

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
May 03, 2013

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

Report of Foreign Private Issuer

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

For May 3, 2013

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): \_\_\_\_\_

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

Yes  \_\_\_

No  X

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

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

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 Risk and balance sheet management
 

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## Presentation of information

In the balance sheet, all assets of disposal groups are presented as a single line. In the risk and balance sheet management section and Appendix 3 Risk management supplement, balances and exposures relating to disposal groups are included within risk measures for all periods presented.

## Capital management

## Capital ratios

## Current rules

The Group's capital, risk-weighted assets (RWAs) and risk asset ratios, calculated in accordance with Prudential Regulation Authority (PRA) definitions, are set out below.

|                    | 31 March<br>2013<br>£bn | 31<br>December<br>2012<br>£bn |
|--------------------|-------------------------|-------------------------------|
| Capital            |                         |                               |
| Core Tier 1        | 48.2                    | 47.3                          |
| Tier 1             | 57.5                    | 57.1                          |
| Total              | 69.0                    | 66.8                          |
| <br>               |                         |                               |
| RWAs by risk       |                         |                               |
| Credit risk        |                         |                               |
| - non-counterparty | 320.8                   | 323.2                         |
| - counterparty     | 44.4                    | 48.0                          |
| Market risk        | 38.8                    | 42.6                          |
| Operational risk   | 41.8                    | 45.8                          |
|                    | 445.8                   | 459.6                         |
| <br>               |                         |                               |
| Risk asset ratios  | %                       | %                             |
| Core Tier 1        | 10.8                    | 10.3                          |
| Tier 1             | 12.9                    | 12.4                          |
| Total              | 15.5                    | 14.5                          |

## Capital Requirements Directive (CRD) IV

|                                    | 31 March<br>2013 | 31 December<br>2012 |
|------------------------------------|------------------|---------------------|
| Fully loaded CRD IV estimates (1)  |                  |                     |
| Common Equity Tier 1 capital       | £39.9bn          | £38.1bn             |
| RWAs                               | £487.2bn         | £494.6bn            |
| Common Equity Tier 1 capital ratio | 8.2%             | 7.7%                |

Note:

(1) Calculated on the same basis as disclosed on page 162 of the Group's 2012 annual results announcement.

## Key points

- Core Tier 1 capital ratios, under current rules and fully loaded CRD IV, improved by 50 basis points to 10.8% and 8.2% respectively. This reflected attributable profit, the favourable impact of currency movements in the capital base as well as reduction in RWAs, the latter despite the impact of additional commercial real estate slotting of £2.8 billion. The weakening of sterling however caused non-sterling RWAs to increase.
- The RWA decreases were primarily in Markets (£12.8 billion), reflecting continued focus on risk reduction and a fall in operational risk, and Non-Core (£5.8 billion) due to disposals and run-offs.

## Risk and balance sheet management (continued)

## Capital management (continued)

## Capital resources

## Components of capital (Basel 2.5)

The Group's regulatory capital resources in accordance with PRA definitions were as follows:

|  | 31               |                  |
|--|------------------|------------------|
|  | 31 March<br>2013 | December<br>2012 |
|  | £m               | £m               |
| Shareholders' equity (excluding non-controlling interests) |                  |                  |
| Shareholders' equity per balance sheet                     | 70,633           | 68,678           |
| Preference shares - equity                                 | (4,313)          | (4,313)          |
| Other equity instruments                                   | (979)            | (979)            |
|  | 65,341           | 63,386           |
| Non-controlling interests                                  |                  |                  |
| Non-controlling interests per balance sheet                | 532              | 1,770            |
|  | -                | (1,367)          |

|  |          |          |
|--|----------|----------|
| Other adjustments to non-controlling interests for regulatory purposes | 532      | 403      |
| Regulatory adjustments and deductions                                  |          |          |
| Own credit   | 541      | 691      |
| Defined pension benefit adjustment (1)                                 | 592      | 913      |
| Unrealised losses on available-for-sale (AFS) debt securities          | 92       | 410      |
| Unrealised gains on AFS equity shares                                  | (82)     | (63)     |
| Cash flow hedging reserve  | (1,635)  | (1,666)  |
| Other adjustments for regulatory purposes                              | (202)    | (198)    |
| Goodwill and other intangible assets                                   | (13,928) | (13,545) |
| 50% excess of expected losses over impairment provisions (net of tax)  | (1,847)  | (1,904)  |
| 50% of securitisation positions  | (1,159)  | (1,107)  |
|  | (17,628) | (16,469) |
| Core Tier 1 capital  | 48,245   | 47,320   |
| Other Tier 1 capital   |          |          |
| Preference shares - equity   | 4,313    | 4,313    |
| Preference shares - debt   | 1,113    | 1,054    |
| Innovative/hybrid Tier 1 securities                                    | 4,410    | 4,125    |
|  | 9,836    | 9,492    |
| Tier 1 deductions  |          |          |
| 50% of material holdings (2)   | (1,182)  | (295)    |
| Tax on excess of expected losses over impairment provisions            | 560      | 618      |
|  | (622)    | 323      |
| Total Tier 1 capital   | 57,459   | 57,135   |

Risk and balance sheet management (continued)

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Capital management: Capital resources: Components of capital (Basel 2.5) (continued)

|   | 31     |          |
|---|--------|----------|
|   | March  | December |
|   | 2013   | 2012     |
|   | £m     | £m       |
| Qualifying Tier 2 capital                     |        |          |
| Undated subordinated debt                     | 2,197  | 2,194    |
| Dated subordinated debt - net of amortisation | 13,907 | 13,420   |
| Unrealised gains on AFS equity shares         | 82     | 63       |
| Collectively assessed impairment provisions   | 417    | 399      |
|   | 16,603 | 16,076   |

|  |         |         |
|--|---------|---------|
| Tier 2 deductions  |         |         |
| 50% of securitisation positions                          | (1,159) | (1,107) |
| 50% excess of expected losses over impairment provisions | (2,407) | (2,522) |
| 50% of material holdings (2)                             | (1,182) | (295)   |
|  | (4,748) | (3,924) |
| Total Tier 2 capital                                     | 11,855  | 12,152  |
| Supervisory deductions                                   |         |         |
| Unconsolidated investments                               |         |         |
| - Direct Line Group (2)                                  | -       | (2,081) |
| - Other investments                                      | (39)    | (162)   |
| Other deductions   | (232)   | (244)   |
|  | (271)   | (2,487) |
| Total regulatory capital                                 | 69,043  | 66,800  |

## Flow statement (Basel 2.5)

The table below analyses the movement in Core Tier 1, Other Tier 1 and Tier 2 capital during the quarter.

|   | Core<br>Tier 1<br>£m | Other<br>Tier 1<br>£m | Tier 2<br>£m | Supervisory<br>deductions<br>£m | Total<br>£m |
|---|----------------------|-----------------------|--------------|---------------------------------|-------------|
| At 1 January 2013   | 47,320               | 9,815                 | 12,152       | (2,487)                         | 66,800      |
| Attributable profit net of movements in<br>fair value of own credit | 243                  | -                     | -            | -                               | 243         |
| Ordinary shares issued  | 131                  | -                     | -            | -                               | 131         |
| Employee share schemes share capital and<br>reserve                 | (40)                 | -                     | -            | -                               | (40)        |
| Foreign exchange reserve  | 1,164                | -                     | -            | -                               | 1,164       |
| Foreign exchange movements  | -                    | 268                   | 974          | -                               | 1,242       |
| Increase in non-controlling interests                               | 129                  | -                     | -            | -                               | 129         |
| Decrease/(increase) in capital deductions<br>(2)                    | 5                    | (945)                 | (824)        | 2,081                           | 317         |
| Increase in goodwill and intangibles                                | (383)                | -                     | -            | -                               | (383)       |
| Defined pension fund (1)  | (321)                | -                     | -            | -                               | (321)       |
| Dated subordinated debt maturities                                  | -                    | -                     | (150)        | -                               | (150)       |
| Other movements   | (3)                  | 76                    | (297)        | 135                             | (89)        |
| At 31 March 2013  | 48,245               | 9,214                 | 11,855       | (271)                           | 69,043      |

## Notes:

- (1) The movement in defined pension fund was caused by a contribution to the Main Scheme in the quarter.
- (2) From 1 January 2013 investments in insurance subsidiaries are deducted 50% from Tier 1 and 50% from Tier 2.

Risk and balance sheet management (continued)

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Liquidity, funding and related risks

Liquidity risk is highly dependent on characteristics such as the maturity profile and composition of the Group's assets and liabilities, the quality and marketable value of its liquidity buffer and broader market factors, such as wholesale market conditions alongside depositor and investor behaviour.

Overview

The Group continued to exceed its medium-term targets on short-term wholesale funding (STWF)(1). STWF at £43.0 billion was 5% of the funded balance sheet and was covered 3.7 times by the liquidity portfolio of £157.6 billion.

STWF increased marginally from the year end reflecting maturity migration of medium-term notes and some small increases in commercial paper and certificates of deposit.

Total wholesale funding(1) decreased from £150.4 billion to £147.2 billion.

The Group liquidity portfolio increased by £10.4 billion (from £147.2 billion to £157.6 billion) mainly in cash at central banks (£7.1 billion) and government bonds (£2.3 billion).

The Group's loan:deposit ratio improved to 99% with the funding surplus increasing by £2.7 billion mainly in the Retail & Commercial divisions.

Liquidity metrics generally strengthened during the quarter reflecting balance sheet restructuring. The stressed outflow coverage improved and was 1.3 times the worst stress scenario under the PRA regime. The liquidity coverage ratio, based on the Group's interpretation of draft guidance, was maintained above 100% and the net stable funding ratio improved marginally to 119% from 117% at the year end.

During the quarter the Group successfully completed a public liability management exercise on £2 billion of senior unsecured debt as part of its on-going balance sheet management.

Note:

(1) Excludes derivative collateral.

## Risk and balance sheet management (continued)

## Liquidity, funding and related risks (continued)

## Funding sources

## Summary

The table below shows the Group's principal funding sources excluding repurchase agreements.

|                            | 31 March 2013                |                              |             | 31 December 2012             |                              |             |
|----------------------------|------------------------------|------------------------------|-------------|------------------------------|------------------------------|-------------|
|                            | Less<br>than<br>1 year<br>£m | More<br>than<br>1 year<br>£m | Total<br>£m | Less<br>than<br>1 year<br>£m | More<br>than<br>1 year<br>£m | Total<br>£m |
| Deposits by banks          |                              |                              |             |                              |                              |             |
| derivative cash collateral | 27,903                       | -                            | 27,903      | 28,585                       | -                            | 28,585      |
| other deposits             | 17,231                       | 9,402                        | 26,633      | 18,938                       | 9,551                        | 28,489      |
|                            | 45,134                       | 9,402                        | 54,536      | 47,523                       | 9,551                        | 57,074      |
| Debt securities in issue   |                              |                              |             |                              |                              |             |
| other commercial paper     | 3,068                        | -                            | 3,068       | 2,873                        | -                            | 2,873       |
| certificates of deposit    | 3,119                        | 315                          | 3,434       | 2,605                        | 391                          | 2,996       |
| medium-term notes          | 15,574                       | 48,464                       | 64,038      | 13,019                       | 53,584                       | 66,603      |
| covered bonds              | 1,082                        | 9,281                        | 10,363      | 1,038                        | 9,101                        | 10,139      |
| securitisations            | 809                          | 11,028                       | 11,837      | 761                          | 11,220                       | 11,981      |
|                            | 23,652                       | 69,088                       | 92,740      | 20,296                       | 74,296                       | 94,592      |
| Subordinated liabilities   | 2,081                        | 25,707                       | 27,788      | 2,351                        | 24,951                       | 27,302      |
| Notes issued               | 25,733                       | 94,795                       | 120,528     | 22,647                       | 99,247                       | 121,894     |
| Wholesale funding          | 70,867                       | 104,197                      | 175,064     | 70,170                       | 108,798                      | 178,968     |
| Customer deposits          |                              |                              |             |                              |                              |             |
| cash collateral            | 8,290                        | -                            | 8,290       | 7,949                        | -                            | 7,949       |
| other deposits             | 406,713                      | 23,234                       | 429,947     | 400,012                      | 26,031                       | 426,043     |
| Total customer deposits    | 415,003                      | 23,234                       | 438,237     | 407,961                      | 26,031                       | 433,992     |
| Total funding              | 485,870                      | 127,431                      | 613,301     | 478,131                      | 134,829                      | 612,960     |

The table below shows the Group's wholesale funding by source.

| Short-term wholesale<br>funding (1) |           | Total wholesale<br>funding |           | Net inter-bank<br>funding (2)<br>Deposits | Net |
|-------------------------------------|-----------|----------------------------|-----------|---|-----|
| Excluding                           | Including | Excluding                  | Including |   |     |

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|                   | derivative<br>collateral<br>£bn | derivative<br>collateral<br>£bn | derivative<br>collateral<br>£bn | derivative<br>collateral<br>£bn | Loans<br>£bn | inter-bank<br>(3)<br>£bn | funding<br>£bn |
|-------------------|---------------------------------|---------------------------------|---------------------------------|---------------------------------|--------------|--------------------------|----------------|
| 31 March 2013     | 43.0                            | 70.9                            | 147.2                           | 175.1                           | 26.6         | (18.7)                   | 7.9            |
| 31 December 2012  | 41.6                            | 70.2                            | 150.4                           | 179.0                           | 28.5         | (18.6)                   | 9.9            |
| 30 September 2012 | 48.5                            | 77.2                            | 158.9                           | 187.6                           | 29.4         | (20.2)                   | 9.2            |
| 30 June 2012      | 62.3                            | 94.3                            | 181.1                           | 213.1                           | 35.6         | (22.3)                   | 13.3           |
| 31 March 2012     | 79.7                            | 109.1                           | 204.9                           | 234.3                           | 36.4         | (19.7)                   | 16.7           |

Notes:

- (1) Short-term wholesale balances denote those with a residual maturity of less than one year and include longer-term issuances.
- (2) Excludes derivative collateral.
- (3) Primarily short-term balances.

Risk and balance sheet management (continued)

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Liquidity, funding and related risks (continued)

Liquidity portfolio

The table below analyses the Group's liquidity portfolio by product and by liquidity value. Liquidity value is lower than carrying value principally as it is stated after the discounts applied by the Bank of England and other central banks to loans, within secondary liquidity portfolio, eligible for discounting.

|                                    | Period end             |                           | Liquidity value  |                  |
|------------------------------------|------------------------|---------------------------|------------------|------------------|
|                                    | 31 March<br>2013<br>£m | 31 December<br>2012<br>£m | Average          |                  |
|                                    |                        |                           | Q1<br>2013<br>£m | Q4<br>2012<br>£m |
| Cash and balances at central banks | 77,238                 | 70,109                    | 78,292           | 74,794           |
| Central and local government bonds | 23,004                 | 20,691                    | 19,419           | 24,618           |
| Treasury bills                     | 750                    | 750                       | 750              | 750              |
| Primary liquidity                  | 100,992                | 91,550                    | 98,461           | 100,162          |
| Secondary liquidity (1)            | 56,578                 | 55,619                    | 56,245           | 50,901           |
| Total liquidity portfolio          | 157,570                | 147,169                   | 154,706          | 151,063          |
| Balance sheet carrying value       | 199,062                | 187,942                   |                  |                  |

Note:



- (1) Includes assets eligible for discounting at the Bank of England and other central banks.

## Basel III liquidity ratios and other metrics

|                               | 31       |          |
|-------------------------------|----------|----------|
|                               | 31 March | December |
|                               | 2013     | 2012     |
|                               | %        | %        |
| Stressed outflow coverage (1) | 134      | 128      |
| Liquidity coverage ratio (2)  | >100     | >100     |
| Net stable funding ratio (2)  | 119      | 117      |

## Notes:

- (1) The Group's liquidity risk appetite is measured by reference to the liquidity buffer as a percentage of stressed contractual and behavioural outflows under the worst of three severe stress scenarios as envisaged under the PRA regime. Liquidity risk is expressed as a surplus of liquid assets over three months' stressed outflows under the worst of a market-wide stress, an idiosyncratic stress and a combination of both.
- (2) Pending the finalisation of the definitions, the Group monitors the LCR and the net stable funding ratio in its internal reporting framework based on its interpretation and expectation of the final rules. At present there is a broad range of interpretations on how to calculate these ratios due to the lack of a commonly agreed market standard. There are also inconsistencies between the current regulatory approach of the PRA and that being proposed in the LCR with respect to the treatment of unencumbered assets that could be pledged with central banks via a discount window facility. This makes meaningful comparisons between institutions difficult.

## Risk and balance sheet management (continued)

## Credit risk: Loans and related credit metrics

The tables below analyse gross loans and advances (excluding reverse repos) and the related credit metrics by division. For a description of the Group's early problem debt identification and problem debt management refer to pages 172 to 180 of the Group's 2012 Annual Report and Accounts.

|               | Gross loans to |           |       |            | Credit metrics<br>REIL as a<br>%  |                                 | Quarter ended        |                        |
|---------------|----------------|-----------|-------|------------|-----------------------------------|---------------------------------|----------------------|------------------------|
|               | Banks          | Customers | REIL  | Provisions | of gross<br>loans to<br>customers | Provisions<br>as a %<br>of REIL | Impairment<br>charge | Amounts<br>written-off |
| 31 March 2013 | £m             | £m        | £m    | £m         | %                                 | %                               | £m                   | £m                     |
| UK Retail     | 876            | 113,219   | 4,428 | 2,558      | 3.9                               | 58                              | 80                   | 142                    |

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|                             |        |         |        |        |      |     |       |       |
|-----------------------------|--------|---------|--------|--------|------|-----|-------|-------|
| UK Corporate Wealth         | 827    | 106,847 | 5,329  | 2,387  | 5.0  | 45  | 185   | 228   |
| International Banking       | 1,512  | 17,204  | 259    | 112    | 1.5  | 43  | 5     | 1     |
| Ulster Bank                 | 5,800  | 42,608  | 642    | 384    | 1.5  | 60  | 55    | 62    |
| US Retail & Commercial      | 651    | 33,100  | 7,952  | 4,226  | 24.0 | 53  | 240   | 27    |
|                             | 115    | 53,840  | 1,263  | 284    | 2.3  | 22  | 19    | 69    |
| Retail & Commercial Markets | 9,781  | 366,818 | 19,873 | 9,951  | 5.4  | 50  | 584   | 529   |
| Other                       | 20,293 | 32,015  | 412    | 314    | 1.3  | 76  | 15    | -     |
|                             | 3,781  | 3,049   | 1      | 1      | -    | 100 | -     | -     |
| Core                        | 33,855 | 401,882 | 20,286 | 10,266 | 5.0  | 51  | 599   | 529   |
| Non-Core                    | 394    | 52,923  | 20,756 | 11,240 | 39.2 | 54  | 437   | 627   |
| Group                       | 34,249 | 454,805 | 41,042 | 21,506 | 9.0  | 52  | 1,036 | 1,156 |

31 December 2012

|                             |        |         |        |        |      |    |       |       |
|-----------------------------|--------|---------|--------|--------|------|----|-------|-------|
| UK Retail                   | 695    | 113,599 | 4,569  | 2,629  | 4.0  | 58 | 93    | 127   |
| UK Corporate Wealth         | 746    | 107,025 | 5,452  | 2,432  | 5.1  | 45 | 232   | 125   |
| International Banking       | 1,545  | 17,074  | 248    | 109    | 1.5  | 44 | 16    | 4     |
| Ulster Bank                 | 4,827  | 42,342  | 422    | 391    | 1.0  | 93 | 37    | 225   |
| US Retail & Commercial      | 632    | 32,652  | 7,533  | 3,910  | 23.1 | 52 | 318   | 28    |
|                             | 435    | 51,271  | 1,146  | 285    | 2.2  | 25 | 19    | 93    |
| Retail & Commercial Markets | 8,880  | 363,963 | 19,370 | 9,756  | 5.3  | 50 | 715   | 602   |
| Other                       | 16,805 | 29,787  | 396    | 305    | 1.3  | 77 | 13    | 86    |
|                             | 5,232  | 3,006   | -      | 1      | -    | nm | 1     | -     |
| Core                        | 30,917 | 396,756 | 19,766 | 10,062 | 5.0  | 51 | 729   | 688   |
| Non-Core                    | 477    | 56,343  | 21,374 | 11,200 | 37.9 | 52 | 673   | 733   |
| Group                       | 31,394 | 453,099 | 41,140 | 21,262 | 9.1  | 52 | 1,402 | 1,421 |

nm = not meaningful

Key points

- REIL at £41.0 billion remained broadly unchanged with a decrease of £0.6 billion in Non-Core being partially offset by the continued increase in Ulster Bank mortgage portfolios as the economic conditions remain challenging. Excluding the impact of foreign currency movements (£0.9 billion), REIL decreased by £1.0 billion.
- Provision coverage remained in line with the year end at 52% while REIL as a percentage of total loans decreased marginally from 9.1% to 9.0%.
- The impairment charge of £1,036 million was 26% or £366 million lower than Q4 2012 with reductions in both Core (£130 million) and Non-Core (£236 million).

The economic outlook in Ireland appears to be stabilising, though uncertainty remains. While trends are showing improvement, Ulster Bank's REIL remained elevated; REIL as a percentage of loans increased marginally to 24.0%, though provision coverage increased to 53%.

Additional analyses of loan and related credit metrics are included in Appendix 3.

#### Risk and balance sheet management (continued)

##### Credit risk: (continued)

##### Debt securities

The table below analyses debt securities by issuer and IFRS measurement classifications. US central and local government includes US federal agencies; financial institutions includes US government sponsored agencies and securitisation entities.

|                             | Central and local government |          |             | Banks<br>£m | Other<br>financial<br>institutions |         | Corporate<br>£m | Total<br>£m | Of<br>which<br>ABS<br>(1)<br>£m |
|-----------------------------|------------------------------|----------|-------------|-------------|------------------------------------|---------|-----------------|-------------|---------------------------------|
|                             | UK<br>£m                     | US<br>£m | Other<br>£m |             | £m                                 | £m      |                 |             |                                 |
| 31 March 2013               |                              |          |             |             |                                    |         |                 |             |                                 |
| Held-for-trading (HFT)      | 8,109                        | 16,259   | 25,823      | 1,940       | 24,801                             | 2,233   | 79,165          | 20,507      |                                 |
| Designated as at fair value | -                            | -        | 134         | 2           | 523                                | 15      | 674             | 521         |                                 |
| Available-for-sale (AFS)    | 8,273                        | 19,097   | 13,313      | 7,124       | 21,518                             | 215     | 69,540          | 29,417      |                                 |
| Loans and receivables       | 5                            | -        | -           | 151         | 3,499                              | 247     | 3,902           | 3,413       |                                 |
| Long positions              | 16,387                       | 35,356   | 39,270      | 9,217       | 50,341                             | 2,710   | 153,281         | 53,858      |                                 |
| Of which US agencies        | -                            | 6,377    | -           | -           | 22,478                             | -       | 28,855          | 26,201      |                                 |
| Short positions (HFT)       | (2,480)                      | (11,788) | (11,222)    | (1,121)     | (1,622)                            | (1,149) | (29,382)        | (59)        |                                 |
| Available-for-sale          |                              |          |             |             |                                    |         |                 |             |                                 |
| Gross unrealised gains      | 913                          | 986      | 991         | 69          | 674                                | 7       | 3,640           | 761         |                                 |
| Gross unrealised losses     | -                            | (30)     | (10)        | (310)       | (1,169)                            | (4)     | (1,523)         | (1,508)     |                                 |
| 31 December 2012            |                              |          |             |             |                                    |         |                 |             |                                 |
| Held-for-trading            | 7,692                        | 17,349   | 27,195      | 2,243       | 21,876                             | 2,015   | 78,370          | 18,619      |                                 |
| Designated as at fair value | -                            | -        | 123         | 86          | 610                                | 54      | 873             | 516         |                                 |

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|                         |         |          |          |         |         |       |          |         |
|-------------------------|---------|----------|----------|---------|---------|-------|----------|---------|
| Available-for-sale      | 9,774   | 19,046   | 16,155   | 8,861   | 23,890  | 3,167 | 80,893   | 30,743  |
| Loans and receivables   | 5       | -        | -        | 365     | 3,728   | 390   | 4,488    | 3,707   |
| Long positions          | 17,471  | 36,395   | 43,473   | 11,555  | 50,104  | 5,626 | 164,624  | 53,585  |
| Of which US agencies    | -       | 5,380    | -        | -       | 21,566  | -     | 26,946   | 24,828  |
| Short positions (HFT)   | (1,538) | (10,658) | (11,355) | (1,036) | (1,595) | (798) | (26,980) | (17)    |
| Available-for-sale      |         |          |          |         |         |       |          |         |
| Gross unrealised gains  | 1,007   | 1,092    | 1,187    | 110     | 660     | 120   | 4,176    | 764     |
| Gross unrealised losses | -       | (1)      | (14)     | (509)   | (1,319) | (4)   | (1,847)  | (1,817) |

Note:

(1) Asset-backed securities.

Key points

- HFT: decreases in other government bonds, due to maturities and sales of Japanese securities, were partially offset by an increase in German bonds. Increases in other financial institutions relates to increase in US agency securities.
- AFS: The reduction primarily relates to debt securities of £7.2 billion in Direct Line Group at 31 December 2012, not included at 31 March 2013 as Direct Line Group is an associated undertaking with effect from 13 March 2013 as the Group has ceded control.

Refer to Appendix 3 for an analysis of AFS reserves.

Risk and balance sheet management (continued)

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Credit risk (continued)

Derivatives

The table below analyses the fair value of the Group's derivatives by type of contract. Master netting arrangements in respect of mark-to-market (mtm) positions and collateral shown below do not result in a net presentation in the Group's balance sheet under IFRS.

|                   | 31 March 2013          |              |                   | 31 December 2012       |              |                   |
|-------------------|------------------------|--------------|-------------------|------------------------|--------------|-------------------|
|                   | Notional<br>(1)<br>£bn | Assets<br>£m | Liabilities<br>£m | Notional<br>(1)<br>£bn | Assets<br>£m | Liabilities<br>£m |
| Interest rate (2) | 37,732                 | 343,225      | 330,560           | 33,483                 | 363,454      | 345,565           |
| Exchange rate     | 5,830                  | 73,293       | 80,414            | 4,698                  | 63,067       | 70,481            |

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|                          |     |           |           |     |           |           |
|--------------------------|-----|-----------|-----------|-----|-----------|-----------|
| Credit                   | 567 | 11,445    | 10,639    | 553 | 11,005    | 10,353    |
| Other (3)                | 123 | 4,474     | 8,270     | 111 | 4,392     | 7,941     |
|                          |     | 432,437   | 429,883   |     | 441,918   | 434,340   |
| Counterparty mtm netting |     | (366,419) | (366,419) |     | (373,906) | (373,906) |
| Cash collateral          |     | (33,340)  | (29,039)  |     | (34,099)  | (24,633)  |
| Securities collateral    |     | (5,564)   | (7,063)   |     | (5,616)   | (8,264)   |
|                          |     | 27,114    | 27,362    |     | 28,297    | 27,537    |

Notes:

- (1) Exchange traded contracts were £2,268 billion (31 December 2012 - £2,497 billion), principally interest rate. Trades are generally closed out daily hence carrying values were insignificant (assets - £32 million; liabilities - £273 million).
- (2) Interest rate notional includes £20,747 billion (31 December 2012 - £15,864 billion) in respect of contracts with central clearing counterparties to the extent related assets and liabilities are netted.
- (3) Comprises equity and commodity derivatives.

Key points

- Net exposure, after taking account of position and collateral netting arrangements, decreased by 4% (liabilities decreased by 1%) due to lower derivative fair values, driven by market movements and increased use of trade compression cycles.
- Interest rate contracts decreased due to downward shifts in interest rate yields and increased use of trade compression cycles reflecting a greater number of market participants and hence trade-matching. This was partially offset by higher trade volumes and exchange rate movements.
- The impact of exchange rate movements and higher trade volumes resulted in an increase in exchange rate contracts.
- The increase in credit derivatives reflected exchange rate movements and widening of credit spreads in Europe due to the uncertain economic environment. This was partially offset by increased use of trade compression cycles and tightening of US credit spreads.

Risk and balance sheet management (continued)

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Market risk

Value-at-risk (VaR)

For a description of the Group's basis of measurement and methodologies, refer to pages 243 to 247 of the Group's 2012 Annual Report and Accounts.

| Trading VaR                 | 31 March 2013 |        |         |         | Quarter ended<br>31 December 2012 |        |         |         | 31 March 2012 |        |         |         |
|-----------------------------|---------------|--------|---------|---------|-----------------------------------|--------|---------|---------|---------------|--------|---------|---------|
|                             | Average       | end    | Maximum | Minimum | Average                           | end    | Maximum | Minimum | Average       | end    | Maximum | Minimum |
|                             | £m            | £m     | £m      | £m      | £m                                | £m     | £m      | £m      | £m            | £m     | £m      | £m      |
| Interest rate               | 47.7          | 38.9   | 78.2    | 35.4    | 59.1                              | 75.6   | 82.1    | 40.8    | 73.8          | 68.3   | 95.7    | 5       |
| Credit spread               | 76.3          | 70.8   | 86.8    | 69.8    | 68.7                              | 74.1   | 76.9    | 57.2    | 84.2          | 88.5   | 94.9    | 7       |
| Currency                    | 10.5          | 13.0   | 20.6    | 4.6     | 7.1                               | 7.6    | 11.6    | 2.6     | 12.5          | 11.1   | 21.3    | 3       |
| Equity                      | 6.8           | 8.5    | 11.6    | 4.2     | 5.3                               | 3.9    | 9.2     | 1.7     | 7.5           | 6.3    | 12.5    | 4       |
| Commodity                   | 1.5           | 2.6    | 3.7     | 0.9     | 2.2                               | 1.5    | 3.5     | 1.3     | 2.5           | 1.3    | 6.0     |         |
| Diversification<br>(1)      |               | (40.1) |         |         |                                   | (55.4) |         |         |               | (69.0) |         |         |
| Total                       | 106.9         | 93.7   | 118.8   | 88.4    | 92.4                              | 107.3  | 113.4   | 72.3    | 116.6         | 106.5  | 137.0   | 9       |
| Core                        | 89.8          | 77.3   | 104.6   | 74.7    | 75.8                              | 88.1   | 94.6    | 58.4    | 82.8          | 74.5   | 118.0   | 6       |
| Non-Core                    | 22.0          | 20.3   | 24.9    | 18.1    | 23.4                              | 22.8   | 25.7    | 22.0    | 38.7          | 39.3   | 41.9    | 3       |
| CEM (2)                     | 76.3          | 62.2   | 85.4    | 61.0    | 80.8                              | 84.9   | 86.0    | 71.7    | 79.1          | 78.5   | 84.2    | 7       |
| Total<br>(excluding<br>CEM) | 51.1          | 45.0   | 60.4    | 41.2    | 49.3                              | 57.6   | 61.1    | 33.2    | 53.5          | 56.6   | 76.4    | 4       |

## Notes:

- (1) The Group benefits from diversification, which reflects the risk reduction achieved by allocating investments across various financial instrument types, currencies and markets. The extent of diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time.
- (2) Counterparty exposure management.

## Risk and balance sheet management (continued)

## Market risk (continued)

## Value-at-risk (VaR) (continued)

## Key points

- The Group's interest rate VaR was lower in Q1 2013 than in both Q4 2012 and Q1 2012 reflecting continued de-risking by a number of Markets businesses.
- The average credit spread VaR was slightly higher than in Q4 2012, as Markets Delta business repositioned its exposure to European periphery countries.

The period end and average currency VaR were higher in Q1 2013 than in Q4 2012, reflecting a reduction in downside protection in Markets currencies business during February.

In March 2013, CEM made improvements to how certain valuation adjustments are captured in VaR. This resulted in lower VaR in Q1 2013. The impact on the Group's Total, Core and Non-Core VaR was less significant.

#### Non-trading VaR

The average VaR for the Group's non-trading portfolio predominantly comprising available-for-sale portfolios in Markets, Non-Core and International Banking, was £8.9 million (Q4 2012 - £ 9.4 million; Q1 2012 - £15.7 million). The period end VaR increased from £9.5 million at Q4 2012 to £13.6 million as a result of changes to the call assumptions on certain Dutch RMBS, which caused their weighted average life to extend.

#### Other portfolios

The Structured Credit Portfolio in Non-Core is measured on a notional and fair value basis due to its illiquid nature. Notional and fair value decreased to £1.6 billion and £1.2 billion respectively (31 December 2012 - £2.0 billion and £1.5 billion) reflecting the sale of underlying assets from CDO collateral pools and legacy conduits. The reductions were across all CDO, CLO, MBS and other ABS asset classes.

#### Risk and balance sheet management (continued)

##### Country risk: Summary tables

Country risk is the risk of material losses arising from significant country-specific events such as sovereign events (default or restructuring); economic events (contagion of sovereign default to other parts of the economy, cyclical economic shock); political events (transfer or convertibility restrictions, expropriation or nationalisation); and conflict. Such events have the potential to affect elements of the Group's credit portfolio that are directly or indirectly linked to the country in question and can also give rise to market, liquidity, operational and franchise risk-related losses. The table below shows the Group's exposure by country of incorporation of the counterparty. Refer to Appendix 3 for basis of selection, overview and additional data on eurozone periphery countries.

|          | 31 March 2013 |                        |                      |                   |                 |                |                        |                            |                          |                   |             |                        |
|----------|---------------|------------------------|----------------------|-------------------|-----------------|----------------|------------------------|----------------------------|--------------------------|-------------------|-------------|------------------------|
|          | Lending       |                        |                      |                   |                 |                | Net                    |                            |                          |                   |             |                        |
|          | Govt<br>£m    | Central<br>banks<br>£m | Other<br>banks<br>£m | Other<br>FI<br>£m | Corporate<br>£m | Personal<br>£m | Total<br>Lending<br>£m | Of which<br>Non-Core<br>£m | Debt<br>securities<br>£m | Derivatives<br>£m | Repos<br>£m | Balance<br>sheet<br>£m |
| Eurozone |               |                        |                      |                   |                 |                |                        |                            |                          |                   |             |                        |
| Ireland  | 44            | 44                     | 99                   | 522               | 18,235          | 18,393         | 37,337                 | 9,679                      | 857                      | 1,628             | 179         | 40,001                 |
| Spain    | -             | 8                      | 49                   | 54                | 4,202           | 347            | 4,660                  | 2,736                      | 5,551                    | 1,582             | -           | 11,793                 |
| Italy    | 10            | 22                     | 145                  | 103               | 1,425           | 24             | 1,729                  | 811                        | 1,328                    | 2,290             | -           | 5,347                  |
| Portugal | -             | -                      | 1                    | -                 | 257             | 7              | 265                    | 152                        | 246                      | 486               | -           | 997                    |
| Greece   | -             | -                      | 1                    | 1                 | 181             | 14             | 197                    | 60                         | -                        | 372               | -           | 569                    |
| Cyprus   | -             | -                      | -                    | -                 | 289             | 14             | 303                    | 125                        | -                        | 34                | -           | 337                    |

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|                 |     |        |       |       |       |     |        |       |        |       |     |        |     |
|-----------------|-----|--------|-------|-------|-------|-----|--------|-------|--------|-------|-----|--------|-----|
| Germany         | -   | 16,037 | 488   | 108   | 3,435 | 82  | 20,150 | 2,476 | 11,889 | 9,873 | 576 | 42,488 | 7,  |
| Netherlands     | 30  | 2,021  | 453   | 1,570 | 4,160 | 24  | 8,258  | 1,885 | 8,567  | 8,814 | 146 | 25,785 | 11, |
| France          | 503 | -      | 2,737 | 131   | 2,312 | 75  | 5,758  | 1,493 | 4,913  | 6,259 | 348 | 17,278 | 9,  |
| Belgium         | -   | -      | 183   | 235   | 445   | 21  | 884    | 372   | 1,185  | 3,194 | 98  | 5,361  | 1,  |
| Luxembourg      | -   | 23     | 151   | 792   | 1,829 | 4   | 2,799  | 953   | 120    | 1,505 | 155 | 4,579  | 2,  |
| Other           | 107 | 1      | 2     | 47    | 746   | 14  | 917    | 91    | 925    | 1,617 | 15  | 3,474  | 1,  |
| Other countries |     |        |       |       |       |     |        |       |        |       |     |        |     |
| Japan           | -   | 641    | 254   | 167   | 346   | 14  | 1,422  | 65    | 3,245  | 2,276 | 208 | 7,151  |     |
| India           | -   | 98     | 806   | 49    | 3,104 | 88  | 4,145  | 178   | 1,304  | 81    | -   | 5,530  |     |
| China           | 2   | 160    | 998   | 79    | 618   | 35  | 1,892  | 37    | 289    | 1,024 | 71  | 3,276  |     |
| South Korea     | -   | 18     | 557   | 50    | 436   | 1   | 1,062  | -     | 330    | 321   | 18  | 1,731  |     |
| Turkey          | 118 | 123    | 74    | 91    | 915   | 12  | 1,333  | 236   | 246    | 66    | -   | 1,645  |     |
| Brazil          | -   | -      | 914   | -     | 125   | 3   | 1,042  | 60    | 490    | 44    | -   | 1,576  |     |
| Russia          | -   | 48     | 868   | 2     | 304   | 60  | 1,282  | 57    | 258    | 27    | -   | 1,567  |     |
| Romania         | 20  | 153    | 4     | -     | 333   | 329 | 839    | 837   | 199    | 3     | -   | 1,041  |     |
| Poland          | -   | -      | 2     | 10    | 549   | 6   | 567    | 15    | 423    | 29    | -   | 1,019  |     |

Risk and balance sheet management (continued)

Country risk: Summary tables (continued)

|                 | 31 December 2012 |                        |                      |                   |                 |                |                        |                            |                          |                   |             |                        |    |
|-----------------|------------------|------------------------|----------------------|-------------------|-----------------|----------------|------------------------|----------------------------|--------------------------|-------------------|-------------|------------------------|----|
|                 | Lending          |                        |                      |                   |                 |                | Net                    |                            |                          |                   |             |                        |    |
|                 | Govt<br>£m       | Central<br>Banks<br>£m | Other<br>Banks<br>£m | Other<br>FI<br>£m | Corporate<br>£m | Personal<br>£m | Total<br>Lending<br>£m | Of which<br>Non-Core<br>£m | Debt<br>securities<br>£m | Derivatives<br>£m | Repos<br>£m | Balance<br>sheet<br>£m |    |
| Eurozone        |                  |                        |                      |                   |                 |                |                        |                            |                          |                   |             |                        |    |
| Ireland         | 42               | 73                     | 98                   | 532               | 17,921          | 17,893         | 36,559                 | 9,506                      | 787                      | 1,692             | 579         | 39,617                 | 2  |
| Spain           | -                | 6                      | 1                    | 59                | 4,260           | 340            | 4,666                  | 2,759                      | 5,374                    | 1,754             | -           | 11,794                 | 1  |
| Italy           | 9                | 21                     | 200                  | 218               | 1,392           | 23             | 1,863                  | 900                        | 1,607                    | 2,297             | -           | 5,767                  | 2  |
| Portugal        | -                | -                      | -                    | -                 | 336             | 7              | 343                    | 251                        | 215                      | 514               | -           | 1,072                  |    |
| Greece          | -                | 7                      | -                    | 1                 | 179             | 14             | 201                    | 68                         | 1                        | 360               | -           | 562                    |    |
| Cyprus          | -                | -                      | -                    | 2                 | 274             | 15             | 291                    | 121                        | 4                        | 35                | -           | 330                    |    |
| Germany         |                  |                        |                      |                   |                 |                |                        |                            |                          |                   |             |                        |    |
| Netherlands     | 7                | 1,822                  | 496                  | 1,785             | 3,720           | 26             | 7,856                  | 2,002                      | 8,447                    | 9,089             | 354         | 25,746                 | 11 |
| France          | 494              | 9                      | 2,498                | 124               | 2,426           | 71             | 5,622                  | 1,621                      | 5,823                    | 7,422             | 450         | 19,317                 | 9  |
| Belgium         | -                | -                      | 186                  | 249               | 414             | 22             | 871                    | 368                        | 1,408                    | 3,140             | 50          | 5,469                  | 1  |
| Luxembourg      | -                | 13                     | 99                   | 717               | 1,817           | 4              | 2,650                  | 973                        | 251                      | 1,462             | 145         | 4,508                  | 2  |
| Other           | 126              | -                      | 19                   | 90                | 856             | 14             | 1,105                  | 88                         | 1,242                    | 1,737             | 11          | 4,095                  | 1  |
| Other countries |                  |                        |                      |                   |                 |                |                        |                            |                          |                   |             |                        |    |
| Japan           | -                | 832                    | 315                  | 193               | 319             | 15             | 1,674                  | 123                        | 6,438                    | 2,883             | 199         | 11,194                 |    |
| India           | -                | 100                    | 1,021                | 48                | 2,628           | 106            | 3,903                  | 170                        | 1,074                    | 64                | -           | 5,041                  |    |



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|             |     |     |     |    |     |     |       |     |     |     |    |       |
|-------------|-----|-----|-----|----|-----|-----|-------|-----|-----|-----|----|-------|
| China       | 2   | 183 | 829 | 48 | 585 | 29  | 1,676 | 33  | 262 | 903 | 94 | 2,935 |
| South Korea | -   | 22  | 771 | 71 | 289 | 2   | 1,155 | 2   | 307 | 221 | 30 | 1,713 |
| Turkey      | 115 | 163 | 82  | 94 | 928 | 12  | 1,394 | 258 | 181 | 93  | -  | 1,668 |
| Brazil      | -   | -   | 950 | -  | 125 | 3   | 1,078 | 60  | 596 | 73  | -  | 1,747 |
| Russia      | -   | 53  | 848 | 14 | 494 | 55  | 1,464 | 56  | 409 | 23  | -  | 1,896 |
| Romania     | 20  | 65  | 9   | 2  | 347 | 331 | 774   | 773 | 315 | 3   | -  | 1,092 |
| Poland      | -   | 164 | -   | 16 | 536 | 6   | 722   | 26  | 289 | 36  | -  | 1,047 |

Additional information

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Share information

|                                    | 31            |
|------------------------------------|---------------|
|                                    | 31 March 2013 |
|                                    | December 2012 |
| Ordinary share price               | 275.5p 324.5p |
| Number of ordinary shares in issue | 6,108m 6,071m |

Statutory results

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ('the Act'). The statutory accounts for the year ended 31 December 2012 will be filed with the Registrar of Companies following the company's Annual General Meeting. The report of the auditor on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

The Q1 2013 results have not been audited or reviewed by the auditors.

Financial calendar

|   |                        |
|---|------------------------|
| 2013 interim results                            | Friday 2 August 2013   |
| 2013 third quarter interim management statement | Friday 1 November 2013 |

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: 3 May 2013

THE ROYAL BANK OF  
SCOTLAND GROUP plc  
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill  
Title: Deputy Secretary