (204) | (499) |
| Profit/(loss) from discontinued operations attributable to ordinary and B shareholders | 1 | 2 | 2 | 5 | (28) |

| | | | | | |
|--|---------|---------|---------|---------|---------|
| Ordinary shares in issue during the period (millions) | 57,541 | 56,973 | 56,164 | 57,107 | 56,271 |
| B shares in issue during the period (millions) | 51,000 | 51,000 | 51,000 | 51,000 | 51,000 |
| Weighted average number of ordinary and B shares in issue during the period (millions) | 108,541 | 107,973 | 107,164 | 108,107 | 107,271 |
| Effect of dilutive share options and convertible securities | 891 | - | - | 893 | - |
| Diluted weighted average number of ordinary and B shares in issue during the period | 109,432 | 107,973 | 107,164 | 109,000 | 107,271 |
| Basic earnings/(loss) per ordinary and B share from continuing operations | 1.1p | (0.8p) | (1.1p) | (0.2p) | (0.5p) |
| Fair value of own debt | (1.7p) | (0.2p) | 0.6p | (1.6p) | 0.3p |
| Asset Protection Scheme credit default swap - fair value changes | - | 0.1p | 0.6p | 0.5p | 0.6p |
| Payment Protection Insurance costs | - | 0.6p | - | 0.6p | - |
| Sovereign debt impairment and related interest rate hedge adjustments | 0.2p | 0.8p | - | 1.0p | - |
| Amortisation of purchased intangible assets | - | - | 0.1p | 0.1p | 0.2p |
| Integration and restructuring costs | 0.3p | - | 0.2p | 0.4p | 0.5p |
| Gain on redemption of own debt | - | (0.2p) | - | (0.2p) | (1.0p) |
| Strategic disposals | - | - | - | - | 0.3p |
| Bonus tax | - | - | - | - | 0.1p |
| Adjusted earnings per ordinary and B share from continuing operations | (0.1p) | 0.3p | 0.4p | 0.6p | 0.5p |
| Loss from Non-Core attributable to ordinary and B shareholders | 0.1p | 0.4p | 0.7p | 0.7p | 1.5p |
| Core adjusted earnings per ordinary and B share from continuing operations | - | 0.7p | 1.1p | 1.3p | 2.0p |

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| | | | | | |
|---|------|--------|--------|--------|--------|
| Core impairment losses | 0.1p | 0.3p | 0.5p | 0.7p | 1.0p |
| Pre-impairment Core adjusted earnings per ordinary and B share | 0.1p | 1.0p | 1.6p | 2.0p | 3.0p |
| Memo: Core adjusted earnings per ordinary and B share from continuing operations assuming normalised tax rate of 26.5% (2010 - 28.0%) | 0.9p | 1.1p | 1.2p | 3.4p | 3.7p |
| Diluted earnings/(loss) per ordinary and B share from continuing operations | 1.1p | (0.8p) | (1.1p) | (0.2p) | (0.5p) |

Notes (continued)

8. Segmental analysis

There have been no significant changes in the Group's divisions as set out on page 377 of the 2010 Report and Accounts.

Analysis of divisional operating profit/(loss)

The following tables provide an analysis of the divisional profit/(loss) for the quarters ended 30 September 2011, 30 June 2011 and 30 September 2010 and the nine months ended 30 September 2011 and 30 September 2010 by main income statement captions. The divisional income statements on pages 23 to 57 reflect certain presentational reallocations as described in the notes below. These do not affect the overall operating profit/(loss).

| Quarter ended 30 | Net interest income | Non-interest income | Total income | Operating expenses | Insurance net claims | Impairment losses | Operating profit/(loss) |
|-----------------------------|---------------------|---------------------|--------------|--------------------|----------------------|-------------------|-------------------------|
| September 2011 | £m | £m | £m | £m | £m | £m | £m |
| UK Retail | 1,074 | 292 | 1,366 | (672) | - | (195) | 499 |
| UK Corporate Wealth | 621 | 327 | 948 | (419) | - | (228) | 301 |
| Global Transaction Services | 178 | 118 | 296 | (221) | - | (4) | 71 |
| Ulster Bank | 276 | 300 | 576 | (336) | - | (45) | 195 |
| US Retail & Commercial | 185 | 60 | 245 | (137) | - | (327) | (219) |
| | 483 | 257 | 740 | (541) | - | (84) | 115 |
| | 161 | 938 | 1,099 | (1,019) | - | 32 | 112 |

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Global Banking & Markets

| | | | | | | | |
|---|-------|-------|-------|---------|-------|---------|-------|
| (1) | | | | | | | |
| RBS Insurance (2) | 84 | 949 | 1,033 | (215) | (695) | - | 123 |
| Central items | (94) | 103 | 9 | 62 | (1) | (3) | 67 |
| Core | 2,968 | 3,344 | 6,312 | (3,498) | (696) | (854) | 1,264 |
| Non-Core (3) | 110 | (64) | 46 | (323) | (38) | (682) | (997) |
| | 3,078 | 3,280 | 6,358 | (3,821) | (734) | (1,536) | 267 |
| Reconciling items | | | | | | | |
| Fair value of own debt (4) | - | 2,357 | 2,357 | - | - | - | 2,357 |
| Asset Protection Scheme credit | | | | | | | |
| default swap - fair value changes (5) | - | (60) | (60) | - | - | - | (60) |
| Sovereign debt impairment and related interest rate hedge adjustments | - | - | - | - | - | (202) | (202) |
| Amortisation of purchased intangible assets | - | - | - | (69) | - | - | (69) |
| Integration and restructuring costs | - | - | - | (233) | - | - | (233) |
| Gain on redemption of own debt | - | 1 | 1 | - | - | - | 1 |
| Strategic disposals | - | (49) | (49) | - | - | - | (49) |
| Bonus tax | - | - | - | (5) | - | - | (5) |
| RFS Holdings minority interest | (1) | (3) | (4) | 1 | - | - | (3) |
| Total statutory | 3,077 | 5,526 | 8,603 | (4,127) | (734) | (1,738) | 2,004 |

- (1) Reallocation of £13 million between net interest income and non-interest income in respect of funding costs of rental assets, £10 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £3 million.
- (2) Total income includes £72 million investment income of which £49 million is included in net interest income and £23 million in non-interest income. Reallocation of £35 million between non-interest income and net interest income in respect of instalment income.
- (3) Reallocation of £54 million between net interest income and non-interest income in respect of funding costs of rental assets, £53 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £1 million.
- (4) Comprises £470 million gain included in 'Income from trading activities' and £1,887 million gain included in 'Other operating income' on a statutory basis.
- (5) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

8. Segmental analysis (continued)

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

| Quarter ended 30 June 2011 | Net interest income £m | Non- interest income £m | Total income £m | Operating expenses £m | Insurance net claims £m | Impairment losses £m | Operating profit/(loss) £m |
|---|---------------------------------|----------------------------------|-----------------------|-----------------------------|-------------------------------|----------------------------|----------------------------------|
| UK Retail | 1,086 | 333 | 1,419 | (688) | - | (208) | 523 |
| UK Corporate Wealth | 641 | 325 | 966 | (403) | - | (218) | 345 |
| | 182 | 115 | 297 | (220) | - | (3) | 74 |
| Global Transaction Services | 263 | 297 | 560 | (342) | - | (54) | 164 |
| Ulster Bank | 171 | 51 | 222 | (142) | - | (269) | (189) |
| US Retail & Commercial Global Banking & Markets (1) | 469 | 246 | 715 | (522) | - | (66) | 127 |
| | 164 | 1,386 | 1,550 | (1,067) | - | (37) | 446 |
| RBS Insurance (2) | 89 | 957 | 1,046 | (203) | (704) | - | 139 |
| Central items | (65) | 79 | 14 | 30 | 1 | 2 | 47 |
| Core | 3,000 | 3,789 | 6,789 | (3,557) | (703) | (853) | 1,676 |
| Non-Core (3) | 233 | 745 | 978 | (335) | (90) | (1,411) | (858) |
| | 3,233 | 4,534 | 7,767 | (3,892) | (793) | (2,264) | 818 |
| Reconciling items | | | | | | | |
| Fair value of own debt (4) | - | 339 | 339 | - | - | - | 339 |
| Asset Protection Scheme credit | | | | | | | |
| default swap - fair value changes (5) | - | (168) | (168) | - | - | - | (168) |
| Payment Protection Insurance costs | - | - | - | (850) | - | - | (850) |
| Sovereign debt impairment and related interest rate hedge adjustments | - | - | - | - | - | (842) | (842) |
| Amortisation of purchased intangible assets | - | - | - | (56) | - | - | (56) |
| Integration and restructuring costs | - | 1 | 1 | (209) | - | - | (208) |
| Gain on redemption of own debt | - | 255 | 255 | - | - | - | 255 |
| Strategic disposals | - | 50 | 50 | - | - | - | 50 |
| Bonus tax | - | - | - | (11) | - | - | (11) |
| RFS Holdings minority interest | (6) | - | (6) | 1 | - | - | (5) |

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| | | | | | | | |
|-----------------|-------|-------|-------|---------|-------|---------|-------|
| Total statutory | 3,227 | 5,011 | 8,238 | (5,017) | (793) | (3,106) | (678) |
|-----------------|-------|-------|-------|---------|-------|---------|-------|

Notes:

- (1) Reallocation of £14 million between net interest income and non-interest income in respect of funding costs of rental assets, £11 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £3 million.
- (2) Total income includes £69 million investment income of which £54 million is included in net interest income and £15 million in non-interest income. Reallocation of £35 million between non-interest income and net interest income in respect of instalment income.
- (3) Reallocation of £52 million between net interest income and non-interest income in respect of funding costs of rental assets, £51 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £1 million.
- (4) Comprises £111 million gain included in 'Income from trading activities' and £228 million gain included in 'Other operating income' on a statutory basis.
- (5) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

8. Segmental analysis (continued)

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

| Quarter ended 30 | Net interest income | Non-interest income | Total Operating income | Operating expenses | Insurance net claims | Impairment losses | Operating profit/(loss) |
|------------------------------|---------------------|---------------------|------------------------|--------------------|----------------------|-------------------|-------------------------|
| September 2010 | £m | £m | £m | £m | £m | £m | £m |
| UK Retail (1) | 1,056 | 377 | 1,433 | (734) | (50) | (251) | 398 |
| UK Corporate Wealth | 662 | 324 | 986 | (406) | - | (158) | 422 |
| | 156 | 108 | 264 | (189) | - | (1) | 74 |
| Global Transaction Services | 257 | 411 | 668 | (356) | - | (3) | 309 |
| Ulster Bank | 192 | 52 | 244 | (134) | - | (286) | (176) |
| US Retail & Commercial | 480 | 271 | 751 | (553) | - | (125) | 73 |
| Global Banking & Markets (2) | 310 | 1,244 | 1,554 | (1,005) | - | 40 | 589 |
| RBS Insurance (3) | 94 | 1,030 | 1,124 | (215) | (942) | - | (33) |
| Central items | (158) | 181 | 23 | 57 | (6) | 2 | 76 |
| Core | 3,049 | 3,998 | 7,047 | (3,535) | (998) | (782) | 1,732 |
| Non-Core (4) | 355 | 515 | 870 | (561) | (144) | (1,171) | (1,006) |
| | 3,404 | 4,513 | 7,917 | (4,096) | (1,142) | (1,953) | 726 |

| | | | | | | | |
|---|-------|-------|-------|---------|---------|---------|---------|
| Reconciling items | | | | | | | |
| Fair value of own debt (5) | - | (858) | (858) | - | - | - | (858) |
| Asset Protection Scheme credit | | | | | | | |
| default swap - fair value changes (6) | - | (825) | (825) | - | - | - | (825) |
| Amortisation of purchased intangible assets | - | - | - | (123) | - | - | (123) |
| Integration and restructuring costs | - | - | - | (311) | - | - | (311) |
| Strategic disposals | - | 27 | 27 | - | - | - | 27 |
| Bonus tax | - | - | - | (15) | - | - | (15) |
| RFS Holdings minority 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 £7 million between net interest income and non-interest income in respect of funding costs of rental assets, £9 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £2 million.
- (3) Total income includes £75 million of investment income of which £55 million is included in net interest income and £20 million in non-interest income. Reallocation of £39 million between non-interest income and net interest income in respect of instalment income.
- (4) Reallocation of £83 million between net interest income and non-interest income in respect of funding costs of rental assets, £78 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £5 million.
- (5) Comprises £330 million loss included in 'Income and trading activities' and £528 million loss included on 'Other operating income' on a statutory basis.
- (6) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

8. Segmental analysis (continued)

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

| | Net interest income | Non-interest income | Total income | Operating expenses | Insurance net claims | Impairment losses | Operating profit/(loss) |
|-------------------------------------|---------------------|---------------------|--------------|--------------------|----------------------|-------------------|-------------------------|
| Nine months ended 30 September 2011 | £m | £m | £m | £m | £m | £m | £m |

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| | | | | | | | |
|---|-------|--------|--------|----------|---------|---------|---------|
| UK Retail | 3,236 | 929 | 4,165 | (2,038) | - | (597) | 1,530 |
| UK Corporate | 1,951 | 984 | 2,935 | (1,245) | - | (551) | 1,139 |
| Wealth | 527 | 347 | 874 | (637) | - | (12) | 225 |
| Global Transaction Services | 799 | 879 | 1,678 | (1,013) | - | (119) | 546 |
| Ulster Bank | 525 | 162 | 687 | (415) | - | (1,057) | (785) |
| US Retail & Commercial | 1,403 | 746 | 2,149 | (1,567) | - | (260) | 322 |
| Global Banking & Markets | | | | | | | |
| (1) | 506 | 4,523 | 5,029 | (3,392) | - | 19 | 1,656 |
| RBS Insurance (2) | 261 | 2,888 | 3,149 | (637) | (2,183) | - | 329 |
| Central items | (188) | 170 | (18) | 91 | - | (2) | 71 |
| Core | 9,020 | 11,628 | 20,648 | (10,853) | (2,183) | (2,579) | 5,033 |
| Non-Core (3) | 593 | 917 | 1,510 | (981) | (256) | (3,168) | (2,895) |
| | 9,613 | 12,545 | 22,158 | (11,834) | (2,439) | (5,747) | 2,138 |
| Reconciling items | | | | | | | |
| Fair value of own debt (4) | - | 2,216 | 2,216 | - | - | - | 2,216 |
| Asset Protection Scheme credit | | | | | | | |
| default swap - fair value changes (5) | - | (697) | (697) | - | - | - | (697) |
| Payment Protection Insurance costs | - | - | - | (850) | - | - | (850) |
| Sovereign debt impairment and related interest rate hedge adjustments | - | - | - | - | - | (1,044) | (1,044) |
| Amortisation of purchased intangible assets | - | - | - | (169) | - | - | (169) |
| Integration and restructuring costs | (2) | (3) | (5) | (581) | - | - | (586) |
| Gain on redemption of own debt | - | 256 | 256 | - | - | - | 256 |
| Strategic disposals | - | (22) | (22) | - | - | - | (22) |
| Bonus tax | - | - | - | (27) | - | - | (27) |
| RFS Holdings minority interest | (6) | (1) | (7) | 2 | - | - | (5) |
| Total statutory | 9,605 | 14,294 | 23,899 | (13,459) | (2,439) | (6,791) | 1,210 |

Notes:

- (1) Reallocation of £39 million between net interest income and non-interest income in respect of funding costs of rental assets, £30 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £9 million.
- (2) Total income includes £205 million investment income of which £156 million is included in net interest income and £49 million in non-interest income. Reallocation of £105 million between non-interest income and net interest income in respect of instalment income.
- (3) Reallocation of £159 million between net interest income and non-interest income in respect of funding costs of rental assets, £155 million and to record interest on financial assets and liabilities designated as at fair value

through profit or loss, £4 million.

(4) Comprises £395 million gain included in 'Income from trading activities' and £1,821 million gain included in 'Other operating income' on a statutory basis.

(5) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

8. Segmental analysis (continued)

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

| | Net interest income | Non- interest income | Total income | Operating expenses | Insurance net claims | Impairment losses | Operating profit/(loss) |
|---|---------------------------|----------------------------|-----------------|-----------------------|-------------------------|----------------------|----------------------------|
| Nine months ended 30 September 2010 | £m | £m | £m | £m | £m | £m | £m |
| UK Retail (1) | 2,990 | 1,020 | 4,010 | (2,204) | (54) | (938) | 814 |
| UK Corporate 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 (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 | 285 | 3,119 | 3,404 | (656) | (3,034) | - | (286) |
| Core | (82) | 303 | 221 | 261 | (21) | 1 | 462 |
| Non-Core (4) | 9,297 | 13,263 | 22,560 | (10,854) | (3,109) | (2,850) | 5,747 |
| | 1,325 | 1,318 | 2,643 | (1,775) | (492) | (4,265) | (3,889) |
| | 10,622 | 14,581 | 25,203 | (12,629) | (3,601) | (7,115) | 1,858 |
| Reconciling items | | | | | | | |
| Fair value of own debt (5) | - | (408) | (408) | - | - | - | (408) |
| Asset Protection Scheme credit default swap - fair value changes (6) | - | (825) | (825) | - | - | - | (825) |
| Amortisation of purchased intangible assets | - | - | - | (273) | - | - | (273) |
| Integration and restructuring costs | - | - | - | (733) | - | - | (733) |
| Gain on redemption of own debt | - | 553 | 553 | - | - | - | 553 |

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| | | | | | | | |
|--------------------------------|--------|--------|--------|----------|---------|---------|-------|
| Strategic disposals | - | (331) | (331) | - | - | - | (331) |
| Bonus tax | - | - | - | (84) | - | - | (84) |
| RFS Holdings minority 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 on financial assets and liabilities designated as at fair value through profit or loss, £4 million.
- (3) Total income includes £200 million investment income of which £164 million is included in net interest income and £36 million in non-interest income. Reallocation of £121 million between non-interest income and net interest income in respect of instalment income.
- (4) Reallocation of £215 million between net interest income and non-interest income in respect of funding assets, £226 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £11 million.
- (5) Comprises £185 million loss included in 'Income from trading activities' and £223 million loss included in 'Other operating income', on a statutory basis.
- (6) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

9. Discontinued operations and assets and liabilities of disposal groups

Profit/(loss) from discontinued operations, net of tax

| | Quarter ended | | | Nine months ended | |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
| | 30 September 2011 £m | 30 June 2011 £m | 30 September 2010 £m | 30 September 2011 £m | 30 September 2010 £m |
| Discontinued operations | | | | | |
| Total income | 10 | 9 | (8) | 27 | 1,427 |
| Operating expenses | (3) | - | 19 | (4) | (801) |
| Insurance net claims | - | - | 2 | - | (161) |
| Impairment recoveries/(losses) | - | 11 | - | 11 | (39) |
| Profit before tax | 7 | 20 | 13 | 34 | 426 |
| Gain on disposal before recycling of reserves | - | - | - | - | 57 |

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| | | | | | |
|---|-----|-----|-----|------|---------|
| Recycled reserves | - | - | - | - | (1,076) |
| Operating profit/(loss) before tax | 7 | 20 | 13 | 34 | (593) |
| Tax on profit/(loss) | (3) | (4) | (1) | (10) | (89) |
| Profit/(loss) after tax | 4 | 16 | 12 | 24 | (682) |
| Businesses acquired exclusively with a view to disposal | | | | | |
| Profit/(loss) after tax | 2 | 5 | 6 | 13 | (6) |
| Profit/(loss) from discontinued operations, net of tax | 6 | 21 | 18 | 37 | (688) |

Discontinued operations reflect the results of RFS Holdings attributable to the State of the Netherlands and Santander following the legal separation of ABN AMRO Bank N.V. on 1 April 2010.

Notes (continued)

9. Discontinued operations and assets and liabilities of disposal groups (continued)

| | 30 September 2011 | | | 30 June 2011 | 31 December 2010 |
|---|-------------------|-------|-------|--------------|------------------|
| | Sempra | Other | Total | | |
| | £m | £m | £m | £m | £m |
| Assets of disposal groups | | | | | |
| Cash and balances at central banks | - | 119 | 119 | 155 | 184 |
| Loans and advances to banks | 83 | 12 | 95 | 344 | 651 |
| Loans and advances to customers | 13 | 1,698 | 1,711 | 1,487 | 5,013 |
| Debt securities and equity shares | 8 | 2 | 10 | 16 | 20 |
| Derivatives | 24 | - | 24 | 525 | 5,148 |
| Settlement balances | 206 | - | 206 | 157 | 555 |
| Property, plant and equipment | 2 | 218 | 220 | 17 | 18 |
| Other assets | 10 | 438 | 448 | 473 | 704 |
| Discontinued operations and other disposal groups | 346 | 2,487 | 2,833 | 3,174 | 12,293 |
| Assets acquired exclusively with a view to disposal | - | 211 | 211 | 233 | 191 |
| | 346 | 2,698 | 3,044 | 3,407 | 12,484 |

| | | | | | |
|--|-----|-------|-------|-------|-------|
| Liabilities of disposal groups | | | | | |
| Deposits by banks | - | 288 | 288 | 86 | 266 |
| Customer accounts | - | 1,743 | 1,743 | 1,888 | 2,267 |
| Derivatives | 24 | - | 24 | 498 | 5,042 |
| Settlement balances | 264 | - | 264 | 505 | 907 |
| Other liabilities | 94 | 84 | 178 | 239 | 925 |
| Discontinued operations and other disposal groups | | | | | |
| | 382 | 2,115 | 2,497 | 3,216 | 9,407 |
| Liabilities acquired exclusively with a view to disposal | - | 19 | 19 | 21 | 21 |
| | 382 | 2,134 | 2,516 | 3,237 | 9,428 |

The assets and liabilities of disposal groups at 30 September 2011 primarily include Non-Core loan portfolios and the residual assets and liabilities of RBS Sempra Commodities JV.

The disposal of the RBS Sempra Commodities JV was substantially completed in 2010. Certain contracts of the RBS Sempra Commodities JV were sold in risk transfer transactions prior to being novated to the purchaser. The majority of the reduction in assets and liabilities of disposal groups since 31 December 2010 relates to the novation of these contracts.

Notes (continued)

10. Financial instruments

Classification

The following tables analyse the Group's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 with assets and liabilities outside the scope of IAS 39 shown separately.

| 30 September 2011 | HFT (1) | DFV (2) | AFS (3) | LAR (4) | Other financial instruments (amortised cost) | Finance leases | Non financial assets/liabilities | Total |
|------------------------------------|---------|---------|---------|---------|--|----------------|----------------------------------|--------|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| Assets | | | | | | | | |
| Cash and balances at central banks | - | - | - | 78,445 | | | | 78,445 |
| Loans and advances to banks | | | | | | | | |
| - reverse repos | 40,181 | - | - | 7,946 | | | | 48,127 |
| - other | 20,423 | - | - | 32,179 | | | | 52,602 |

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| | | | | | | | |
|---|---------|--------|---------|---------|---------|--------|-----------|
| Loans and advances to customers | | | | | | | |
| - reverse repos | 41,692 | - | - | 12,440 | | | 54,132 |
| - other | 24,608 | 1,040 | - | 450,193 | 9,732 | | 485,573 |
| Debt securities | 112,568 | 162 | 110,401 | 6,526 | | | 229,657 |
| Equity shares | 12,044 | 834 | 2,010 | - | | | 14,888 |
| Settlement balances | - | - | - | 21,526 | | | 21,526 |
| Derivatives (5) | 572,344 | | | | | | 572,344 |
| Intangible assets | | | | | | 14,744 | 14,744 |
| Property, plant and equipment | | | | | | 17,060 | 17,060 |
| Deferred tax | | | | | | 4,988 | 4,988 |
| Prepayments, accrued income and other assets | - | - | - | 1,394 | | 9,204 | 10,598 |
| Assets of disposal groups | | | | | | 3,044 | 3,044 |
| | 823,860 | 2,036 | 112,411 | 610,649 | 9,732 | 49,040 | 1,607,728 |
| Liabilities | | | | | | | |
| Deposits by banks | | | | | | | |
| - repos | 24,583 | - | | | 11,644 | | 36,227 |
| - other | 34,754 | - | | | 43,616 | | 78,370 |
| Customer accounts | | | | | | | |
| - repos | 67,447 | - | | | 28,244 | | 95,691 |
| - other | 14,459 | 5,836 | | | 413,365 | | 433,660 |
| Debt securities in issue | 10,754 | 37,910 | | | 145,847 | | 194,511 |
| Settlement balances | - | - | | | 17,983 | | 17,983 |
| Short positions | 48,495 | - | | | | | 48,495 |
| Derivatives (5) | 561,790 | | | | | | 561,790 |
| Accruals, deferred income and other liabilities | - | - | | | 1,629 | 471 | 20,838 |
| Retirement benefit liabilities | | | | | - | 1,855 | 1,855 |
| Deferred tax | | | | | - | 1,913 | 1,913 |
| Insurance liabilities | | | | | - | 6,628 | 6,628 |
| Subordinated liabilities | - | 934 | | | 25,341 | | 26,275 |
| Liabilities of disposal groups | | | | | | 2,516 | 2,516 |
| | 762,282 | 44,680 | | | 687,669 | 471 | 33,750 |
| Equity | | | | | | | 78,876 |
| | | | | | | | 1,607,728 |

For the notes to this table refer to page 86.

Notes (continued)

10. Financial instruments (continued)

Classification (continued)

| 30 June 2011 | HFT (1) £m | DFV (2) £m | AFS (3) £m | LAR (4) £m | Other financial instruments (amortised cost) £m | Finance leases £m | Non financial assets/ liabilities £m | Total £m |
|--|---------------|---------------|---------------|---------------|--|-------------------------|--|-------------|
| Assets | | | | | | | | |
| Cash and balances at central banks | - | - | - | 64,351 | | | | 64,351 |
| Loans and advances to banks | | | | | | | | |
| - reverse repos | 36,120 | - | - | 5,853 | | | | 41,973 |
| - other | 21,733 | - | - | 31,400 | | | | 53,133 |
| Loans and advances to customers | | | | | | | | |
| - reverse repos | 43,641 | - | - | 12,521 | | | | 56,162 |
| - other | 19,971 | 1,038 | - | 458,553 | | 10,010 | | 489,572 |
| Debt securities | 118,169 | 213 | 118,668 | 6,595 | | | | 243,645 |
| Equity shares | 21,873 | 1,049 | 2,029 | - | | | | 24,951 |
| Settlement balances | - | - | - | 24,566 | | | | 24,566 |
| Derivatives (5) | 394,872 | | | | | | | 394,872 |
| Intangible assets | | | | | | | 14,592 | 14,592 |
| Property, plant and equipment | | | | | | | 17,357 | 17,357 |
| Deferred tax | | | | | | | 6,245 | 6,245 |
| Prepayments, accrued income and other assets | - | - | - | 1,160 | | | 9,983 | 11,143 |
| Assets of disposal groups | | | | | | | 3,407 | 3,407 |
| | 656,379 | 2,300 | 120,697 | 604,999 | | 10,010 | 51,584 | 1,445,969 |
| Liabilities | | | | | | | | |
| Deposits by banks | | | | | | | | |

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| | | | | | | | |
|---|---------|--------|--|---------|-----|--------|-----------|
| - repos | 19,898 | - | | 15,483 | | | 35,381 |
| - other | 28,177 | - | | 43,396 | | | 71,573 |
| Customer accounts | | | | | | | |
| - repos | 57,716 | - | | 31,106 | | | 88,822 |
| - other | 16,043 | 5,566 | | 407,094 | | | 428,703 |
| Debt securities in issue | 10,474 | 42,395 | | 160,928 | | | 213,797 |
| Settlement balances | - | - | | 22,905 | | | 22,905 |
| Short positions | 56,106 | - | | | | | 56,106 |
| Derivatives (5) | 387,809 | | | | | | 387,809 |
| Accruals, deferred income and other liabilities | - | - | | 1,541 | 467 | 22,057 | 24,065 |
| Retirement benefit liabilities | | | | - | | 2,239 | 2,239 |
| Deferred tax | | | | - | | 2,092 | 2,092 |
| Insurance liabilities | | | | - | | 6,687 | 6,687 |
| Subordinated liabilities | - | 1,092 | | 25,219 | | | 26,311 |
| Liabilities of disposal groups | | | | | | 3,237 | 3,237 |
| | 576,223 | 49,053 | | 707,672 | 467 | 36,312 | 1,369,727 |
| Equity | | | | | | | 76,242 |
| | | | | | | | 1,445,969 |

For the notes to this table refer to page 86.

Notes (continued)

10. Financial instruments (continued)

Classification (continued)

| | HFT (1) | DFV (2) | AFS (3) | LAR (4) | Other financial instruments (amortised cost) | Finance leases | Non financial assets/liabilities | Total |
|------------------------------------|---------|---------|---------|---------|--|----------------|----------------------------------|--------|
| | £m | £m | £m | £m | £m | £m | £m | £m |
| 31 December 2010 | | | | | | | | |
| Assets | | | | | | | | |
| Cash and balances at central banks | - | - | - | 57,014 | | | | 57,014 |

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| | | | | | | | |
|---|---------|--------|---------|---------|---------|--------|-----------|
| Loans and advances to banks | | | | | | | |
| - reverse repos | 38,215 | - | - | 4,392 | | | 42,607 |
| - other | 26,082 | - | - | 31,829 | | | 57,911 |
| Loans and advances to customers | | | | | | | |
| - reverse repos | 41,110 | - | - | 11,402 | | | 52,512 |
| - other | 19,903 | 1,100 | - | 471,308 | 10,437 | | 502,748 |
| Debt securities | 98,869 | 402 | 111,130 | 7,079 | | | 217,480 |
| Equity shares | 19,186 | 1,013 | 1,999 | - | | | 22,198 |
| Settlement balances | - | - | - | 11,605 | | | 11,605 |
| Derivatives (5) | 427,077 | | | | | | 427,077 |
| Intangible assets | | | | | | 14,448 | 14,448 |
| Property, plant and equipment | | | | | | 16,543 | 16,543 |
| Deferred tax | | | | | | 6,373 | 6,373 |
| Prepayments, accrued income and other assets | - | - | - | 1,306 | | 11,270 | 12,576 |
| Assets of disposal groups | | | | | | 12,484 | 12,484 |
| | 670,442 | 2,515 | 113,129 | 595,935 | 10,437 | 61,118 | 1,453,576 |
| Liabilities | | | | | | | |
| Deposits by banks | | | | | | | |
| - repos | 20,585 | - | | | 12,154 | | 32,739 |
| - other | 28,216 | - | | | 37,835 | | 66,051 |
| Customer accounts | | | | | | | |
| - repos | 53,031 | - | | | 29,063 | | 82,094 |
| - other | 14,357 | 4,824 | | | 409,418 | | 428,599 |
| Debt securities in issue | 7,730 | 43,488 | | | 167,154 | | 218,372 |
| Settlement balances | - | - | | | 10,991 | | 10,991 |
| Short positions | 43,118 | - | | | | | 43,118 |
| Derivatives (5) | 423,967 | | | | | | 423,967 |
| Accruals, deferred income and other liabilities | - | - | | | 1,793 | 458 | 20,838 |
| Retirement benefit liabilities | | | | | - | 2,288 | 2,288 |
| Deferred tax | | | | | - | 2,142 | 2,142 |
| Insurance liabilities | | | | | - | 6,794 | 6,794 |
| Subordinated liabilities | - | 1,129 | | | 25,924 | | 27,053 |
| Liabilities of disposal groups | | | | | | 9,428 | 9,428 |
| | 591,004 | 49,441 | | | 694,332 | 458 | 41,490 |
| Equity | | | | | | | 76,851 |
| | | | | | | | 1,453,576 |

Notes:

- (1) Held-for-trading.
- (2) Designated as at fair value.
- (3) Available-for-sale.
- (4) Loans and receivables.
- (5) Held-for-trading derivatives include hedging derivatives.

Notes (continued)

10. Financial instruments (continued)

Financial instruments carried at fair value

Refer to Note 12 Financial instruments - valuation of the Group's 2010 Annual Report and Accounts for valuation techniques. Certain aspects relating to the valuation of financial instruments carried at fair value are discussed below.

Valuation reserves

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

The table below shows the valuation reserves and adjustments.

| | 30 September 2011 £m | 30 June 2011 £m | 31 December 2010 £m |
|---|-------------------------------|-----------------------|------------------------------|
| Credit valuation adjustments (CVA) | | | |
| Monoline insurers | 2,827 | 2,321 | 2,443 |
| Credit derivative product companies (CDPCs) | 1,233 | 532 | 490 |
| Other counterparties | 2,222 | 1,719 | 1,714 |
| | 6,282 | 4,572 | 4,647 |
| Bid-offer, liquidity and other reserves | 2,712 | 2,572 | 2,797 |
| | 8,994 | 7,144 | 7,444 |

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

Key points

30 September 2011 compared with 30 June 2011

- CVA increased overall by 37% in Q3 2011 reflecting wider credit spreads, which impacted the exposures and CVA.
- The increase in monoline CVA was primarily attributable to lower prices of the underlying reference instruments, strengthening of the US dollar against sterling and wider credit spreads for all monoline insurers.

- The CDPC CVA has significantly increased and was driven by an increase in the exposure and increased CVA relating to certain CDPCs.
- The CVA held against other counterparties increased by 29% over the quarter predominantly due to wider credit spreads.

Notes (continued)

10. Financial instruments (continued)

Valuation reserves (continued)

Key points (continued)

30 September 2011 compared with 31 December 2010

- CVA increased overall by 35% over the period reflecting wider credit spreads, which impacted the exposures and CVA.
- The monoline CVA increased due to a significant deterioration in all monoline credit spreads during the year (the H1 2011 improvements in credit spreads were subsequently reversed in Q3).
- The CDPC CVA increased as prices of the underlying reference assets declined. Accordingly, gross exposure to CDPC and CVA increased. CVA increased by a greater proportion than exposure reflecting increased coverage of certain CDPCs.
- The CVA held against other counterparties increased by 30% over the period predominantly due to wider credit spreads.

Own credit

| Cumulative pre-tax own credit adjustment (1) | Debt securities Subordinated | | Total (2) | Derivatives | Total |
|--|------------------------------|-------------|-----------|-------------|-------|
| | in issue | liabilities | | | |
| | £m | £m | £m | £m | £m |
| 30 September 2011 | 3,993 | 657 | 4,650 | 700 | 5,350 |
| 30 June 2011 | 1,933 | 377 | 2,310 | 434 | 2,744 |
| 31 December 2010 | 2,091 | 325 | 2,416 | 534 | 2,950 |
| Carrying values of underlying liabilities | £bn | £bn | £bn | | |
| 30 September 2011 | 48.7 | 0.9 | 49.6 | | |

| | | | |
|------------------|------|-----|------|
| 30 June 2011 | 52.9 | 1.1 | 54.0 |
| 31 December 2010 | 51.2 | 1.1 | 52.3 |

Notes:

- (1) The own credit adjustment for fair value does not alter cash flows, is not used for performance management and is disregarded for regulatory capital reporting and will reverse over time as the liabilities mature.
- (2) The reserve movement between periods will not equate to the reported profit or loss for own credit. The balance sheet reserves are stated by conversion of underlying currency balances at spot rates for each period whereas the income statement includes intra-period foreign exchange sell-offs.

Key point

- The Group's credit spread increased by between 115 and 218 basis points for different tenors issuance in Q3 2011, resulting in a substantial reduction in the value of liabilities.
- RBS uses credit default swap spreads to determine the impact of RBS's own credit quality on the fair value of derivative liabilities. At 30 September 2011, cumulative adjustments of £700 million (31 December 2010 - £534 million) were recorded against derivative liabilities. The impact of these adjustments in both periods was more than offset by the impact of CVA, reflecting counterparty creditworthiness, recorded against derivative assets.
- At 30 September 2011, the post-tax cumulative own credit adjustment for regulatory capital purposes was £2,931 million (30 June 2011 - £1,112 million; 31 December 2010 - £1,182 million) - refer to page 99.

Notes (continued)

10. Financial instruments (continued)

Valuation hierarchy

| Assets | 30 September 2011 | | | | Level 3 sensitivity (1) | |
|---------------------------------|-------------------|----------------|----------------|----------------|-------------------------|--------------------|
| | Total £bn | Level 1 £bn | Level 2 £bn | Level 3 £bn | Favourable £m | Unfavourable £m |
| Loans and advances to banks | | | | | | |
| - reverse repos | 40.2 | - | 40.2 | - | - | - |
| - collateral | 19.6 | - | 19.6 | - | - | - |
| - other | 0.8 | - | 0.3 | 0.5 | 60 | (50) |
| | 60.6 | - | 60.1 | 0.5 | 60 | (50) |
| Loans and advances to customers | | | | | | |
| - reverse repos | 41.7 | - | 41.7 | - | - | - |
| - collateral | 20.5 | - | 20.5 | - | - | - |
| - other | 5.1 | - | 4.8 | 0.3 | 30 | (30) |

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| | | | | | | |
|--------------------------------|-------|-------|-------|------|-------|---------|
| | 67.3 | - | 67.0 | 0.3 | 30 | (30) |
| Debt securities | | | | | | |
| - UK government | 21.8 | 21.8 | - | - | - | - |
| - US government | 40.2 | 34.8 | 5.4 | - | - | - |
| - other government | 76.7 | 65.0 | 11.7 | - | - | - |
| - corporate | 7.0 | - | 6.5 | 0.5 | 20 | (20) |
| - other financial institutions | 77.4 | 3.1 | 69.2 | 5.1 | 520 | (180) |
| | 223.1 | 124.7 | 92.8 | 5.6 | 540 | (200) |
| Equity shares | 14.9 | 11.7 | 2.1 | 1.1 | 120 | (210) |
| Derivatives | | | | | | |
| - foreign exchange | 107.0 | - | 106.3 | 0.7 | 50 | (20) |
| - interest rate | 424.2 | 0.2 | 422.2 | 1.8 | 90 | (110) |
| - equities and commodities | 7.3 | 0.1 | 7.0 | 0.2 | - | - |
| - credit | 33.9 | - | 30.9 | 3.0 | 640 | (410) |
| | 572.4 | 0.3 | 566.4 | 5.7 | 780 | (540) |
| Total | 938.3 | 136.7 | 788.4 | 13.2 | 1,530 | (1,030) |
| Proportion | 100% | 14.6% | 84.0% | 1.4% | | |
| Of which | | | | | | |
| Core | 912.0 | 135.6 | 770.3 | 6.1 | | |
| Non-Core | 26.3 | 1.1 | 18.1 | 7.1 | | |
| Total | 938.3 | 136.7 | 788.4 | 13.2 | | |

For the notes to this table refer to page 93.

Notes (continued)

10. Financial instruments (continued)

Valuation hierarchy (continued)

| Assets | 31 December 2010 | | | |
|--------|------------------|----------------|----------------|----------------|
| | Total £bn | Level 1 £bn | Level 2 £bn | Level 3 £bn |

Loans and advances to banks

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| | | | | |
|---------------------------------|-------|-------|-------|------|
| - reverse repos | 38.2 | - | 38.2 | - |
| - collateral | 25.1 | - | 25.1 | - |
| - other | 1.0 | - | 0.6 | 0.4 |
| | 64.3 | - | 63.9 | 0.4 |
| Loans and advances to customers | | | | |
| - reverse repos | 41.1 | - | 41.1 | - |
| - collateral | 14.4 | - | 14.4 | - |
| - other | 6.6 | - | 6.2 | 0.4 |
| | 62.1 | - | 61.7 | 0.4 |
| Debt securities | | | | |
| - UK government | 13.5 | 13.5 | - | - |
| - US government | 38.0 | 31.0 | 7.0 | - |
| - other government | 75.9 | 62.3 | 13.6 | - |
| - corporate | 7.7 | - | 6.5 | 1.2 |
| - other financial institutions | 75.3 | 3.5 | 64.8 | 7.0 |
| | 210.4 | 110.3 | 91.9 | 8.2 |
| Equity shares | 22.2 | 18.4 | 2.8 | 1.0 |
| Derivatives | | | | |
| - foreign exchange | 83.3 | - | 83.2 | 0.1 |
| - interest rate | 311.7 | 1.7 | 308.3 | 1.7 |
| - equities and commodities | 5.2 | 0.1 | 4.9 | 0.2 |
| - credit - APS (2) | 0.6 | - | - | 0.6 |
| - credit - other | 26.3 | - | 23.2 | 3.1 |
| | 427.1 | 1.8 | 419.6 | 5.7 |
| Total | 786.1 | 130.5 | 639.9 | 15.7 |
| Proportion | 100% | 16.6% | 81.4% | 2.0% |
| Of which | | | | |
| Core | 754.2 | 129.4 | 617.6 | 7.2 |
| Non-Core | 31.9 | 1.1 | 22.3 | 8.5 |
| Total | 786.1 | 130.5 | 639.9 | 15.7 |

For the notes to this table refer to page 93.

Notes (continued)

10. Financial instruments (continued)

Valuation hierarchy (continued)

The following tables detail AFS assets included within total assets on pages 89 and 90.

30 September 2011

| Assets | Total £bn | Level 1 £bn | Level 2 £bn | Level 3 £bn | Level 3 sensitivity (1) | |
|--------------------------------|--------------|----------------|----------------|----------------|-------------------------|--------------------|
| | | | | | Favourable £m | Unfavourable £m |
| Debt securities | | | | | | |
| - UK government | 13.3 | 13.3 | - | - | - | - |
| - US government | 20.0 | 16.9 | 3.1 | - | - | - |
| - other government | 29.0 | 24.2 | 4.8 | - | - | - |
| - corporate | 2.3 | - | 2.1 | 0.2 | 10 | (10) |
| - other financial institutions | 45.8 | 0.7 | 42.0 | 3.1 | 270 | (40) |
| | 110.4 | 55.1 | 52.0 | 3.3 | 280 | (50) |
| Equity shares | 2.0 | 0.3 | 1.3 | 0.4 | 70 | (80) |
| Total | 112.4 | 55.4 | 53.3 | 3.7 | 350 | (130) |
| Of which | | | | | | |
| Core | 103.5 | 55.0 | 47.7 | 0.8 | | |
| Non-Core | 8.9 | 0.4 | 5.6 | 2.9 | | |
| Total | 112.4 | 55.4 | 53.3 | 3.7 | | |

31 December 2010

| Assets | Total £bn | Level 1 £bn | Level 2 £bn | Level 3 £bn |
|--------------------------------|--------------|----------------|----------------|----------------|
| Debt securities | | | | |
| - UK government | 8.4 | 8.4 | - | - |
| - US government | 22.2 | 17.8 | 4.4 | - |
| - other government | 32.9 | 26.5 | 6.4 | - |
| - corporate | 1.5 | - | 1.4 | 0.1 |
| - other financial institutions | 46.1 | 0.4 | 41.4 | 4.3 |
| | 111.1 | 53.1 | 53.6 | 4.4 |
| Equity shares | 2.0 | 0.3 | 1.4 | 0.3 |
| Total | 113.1 | 53.4 | 55.0 | 4.7 |

Of which

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| | | | | |
|----------|-------|------|------|-----|
| Core | 103.0 | 52.8 | 49.2 | 1.0 |
| Non-Core | 10.1 | 0.6 | 5.8 | 3.7 |
| Total | 113.1 | 53.4 | 55.0 | 4.7 |

For the notes to this table refer to page 93.

Notes (continued)

10. Financial instruments (continued)

Valuation hierarchy (continued)

| Liabilities | 30 September 2011 | | | | Level 3 sensitivity (1) | |
|-------------------------------|-------------------|----------------|----------------|----------------|-------------------------|--------------------|
| | Total £bn | Level 1 £bn | Level 2 £bn | Level 3 £bn | Favourable £m | Unfavourable £m |
| Deposits by banks | | | | | | |
| - repos | 24.6 | - | 24.6 | - | - | - |
| - collateral | 32.4 | - | 32.4 | - | - | - |
| - other | 2.3 | - | 2.3 | - | - | - |
| | 59.3 | - | 59.3 | - | - | - |
| Customer accounts | | | | | | |
| - repos | 67.4 | - | 67.4 | - | - | - |
| - collateral | 10.2 | - | 10.2 | - | - | - |
| - other | 10.1 | - | 10.1 | - | 20 | (20) |
| | 87.7 | - | 87.7 | - | 20 | (20) |
| Debt securities in issue | 48.7 | - | 46.1 | 2.6 | 100 | (110) |
| Short positions | 48.5 | 37.7 | 10.0 | 0.8 | 130 | (20) |
| Derivatives | | | | | | |
| - foreign exchange | 112.2 | - | 111.9 | 0.3 | 20 | (20) |
| - interest rate | 407.8 | 0.3 | 406.7 | 0.8 | 40 | (40) |
| - equities and commodities | 10.2 | 0.1 | 9.7 | 0.4 | 10 | (10) |
| - credit - APS (2) | 0.1 | - | - | 0.1 | 480 | (390) |
| - credit - other | 31.5 | - | 30.9 | 0.6 | 50 | (40) |
| | 561.8 | 0.4 | 559.2 | 2.2 | 600 | (500) |

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| | | | | | | |
|--------------------------|-------|------|-------|------|-----|-------|
| Subordinated liabilities | 0.9 | - | 0.9 | - | - | - |
| Total | 806.9 | 38.1 | 763.2 | 5.6 | 850 | (650) |
| Proportion | 100% | 4.7% | 94.6% | 0.7% | | |
| Of which | | | | | | |
| Core | 798.7 | 38.1 | 756.0 | 4.6 | | |
| Non-Core | 8.2 | - | 7.2 | 1.0 | | |
| Total | 806.9 | 38.1 | 763.2 | 5.6 | | |

For the notes to this table refer to page 93.

Notes (continued)

10. Financial instruments (continued)

Valuation hierarchy (continued)

| Liabilities | 31 December 2010 | | | |
|--------------------------|------------------|----------------|----------------|----------------|
| | Total £bn | Level 1 £bn | Level 2 £bn | Level 3 £bn |
| Deposits by banks | | | | |
| - repos | 20.6 | - | 20.6 | - |
| - collateral | 26.6 | - | 26.6 | - |
| - other | 1.6 | - | 1.6 | - |
| | 48.8 | - | 48.8 | - |
| Customer accounts | | | | |
| - repos | 53.0 | - | 53.0 | - |
| - collateral | 10.4 | - | 10.4 | - |
| - other | 8.8 | - | 8.7 | 0.1 |
| | 72.2 | - | 72.1 | 0.1 |
| Debt securities in issue | 51.2 | - | 49.0 | 2.2 |
| Short positions | 43.1 | 35.0 | 7.3 | 0.8 |
| Derivatives | | | | |
| - foreign exchange | 89.4 | 0.1 | 89.3 | - |

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| | | | | |
|----------------------------|-------|------|-------|------|
| - interest rate | 299.2 | 0.2 | 298.0 | 1.0 |
| - equities and commodities | 10.1 | 0.1 | 9.6 | 0.4 |
| - credit - other | 25.3 | - | 25.0 | 0.3 |
| | 424.0 | 0.4 | 421.9 | 1.7 |
| Subordinated liabilities | 1.1 | - | 1.1 | - |
| Total | 640.4 | 35.4 | 600.2 | 4.8 |
| Proportion | 100% | 5.5% | 93.7% | 0.8% |
| Of which | | | | |
| Core | 626.1 | 35.4 | 586.9 | 3.8 |
| Non-Core | 14.3 | - | 13.3 | 1.0 |
| Total | 640.4 | 35.4 | 600.2 | 4.8 |

Notes:

- (1) Sensitivity represents the favourable and unfavourable effect respectively on the income statement or the statement of comprehensive income due to reasonably possible changes to valuations using reasonably possible alternative inputs to the Group's valuation techniques or models. The level 3 sensitivities are calculated at a sub-portfolio level and hence these aggregated figures do not reflect the correlation between some of the sensitivities.
- (2) Asset Protection Scheme.

Notes (continued)

11. Available-for-sale financial assets

The Q3 2011 movement in available-for-sale financial assets reflects £1,207 million unrealised gains on securities, primarily high quality sovereign bonds, partially offset by realised gains of £214 million from routine portfolio management, mainly in Group Treasury.

| | Quarter ended | | Nine months ended | |
|----------------------------|-------------------------------|-----------------------|-------------------------------|-------------------------------|
| | 30 September 2011 £m | 30 June 2011 £m | 30 September 2010 £m | 30 September 2010 £m |
| Available-for-sale reserve | | | | |
| At beginning of period | (1,026) | (2,063) | (1,459) | (2,037) |
| Unrealised gains | 1,207 | 781 | 680 | 2,150 |
| Realised (gains)/losses | (214) | 626 | (408) | 215 |
| Tax | (259) | (370) | (55) | (620) |
| | - | - | - | (16) |

Recycled to profit or loss on disposal of businesses (1)

| | | | | | |
|------------------|-------|---------|---------|-------|---------|
| At end of period | (292) | (1,026) | (1,242) | (292) | (1,242) |
|------------------|-------|---------|---------|-------|---------|

Note:

(1) Net of tax - £6 million credit.

In Q2 2011, an impairment loss of £733 million was recorded in respect of Greek government bonds, together with £109 million related interest rate hedge adjustments, as a result of the deterioration in Greece's fiscal position and the announcement of the proposals to restructure Greek government debt. Further losses of £142 million were recorded in Q3 2011, along with £60 million related interest rate hedge adjustments.

Ireland, Italy, Portugal and Spain are facing less acute fiscal difficulties and the Group's sovereign exposures to these countries were not considered impaired at 30 September 2011.

12. Contingent liabilities and commitments

| | 30 September 2011 | | | 30 June 2011 | | | 31 December 2010 | | |
|---|-------------------|--------------------|-------------|--------------|--------------------|-------------|------------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m |
| Contingent liabilities | | | | | | | | | |
| Guarantees and assets pledged as collateral security | 24,518 | 1,417 | 25,935 | 27,090 | 1,703 | 28,793 | 28,859 | 2,242 | 31,101 |
| Other contingent liabilities | 10,916 | 215 | 11,131 | 11,883 | 296 | 12,179 | 11,833 | 421 | 12,254 |
| | 35,434 | 1,632 | 37,066 | 38,973 | 1,999 | 40,972 | 40,692 | 2,663 | 43,355 |
| Commitments | | | | | | | | | |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 230,369 | 14,258 | 244,627 | 233,795 | 16,493 | 250,288 | 245,425 | 21,397 | 266,822 |
| Other commitments | 1,163 | 2,228 | 3,391 | 1,141 | 2,315 | 3,456 | 1,560 | 2,594 | 4,154 |
| | 231,532 | 16,486 | 248,018 | 234,936 | 18,808 | 253,744 | 246,985 | 23,991 | 270,976 |
| Total contingent liabilities and commitments | 266,966 | 18,118 | 285,084 | 273,909 | 20,807 | 294,716 | 287,677 | 26,654 | 314,331 |

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

Notes (continued)

13. Litigation and Investigations developments

Except for the developments noted below, there have been no material changes to the litigation or investigations as disclosed in the Interim Results for the six months ended 30 June 2011.

Other securitisation and securities related litigation in the United States

On 2 September 2011, the US Federal Housing Finance Agency ("FHFA") as conservator for the Federal National Mortgage Association ("Fannie Mae") and the Federal Home Loan Mortgage Company ("Freddie Mac") filed 17 lawsuits in the United States against a number of international banks and individual defendants, including RBS, certain other Group companies and five individual officers and directors of the Group's subsidiaries.

The lawsuits involve allegations that certain disclosures made in connection with the relevant offering or underwriting of securities contained materially false or misleading statements and/or omissions regarding the underwriting standards pursuant to which the mortgage loans underlying the securities were issued. Group entities are named as defendants in their capacities as issuers and underwriters of securities, not as originators of any underlying mortgage loans. The plaintiffs' claims against the Group are currently unquantified.

The FHFA primary lawsuit against Group entities relates to approximately US\$32 billion of AAA rated RMBS issuance during the period 2005-2008 pursuant to which Group entities acted as sponsor/depositor and/or lead underwriter. The aggregate principal amount has been reduced to approximately US\$14 billion outstanding by repayments and recoveries of approximately US\$18 billion and losses to date of approximately US\$0.2 billion.

FHFA has also filed five lawsuits against each of Ally Financial Group, Countrywide Financial Corporation, JP Morgan, Morgan Stanley and Nomura in relation to some of the offerings where a Group entity acted as underwriter and is named amongst the defendants.

Group entities believe they have a variety of substantial and credible legal and factual defences available to all of the FHFA lawsuits and the Group will defend each of the matters vigorously. Additionally, Group entities potentially have recourse to indemnities from the relevant mortgage originators or sponsors/depositors although the amount and extent of any recovery is uncertain and subject to a number of factors, including the ongoing creditworthiness of the indemnifying party. Given the early stages of these matters the Group cannot predict the outcome of these claims and is unable reliably to estimate the liability, if any, that may arise or its effect on the Group's consolidated net assets, operating results or cash flows in any particular period.

Independent Commission on Banking

Following an interim report published on 11 April 2011, the Independent Commission on Banking ("ICB") published its final report to the Cabinet Committee on Banking Reform on 12 September 2011 (the "Final Report"). The Final Report makes a number of recommendations, including in relation to (i) the implementation of a ring-fence of retail banking operations, (ii) loss-absorbency (including bail-in) and (iii) competition. The ICB has recommended 2019 as the final deadline for the implementation of its recommendations. The Group will continue to participate in the debate and to consult with the UK Government on the implementation of the recommendations set out in the Final Report, the effects of which could have a negative impact on the Group's consolidated net assets, operating results or cash flows in any particular period.

Notes (continued)

14. Other developments

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

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

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

It is expected that the Proposed Transfers will be implemented on a phased basis over a period ending 31 December 2013. The transfer of eligible business carried out in the UK, including certain securities issued by RBS N.V. was completed on 17 October 2011. A large part of the remainder of Proposed Transfers (including the transfers of certain securities issued by RBS N.V.) is expected to have taken place by the end of 2012.

Rating agencies

RBS and RBS plc's long-term and short-term ratings remained unchanged in the quarter, however in October 2011, both Moody's and Fitch have taken rating action on RBS and certain subsidiaries.

On 7 October 2011, Moody's Investor Services downgraded the long term ratings of RBS, RBS plc and National Westminster Bank Plc (NatWest), following the conclusion of its review into the systemic support assumptions from the UK government for 14 UK financial institutions. As a result of this review, 12 UK entities, including RBS, were downgraded. RBS was downgraded to A3 from A1 (long-term) and to P-2 from P-1 (short term), RBS plc and NatWest were downgraded to A2 from Aa3 (long-term); their P-1 short-term ratings were affirmed. These ratings all have a negative outlook assigned due to Moody's opinion that the likelihood of government support will weaken further in the future, however Moody's affirmed RBS's underlying Baa2 rating, noting that these downgrades do not reflect a worsening in the credit quality of UK financial institutions.

On 11 October 2011, following the reduction of support factored into the ratings of RBS, Moody's downgraded the ratings of Ulster Bank Ltd and Ulster Bank Ireland Ltd to Baa1 from A2 (long term) and to P-2 from P-1 (short term); Moody's also placed these ratings on negative outlook following the earlier downgrade of RBS plc. In addition, Moody's has placed the ratings of RBS N.V. on negative outlook, to match those of RBS plc.

On 13 October 2011, Fitch Ratings downgraded RBS and certain subsidiaries, having lowered its 'Support Rating Floors' for large UK banks. The ratings of RBS, RBS plc, NatWest, RBS International and RBS N.V. were reduced to A from AA- (long-term) and to F1 from F1+ (short term). The ratings of Citizens Financial Group, Ulster Bank Ltd and Ulster Bank Ireland Ltd were downgraded to A- from A+ (long term). The short term rating of Citizens Financial Group was affirmed at F1 following the downgrade of RBS plc, while the rating of Ulster Bank Ltd was downgraded from F+ to F1. Fitch has assigned all of these ratings a stable outlook. The standalone ratings of RBS Group and RBS plc were unchanged by this action and have recently been upgraded from C/D to C, corresponding to a bbb viability rating.

Notes (continued)

14. Other developments (continued)

EU measures to restore confidence in the banking sector

The capital package proposed by the European Banking Authority (EBA) and agreed by the European Council on 26 October 2011 requires banks to build up additional capital buffers to reach a level of 9% Core Tier 1 ratio by the end of June 2012, after the removal of the prudential filters on sovereign assets in the available-for-sale portfolio and prudent valuation of sovereign debt in the held-to-maturity and loans and receivables portfolio, reflecting current market prices.

The EBA estimated the preliminary impact of this approach based on data as of 30 June 2011. As part of this exercise, the Group was advised that it did not need additional capital. The final total target buffer will be based on 30 September 2011 data, and the results are expected to be published by the EBA in the course of November.

15. Date of approval

This announcement was approved by the Board of directors on 3 November 2011.

16. Post balance sheet events

There have been no significant events between 30 September 2011 and the date of approval of this announcement which would require a change to or additional disclosure in the announcement.

Signatures

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

Date: 4 November 2011

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill

Title: Deputy Secretary