

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

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

Report of Foreign Private Issuer

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

For November 5, 2010

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000  
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F  X

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

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

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

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

Yes  \_\_\_\_

No  X

If "Yes" is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-  
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The following information was issued as a Company announcement in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

## Risk and capital management (continued)

## Other risk exposures

## Explanatory note

These disclosures provide information on certain elements of the Group's credit market activities, the majority of which reside in Non-Core and, to a lesser extent, Global Banking & Markets, US Retail & Commercial and Group Treasury. For certain disclosures – credit valuation adjustments, leveraged finance and conduits - the information presented has been analysed between the Group's Core and Non-Core businesses.

## Asset-backed securities (ABS)

The Group structures, originates, distributes and trades debt in the form of loan, bond and derivative instruments, in all major currencies and debt capital markets in North America, Western Europe, Asia and major emerging markets. The table below analyses the carrying value of the Group's debt securities.

|   | 30<br>September<br>2010<br>£bn | 30 June<br>2010<br>£bn | 31<br>December<br>2009<br>£bn |
|---|--------------------------------|------------------------|-------------------------------|
| Securities issued by central and local governments                      | 132.5                          | 132.8                  | 134.1                         |
| Asset-backed securities   | 70.0                           | 78.7                   | 87.6                          |
| Securities issued by corporates, US federal agencies and other entities | 12.1                           | 11.9                   | 13.4                          |
| Securities issued by banks and building societies                       | 11.8                           | 12.9                   | 14.0                          |
| Total debt securities   | 226.4                          | 236.3                  | 249.1                         |

The Group's credit market activities gave rise to risk concentrations in ABS. The Group has exposures to ABS which are predominantly debt securities, but can also be held in derivative form. ABS have an interest in an underlying pool of referenced assets. The risks and rewards of the referenced pool are passed onto investors by the issue of securities with varying seniority, by a special purpose entity. Debt securities include residential mortgage-backed securities (RMBS), commercial mortgage-backed securities (CMBS), ABS collateralised debt obligations and collateralised loan obligations (CLOs) and other ABS. In many cases the risk associated with these assets is hedged by way of credit derivative protection, purchased over the specific asset or relevant ABS indices. The counterparty to some of these hedge transactions are monoline insurers.

The tables on pages 118 to 120 summarise the gross and net exposures and carrying values of these securities by geography – US, UK, Europe other than UK and Rest of the World (RoW) and by measurement classification – held-for-trading (HFT), available-for-sale (AFS), loans and receivables (LAR) and designated as at fair value through profit or loss (DFV) – of the underlying assets at 30 September 2010, 30 June 2010 and 31 December 2009. Gross exposures represent the principal amounts relating to ABS. G10 government RMBS comprises securities that are: (a) guaranteed or effectively guaranteed by the US government, by way of its support for US federal agencies and government sponsored enterprises or (b) guaranteed by the Dutch government. Net exposures represent the carrying value after taking account of the hedge protection purchased from monoline insurers and other counterparties, but exclude the effect of counterparty credit valuation adjustments. The hedge provides credit protection of both principal

and interest cash flows in the event of default by the counterparty. The value of this protection is based on the underlying instrument being protected.

### Risk and capital management (continued)

#### Other risk exposures: Asset-backed securities (continued)

#### Asset-backed securities by geography and measurement classification

The table below analyses the gross exposures, carrying values and net exposures of these ABS by geography of the underlying assets and by measurement classification.

|                    | US     | UK     | Other<br>Europe | RoW   | Total  | HFT    | AFS    | LAR   | DFV |
|--------------------|--------|--------|-----------------|-------|--------|--------|--------|-------|-----|
|                    | £m     | £m     | £m              | £m    | £m     | £m     | £m     | £m    | £m  |
| 30 September 2010  |        |        |                 |       |        |        |        |       |     |
| Gross exposure     |        |        |                 |       |        |        |        |       |     |
| RMBS: G10          |        |        |                 |       |        |        |        |       |     |
| governments        | 20,924 | 17     | 6,592           | -     | 27,533 | 11,519 | 16,014 | -     | -   |
| RMBS: covered bond | 137    | 208    | 8,580           | -     | 8,925  | -      | 8,925  | -     | -   |
| RMBS: prime        | 1,897  | 4,324  | 1,845           | 196   | 8,262  | 2,836  | 5,291  | 134   | 1   |
| RMBS:              |        |        |                 |       |        |        |        |       |     |
| non-conforming     | 1,241  | 2,109  | 92              | -     | 3,442  | 679    | 1,331  | 1,432 | -   |
| RMBS: sub-prime    | 852    | 499    | 141             | 221   | 1,713  | 934    | 565    | 214   | -   |
| CMBS               | 2,883  | 1,704  | 1,667           | 100   | 6,354  | 3,203  | 1,553  | 1,393 | 205 |
| CDOs               | 11,776 | 141    | 466             | 3     | 12,386 | 7,519  | 4,746  | 121   | -   |
| CLOs               | 5,936  | 106    | 1,312           | 424   | 7,778  | 1,673  | 5,674  | 431   | -   |
| Other ABS          | 2,847  | 1,346  | 2,715           | 2,675 | 9,583  | 1,971  | 4,967  | 2,645 | -   |
|                    | 48,493 | 10,454 | 23,410          | 3,619 | 85,976 | 30,334 | 49,066 | 6,370 | 206 |
| Carrying value     |        |        |                 |       |        |        |        |       |     |
| RMBS: G10          |        |        |                 |       |        |        |        |       |     |
| governments        | 21,276 | 17     | 6,167           | -     | 27,460 | 11,526 | 15,934 | -     | -   |
| RMBS: covered bond | 141    | 215    | 7,864           | -     | 8,220  | -      | 8,220  | -     | -   |
| RMBS: prime        | 1,493  | 3,751  | 1,279           | 192   | 6,715  | 2,152  | 4,470  | 92    | 1   |
| RMBS:              |        |        |                 |       |        |        |        |       |     |
| non-conforming     | 1,030  | 1,993  | 92              | -     | 3,115  | 550    | 1,133  | 1,432 | -   |
| RMBS: sub-prime    | 654    | 336    | 120             | 202   | 1,312  | 718    | 387    | 207   | -   |
| CMBS               | 2,843  | 1,463  | 1,085           | 75    | 5,466  | 2,448  | 1,383  | 1,409 | 226 |
| CDOs               | 2,606  | 89     | 262             | -     | 2,957  | 920    | 1,924  | 113   | -   |
| CLOs               | 5,142  | 74     | 899             | 284   | 6,399  | 1,004  | 5,022  | 373   | -   |
| Other ABS          | 2,697  | 1,144  | 2,557           | 1,970 | 8,368  | 1,157  | 4,450  | 2,761 | -   |
|                    | 37,882 | 9,082  | 20,325          | 2,723 | 70,012 | 20,475 | 42,923 | 6,387 | 227 |
| Net exposure       |        |        |                 |       |        |        |        |       |     |
|                    | 21,276 | 17     | 6,167           | -     | 27,460 | 11,526 | 15,934 | -     | -   |

|                    |        |       |        |       |        |        |        |       |    |
|--------------------|--------|-------|--------|-------|--------|--------|--------|-------|----|
| RMBS: G10          |        |       |        |       |        |        |        |       |    |
| governments        |        |       |        |       |        |        |        |       |    |
| RMBS: covered bond | 141    | 215   | 7,864  | -     | 8,220  | -      | 8,220  | -     | -  |
| RMBS: prime        | 1,321  | 3,107 | 732    | 184   | 5,344  | 787    | 4,464  | 92    | 1  |
| RMBS:              |        |       |        |       |        |        |        |       |    |
| non-conforming     | 1,027  | 1,993 | 92     | -     | 3,112  | 547    | 1,133  | 1,432 | -  |
| RMBS: sub-prime    | 304    | 242   | 112    | 171   | 829    | 300    | 322    | 207   | -  |
| CMBS               | 1,146  | 1,310 | 679    | 50    | 3,185  | 905    | 841    | 1,393 | 46 |
| CDOs               | 600    | 49    | 242    | -     | 891    | 308    | 470    | 113   | -  |
| CLOs               | 1,268  | 64    | 762    | 45    | 2,139  | 708    | 1,058  | 373   | -  |
| Other ABS          | 2,203  | 916   | 2,555  | 1,970 | 7,644  | 561    | 4,441  | 2,642 | -  |
|                    | 29,286 | 7,913 | 19,205 | 2,420 | 58,824 | 15,642 | 36,883 | 6,252 | 47 |

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## Risk and capital management (continued)

## Other risk exposures: Asset-backed securities (continued)

## Asset-backed securities by geography and measurement classification (continued)

|                 | US     | UK     | Other  | RoW   | Total  | HFT    | AFS    | LAR   | DFV |
|-----------------|--------|--------|--------|-------|--------|--------|--------|-------|-----|
|                 | £m     | £m     | £m     | £m    | £m     | £m     | £m     | £m    | £m  |
| 30 June 2010    |        |        |        |       |        |        |        |       |     |
| Gross exposure  |        |        |        |       |        |        |        |       |     |
| RMBS: G10       |        |        |        |       |        |        |        |       |     |
| governments     | 23,790 | 16     | 6,283  | -     | 30,089 | 9,973  | 20,116 | -     | -   |
| RMBS: covered   |        |        |        |       |        |        |        |       |     |
| bond            | 127    | 193    | 7,975  | -     | 8,295  | -      | 8,295  | -     | -   |
| RMBS: prime     | 1,942  | 4,869  | 2,681  | 849   | 10,341 | 4,886  | 5,277  | 177   | 1   |
| RMBS:           |        |        |        |       |        |        |        |       |     |
| non-conforming  | 1,255  | 2,205  | 118    | -     | 3,578  | 594    | 1,483  | 1,499 | 2   |
| RMBS: sub-prime | 1,244  | 394    | 175    | 246   | 2,059  | 1,049  | 779    | 231   | -   |
| CMBS            | 3,802  | 1,873  | 1,524  | 96    | 7,295  | 3,827  | 1,712  | 1,540 | 216 |
| CDOs            | 14,714 | 129    | 484    | -     | 15,327 | 10,119 | 5,078  | 129   | 1   |
| CLOs            | 9,216  | 114    | 1,608  | 378   | 11,316 | 4,410  | 6,424  | 482   | -   |
| Other ABS       | 3,512  | 1,199  | 3,016  | 2,013 | 9,740  | 1,496  | 5,081  | 3,163 | -   |
|                 | 59,602 | 10,992 | 23,864 | 3,582 | 98,040 | 36,354 | 54,245 | 7,221 | 220 |
| Carrying value  |        |        |        |       |        |        |        |       |     |
| RMBS: G10       |        |        |        |       |        |        |        |       |     |
| governments     | 24,461 | 16     | 5,799  | -     | 30,276 | 10,077 | 20,199 | -     | -   |
| RMBS: covered   |        |        |        |       |        |        |        |       |     |
| bond            | 131    | 195    | 7,290  | -     | 7,616  | -      | 7,616  | -     | -   |
| RMBS: prime     | 1,724  | 3,884  | 2,253  | 256   | 8,117  | 3,359  | 4,597  | 161   | -   |
| RMBS:           |        |        |        |       |        |        |        |       |     |
| non-conforming  | 961    | 2,084  | 118    | -     | 3,163  | 426    | 1,238  | 1,499 | -   |
| RMBS: sub-prime | 674    | 254    | 143    | 227   | 1,298  | 596    | 482    | 220   | -   |
| CMBS            | 3,337  | 1,556  | 1,026  | 70    | 5,989  | 2,764  | 1,549  | 1,444 | 232 |
| CDOs            | 3,566  | 64     | 291    | -     | 3,921  | 1,768  | 2,029  | 124   | -   |
| CLOs            | 7,996  | 82     | 1,159  | 235   | 9,472  | 3,351  | 5,682  | 438   | 1   |
| Other ABS       | 3,010  | 1,085  | 2,820  | 1,938 | 8,853  | 1,273  | 4,317  | 3,262 | 1   |
|                 | 45,860 | 9,220  | 20,899 | 2,726 | 78,705 | 23,614 | 47,709 | 7,148 | 234 |
| Net exposure    |        |        |        |       |        |        |        |       |     |
| RMBS: G10       |        |        |        |       |        |        |        |       |     |
| governments     | 24,461 | 16     | 5,799  | -     | 30,276 | 10,077 | 20,199 | -     | -   |
|                 | 131    | 195    | 7,290  | -     | 7,616  | -      | 7,616  | -     | -   |

|                         |        |       |        |       |        |        |        |       |     |
|-------------------------|--------|-------|--------|-------|--------|--------|--------|-------|-----|
| RMBS: covered<br>bond   |        |       |        |       |        |        |        |       |     |
| RMBS: prime             | 1,669  | 3,001 | 1,452  | 176   | 6,298  | 1,538  | 4,597  | 162   | 1   |
| RMBS:<br>non-conforming | 958    | 2,084 | 118    | -     | 3,160  | 423    | 1,238  | 1,499 | -   |
| RMBS: sub-prime         | 237    | 242   | 135    | 194   | 808    | 236    | 352    | 220   | -   |
| CMBS                    | 2,608  | 1,398 | 663    | 46    | 4,715  | 863    | 1,986  | 1,444 | 422 |
| CDOs                    | 1,098  | 23    | 269    | -     | 1,390  | 722    | 544    | 124   | -   |
| CLOs                    | 1,297  | 56    | 920    | 43    | 2,316  | 451    | 1,426  | 438   | 1   |
| Other ABS               | 2,475  | 1,057 | 2,792  | 1,937 | 8,261  | 812    | 4,318  | 3,131 | -   |
|                         | 34,934 | 8,072 | 19,438 | 2,396 | 64,840 | 15,122 | 42,276 | 7,018 | 424 |

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## Risk and capital management (continued)

## Other risk exposures: Asset-backed securities (continued)

## Asset-backed securities by geography and measurement classification (continued)

|                    | US     | UK     | Other<br>Europe | RoW   | Total   | HFT    | AFS    | LAR   | DFV |
|--------------------|--------|--------|-----------------|-------|---------|--------|--------|-------|-----|
|                    | £m     | £m     | £m              | £m    | £m      | £m     | £m     | £m    | £m  |
| 31 December 2009   |        |        |                 |       |         |        |        |       |     |
| Gross exposure     |        |        |                 |       |         |        |        |       |     |
| RMBS: G10          |        |        |                 |       |         |        |        |       |     |
| governments        | 26,644 | 17     | 7,016           | 94    | 33,771  | 13,536 | 20,235 | -     | -   |
| RMBS: covered bond | 49     | 297    | 9,019           | -     | 9,365   | -      | 9,365  | -     | -   |
| RMBS: prime        | 2,965  | 5,276  | 4,567           | 222   | 13,030  | 6,274  | 5,761  | 848   | 147 |
| RMBS:              |        |        |                 |       |         |        |        |       |     |
| non-conforming     | 1,341  | 2,138  | 128             | -     | 3,607   | 635    | 1,498  | 1,474 | -   |
| RMBS: sub-prime    | 1,668  | 724    | 195             | 561   | 3,148   | 1,632  | 1,020  | 479   | 17  |
| CMBS               | 3,422  | 1,781  | 1,420           | 75    | 6,698   | 2,936  | 1,842  | 1,711 | 209 |
| CDOs               | 12,382 | 329    | 571             | 27    | 13,309  | 9,080  | 3,923  | 305   | 1   |
| CLOs               | 9,092  | 166    | 2,169           | 1,173 | 12,600  | 5,346  | 6,581  | 673   | -   |
| Other ABS          | 3,587  | 1,980  | 5,031           | 1,569 | 12,167  | 2,912  | 5,252  | 3,985 | 18  |
|                    | 61,150 | 12,708 | 30,116          | 3,721 | 107,695 | 42,351 | 55,477 | 9,475 | 392 |
| Carrying value     |        |        |                 |       |         |        |        |       |     |
| RMBS: G10          |        |        |                 |       |         |        |        |       |     |
| governments        | 26,984 | 17     | 6,870           | 33    | 33,904  | 13,397 | 20,507 | -     | -   |
| RMBS: covered bond | 50     | 288    | 8,734           | -     | 9,072   | -      | 9,072  | -     | -   |
| RMBS: prime        | 2,696  | 4,583  | 4,009           | 212   | 11,500  | 5,133  | 5,643  | 583   | 141 |
| RMBS:              |        |        |                 |       |         |        |        |       |     |
| non-conforming     | 958    | 1,957  | 128             | -     | 3,043   | 389    | 1,180  | 1,474 | -   |
| RMBS: sub-prime    | 977    | 314    | 146             | 387   | 1,824   | 779    | 704    | 324   | 17  |
| CMBS               | 3,237  | 1,305  | 924             | 43    | 5,509   | 2,279  | 1,637  | 1,377 | 216 |
| CDOs               | 3,275  | 166    | 400             | 27    | 3,868   | 2,064  | 1,600  | 203   | 1   |
| CLOs               | 6,736  | 112    | 1,469           | 999   | 9,316   | 3,296  | 5,500  | 520   | -   |
| Other ABS          | 2,886  | 1,124  | 4,369           | 1,187 | 9,566   | 1,483  | 4,621  | 3,443 | 19  |
|                    | 47,799 | 9,866  | 27,049          | 2,888 | 87,602  | 28,820 | 50,464 | 7,924 | 394 |
| Net exposure       |        |        |                 |       |         |        |        |       |     |
| RMBS: G10          |        |        |                 |       |         |        |        |       |     |
| governments        | 26,984 | 17     | 6,870           | 33    | 33,904  | 13,397 | 20,507 | -     | -   |
| RMBS: covered bond | 50     | 288    | 8,734           | -     | 9,072   | -      | 9,072  | -     | -   |
| RMBS: prime        | 2,436  | 3,747  | 3,018           | 172   | 9,373   | 3,167  | 5,480  | 584   | 142 |
|                    | 948    | 1,957  | 128             | -     | 3,033   | 379    | 1,180  | 1,474 | -   |

RMBS:

non-conforming

|                 |        |       |        |       |        |        |        |       |     |
|-----------------|--------|-------|--------|-------|--------|--------|--------|-------|-----|
| RMBS: sub-prime | 565    | 305   | 137    | 290   | 1,297  | 529    | 427    | 324   | 17  |
| CMBS            | 2,245  | 1,228 | 595    | 399   | 4,467  | 1,331  | 1,556  | 1,377 | 203 |
| CDOs            | 743    | 124   | 382    | 26    | 1,275  | 521    | 550    | 203   | 1   |
| CLOs            | 1,636  | 86    | 1,104  | 39    | 2,865  | 673    | 1,672  | 520   | -   |
| Other ABS       | 2,117  | 839   | 4,331  | 1,145 | 8,432  | 483    | 4,621  | 3,309 | 19  |
|                 | 37,724 | 8,591 | 25,299 | 2,104 | 73,718 | 20,480 | 45,065 | 7,791 | 382 |

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## Risk and capital management (continued)

## Other risk exposures: Asset-backed securities (continued)

## Asset-backed securities by rating

The table below summarises the ratings of ABS carrying values. Credit ratings are based on those from rating agencies Standard & Poor's (S&P), Moody's and Fitch and have been mapped onto the S&P scale.

|                    | AAA<br>£m | AA to<br>AA+<br>£m | A to<br>AA-<br>£m | BBB- to<br>A-<br>£m | Non<br>investment<br>grade<br>£m | Unrated<br>£m | Total<br>£m |
|--------------------|-----------|--------------------|-------------------|---------------------|----------------------------------|---------------|-------------|
| 30 September 2010  |           |                    |                   |                     |                                  |               |             |
| Carrying value     |           |                    |                   |                     |                                  |               |             |
| RMBS: G10          |           |                    |                   |                     |                                  |               |             |
| governments        | 25,883    | 1,555              | 22                | -                   | -                                | -             | 27,460      |
| RMBS: covered bond | 7,649     | 309                | 262               | -                   | -                                | -             | 8,220       |
| RMBS: prime        | 4,852     | 496                | 260               | 196                 | 846                              | 65            | 6,715       |
| RMBS:              |           |                    |                   |                     |                                  |               |             |
| non-conforming     | 1,748     | 115                | 115               | 451                 | 649                              | 37            | 3,115       |
| RMBS: sub-prime    | 312       | 150                | 227               | 48                  | 476                              | 99            | 1,312       |
| CMBS               | 3,131     | 479                | 1,156             | 434                 | 258                              | 8             | 5,466       |
| CDOs               | 514       | 422                | 317               | 217                 | 1,376                            | 111           | 2,957       |
| CLOs               | 2,437     | 1,830              | 648               | 850                 | 275                              | 359           | 6,399       |
| Other ABS          | 3,499     | 1,235              | 904               | 1,702               | 333                              | 695           | 8,368       |
|                    | 50,025    | 6,591              | 3,911             | 3,898               | 4,213                            | 1,374         | 70,012      |
| 30 June 2010       |           |                    |                   |                     |                                  |               |             |
| Carrying value     |           |                    |                   |                     |                                  |               |             |
| RMBS: G10          |           |                    |                   |                     |                                  |               |             |
| governments        | 28,773    | 1,375              | 128               | -                   | -                                | -             | 30,276      |
| RMBS: covered bond | 7,297     | 85                 | 111               | 16                  | -                                | 107           | 7,616       |
| RMBS: prime        | 5,887     | 761                | 566               | 157                 | 717                              | 29            | 8,117       |
| RMBS:              |           |                    |                   |                     |                                  |               |             |
| non-conforming     | 1,823     | 168                | 72                | 385                 | 704                              | 11            | 3,163       |
| RMBS: sub-prime    | 357       | 114                | 223               | 17                  | 513                              | 74            | 1,298       |
| CMBS               | 3,678     | 509                | 1,095             | 438                 | 254                              | 15            | 5,989       |
| CDOs               | 717       | 507                | 297               | 582                 | 1,631                            | 187           | 3,921       |
| CLOs               | 4,556     | 2,649              | 1,184             | 595                 | 432                              | 56            | 9,472       |
| Other ABS          | 3,242     | 1,199              | 1,172             | 2,042               | 365                              | 833           | 8,853       |
|                    | 56,330    | 7,367              | 4,848             | 4,232               | 4,616                            | 1,312         | 78,705      |

31 December 2009

|                    |        |       |       |       |       |       |        |
|--------------------|--------|-------|-------|-------|-------|-------|--------|
| Carrying value     |        |       |       |       |       |       |        |
| RMBS: G10          |        |       |       |       |       |       |        |
| governments        | 33,779 | 125   | -     | -     | -     | -     | 33,904 |
| RMBS: covered bond | 8,645  | 360   | 67    | -     | -     | -     | 9,072  |
| RMBS: prime        | 9,211  | 676   | 507   | 547   | 558   | 1     | 11,500 |
| RMBS:              |        |       |       |       |       |       |        |
| non-conforming     | 1,981  | 197   | 109   | 160   | 594   | 2     | 3,043  |
| RMBS: sub-prime    | 578    | 121   | 306   | 87    | 579   | 153   | 1,824  |
| CMBS               | 3,441  | 599   | 1,022 | 298   | 147   | 2     | 5,509  |
| CDOs               | 615    | 944   | 254   | 944   | 849   | 262   | 3,868  |
| CLOs               | 2,718  | 4,365 | 607   | 260   | 636   | 730   | 9,316  |
| Other ABS          | 4,099  | 1,555 | 1,014 | 1,947 | 152   | 799   | 9,566  |
|                    | 65,067 | 8,942 | 3,886 | 4,243 | 3,515 | 1,949 | 87,602 |

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Risk and capital management (continued)

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Other risk exposures: Asset-backed securities (continued)

Asset-backed securities by rating (continued)

Key points

- ABS carrying values decreased by 11%, from £78.7 billion at 30 June 2010 to £70.0 billion at 30 September 2010, principally due to sales and maturities of £18.6 billion, foreign exchange movements of £1.1 billion, partially offset by additions of £10.9 billion and fair value increases of £0.1 billion.
- US government-backed securities were £21.3 billion at 30 September 2010 (30 June 2010 - £24.5 billion; 31 December 2009 - £27.0 billion). This comprised:
  - HFT securities of £11.5 billion up from £10.1 billion at 30 June 2010, reflecting reinvestment by GBM mortgage trading of US agency positions following market developments.
  - AFS exposures of £9.8 billion (30 June 2010 - £14.4 billion; 31 December 2009 - £13.6 billion) of liquidity portfolios in US Retail & Commercial; the decrease reflected balance sheet restructuring during the quarter.
- Dutch government guaranteed RMBS exposures in Group Treasury's liquidity portfolio increased by £0.4 billion to £6.2 billion at 30 September 2010 reflecting exchange rate movements.
- Covered bonds, significantly all issued by Dutch and Spanish financial institutions, also in Group Treasury's liquidity portfolio, increased by £0.6 billion to £8.2 billion, mainly due to exchange rate movements.
- CDOs and CLOs decreased by £1.0 billion and £3.1 billion to £3.0 billion and £6.4 billion respectively, reflecting monoline related restructuring as well as disposals of US positions in Non-Core.
- AAA rated assets decreased from £56.3 billion at 30 June 2010 to £50.0 billion at 30 September 2010, primarily as a result of disposals of US agency and prime securities as well as CLOs.
- Life-to-date net valuation losses on ABS held at 30 September 2010, including impairment provisions, were £16.0 billion (30 June 2010 - £19.3 billion; 31 December 2009 - £20.1 billion) comprising:
  - RMBS: £3.1 billion (30 June 2010 - £3.9 billion; 31 December 2009 - £3.6 billion), of which £0.2 billion (30 June 2010 - £0.6 billion; 31 December 2009 - £0.7 billion) was in US sub-prime and £2.6 billion (30 June 2010 - £2.9 billion; 31 December 2009 - £2.3 billion) on European assets of which £1.1 billion related to Group Treasury's AFS liquidity portfolio, reflecting recent market events.

CMBS: £0.9 billion (30 June 2010 - £1.3 billion; 31 December 2009 - £1.2 billion) of primarily European assets.

CDOs and CLOs of £9.4 billion (30 June 2010 - £11.4 billion; 31 December 2009 - £9.4 billion) and £1.4 billion (30 June 2010 - £1.8 billion; 31 December 2009 - £3.3 billion) respectively, significantly all relating to US assets in Non-Core. Many of these assets have market hedges in place giving rise to a significant difference between the carrying value and the net exposure. The decrease in CDOs and CLOs primarily reflects monoline related restructuring as well as small disposals of US positions.

Other ABS: £1.2 billion (30 June 2010 - £0.9 billion; 31 December 2009 - £2.6 billion).

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## Risk and capital management (continued)

## Other risk exposures: Credit valuation adjustments

Credit valuation adjustments (CVA) represent an estimate of the adjustment to arrive at fair value that a market participant would make to incorporate the credit risk inherent in counterparty derivative exposures. The table below details the Group's CVA by type of counterparty.

|                       | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 31 March<br>2010<br>£m | 31<br>December<br>2009<br>£m |
|-----------------------|-------------------------------|-----------------------|------------------------|------------------------------|
| Monoline insurers     | 2,678                         | 3,599                 | 3,870                  | 3,796                        |
| CDPCs                 | 622                           | 791                   | 465                    | 499                          |
| Other counterparties  | 1,937                         | 1,916                 | 1,737                  | 1,588                        |
| Total CVA adjustments | 5,237                         | 6,306                 | 6,072                  | 5,883                        |

## Monoline insurers

The table below summarises the Group's exposure to monolines, all of which are in Non-Core.

|  | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 31 March<br>2010<br>£m | 31<br>December<br>2009<br>£m |
|--|-------------------------------|-----------------------|------------------------|------------------------------|
| Gross exposure to monolines                    | 4,445                         | 5,495                 | 6,189                  | 6,170                        |
| Hedges with financial institutions             | (70)                          | (73)                  | (548)                  | (531)                        |
| Credit valuation adjustment                    | (2,678)                       | (3,599)               | (3,870)                | (3,796)                      |
| Net exposure to monolines                      | 1,697                         | 1,823                 | 1,771                  | 1,843                        |
| CVA as a % of gross exposure                   | 60%                           | 65%                   | 63%                    | 62%                          |
| Counterparty and credit risk RWAs<br>* revised | £19.1bn                       | £25.5bn*              | £8.6bn                 | £13.7bn                      |

The net effect to the income statement relating to monoline exposures is shown below:

|  | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 31 March<br>2010<br>£m | 31<br>December<br>2009<br>£m |
|--|-------------------------------|-----------------------|------------------------|------------------------------|
|  | (3,599)                       | (3,870)               | (3,796)                | (6,300)                      |

|  |         |         |         |         |
|--|---------|---------|---------|---------|
| Credit valuation adjustment at beginning of quarter                                      |         |         |         |         |
| Credit valuation adjustment at end of quarter  | (2,678) | (3,599) | (3,870) | (3,796) |
| Decrease/(increase) in credit valuation adjustment                                       | 921     | 271     | (74)    | 2,504   |
| Net (debit)/credit relating to realisation, hedges, foreign exchange and other movements | (687)   | (270)   | 214     | (2,125) |
| Net credit relating to reclassified debt securities                                      | (16)    | (130)   | (90)    | (1,040) |
| Net credit/(debit) to income statement (1)   | 218     | (129)   | 50      | (661)   |

## Note:

- (1) Comprises £8 million of reversals of impairment losses and £19 million of other income relating to reclassified debt securities. Income from trading activities was £191 million in Q3 2010.

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## Risk and capital management (continued)

## Other risk exposures: Credit valuation adjustments (continued)

## Monoline insurers (continued)

The table below summarises monoline exposures by rating. Credit ratings are based on those from rating agencies, Standard & Poor's and Moody's. Where the ratings differ, the lower of the two is taken.

|                         | Notional:<br>protected<br>assets<br>£m | Fair<br>value:<br>protected<br>assets<br>£m | Gross<br>exposure<br>£m | CVA<br>£m | Hedges<br>£m | Net<br>exposure<br>£m |
|-------------------------|--|---|-------------------------|-----------|--------------|-----------------------|
| 30 September 2010       |  |   |                         |           |              |                       |
| A to AA-                | 6,641                                  | 5,616                                       | 1,025                   | 376       | -            | 649                   |
| Non investment<br>grade | 8,661                                  | 5,241                                       | 3,420                   | 2,302     | 70           | 1,048                 |
|                         | 15,302                                 | 10,857                                      | 4,445                   | 2,678     | 70           | 1,697                 |
| Of which:               |  |   |                         |           |              |                       |
| CDOs                    | 1,146                                  | 230   | 916                     | 602       |              |                       |
| RMBS                    | 3                                      | 2   | 1                       | -         |              |                       |
| CMBS                    | 4,226                                  | 2,284                                       | 1,942                   | 1,336     |              |                       |
| CLOs                    | 6,969                                  | 6,265                                       | 704                     | 273       |              |                       |
| Other ABS               | 2,407                                  | 1,742                                       | 665                     | 343       |              |                       |
| Other                   | 551                                    | 334   | 217                     | 124       |              |                       |
|                         | 15,302                                 | 10,857                                      | 4,445                   | 2,678     |              |                       |
| 30 June 2010            |  |   |                         |           |              |                       |
| A to AA-                | 7,474                                  | 6,342                                       | 1,132                   | 439       | -            | 693                   |
| Non investment<br>grade | 12,247                                 | 7,884                                       | 4,363                   | 3,160     | 73           | 1,130                 |
|                         | 19,721                                 | 14,226                                      | 5,495                   | 3,599     | 73           | 1,823                 |
| Of which:               |  |   |                         |           |              |                       |
| CDOs                    | 1,658                                  | 496   | 1,162                   | 836       |              |                       |
| RMBS                    | 3                                      | 3   | -                       | -         |              |                       |
| CMBS                    | 4,496                                  | 2,335                                       | 2,161                   | 1,565     |              |                       |
| CLOs                    | 10,321                                 | 9,167                                       | 1,154                   | 648       |              |                       |
| Other ABS               | 2,708                                  | 1,924                                       | 784                     | 419       |              |                       |
| Other                   | 535                                    | 301   | 234                     | 131       |              |                       |
|                         | 19,721                                 | 14,226                                      | 5,495                   | 3,599     |              |                       |

31 December 2009

|                      |        |        |       |       |     |       |
|----------------------|--------|--------|-------|-------|-----|-------|
| A to AA-             | 7,143  | 5,875  | 1,268 | 378   | -   | 890   |
| Non investment grade | 12,598 | 7,696  | 4,902 | 3,418 | 531 | 953   |
|                      | 19,741 | 13,571 | 6,170 | 3,796 | 531 | 1,843 |
| Of which:            |        |        |       |       |     |       |
| CDOs                 | 2,284  | 797    | 1,487 | 1,059 |     |       |
| RMBS                 | 82     | 66     | 16    | 2     |     |       |
| CMBS                 | 4,253  | 2,034  | 2,219 | 1,562 |     |       |
| CLOs                 | 10,007 | 8,584  | 1,423 | 641   |     |       |
| Other ABS            | 2,606  | 1,795  | 811   | 410   |     |       |
| Other                | 509    | 295    | 214   | 122   |     |       |
|                      | 19,741 | 13,571 | 6,170 | 3,796 |     |       |

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Other risk exposures: Credit valuation adjustments (continued)

## Monoline insurers (continued)

## Key points

- The decrease in CVA held against exposures to monoline insurers reflects the reduction in exposure due to a combination of restructuring of certain exposures, higher prices of underlying reference instruments, primarily CLOs and CMBS, and the strengthening of sterling against the US dollar.
- The CVA decreased on a total and relative basis reflecting the reduction in exposure and tightening credit spreads.
- The majority of the current exposure is to monoline counterparties that are classified as sub-investment grade.
- Counterparty and credit RWAs decreased by £6.3 billion in the quarter due to restructuring of certain exposures (c. £5 billion) and foreign exchange effects.
- The net loss on realisation, hedges and foreign exchange movements was driven by a combination of realised losses arising from restructuring certain exposures and foreign currency movements. The net effect of reclassified debt securities reflects the difference between accounting impairments and mark-to-market losses that would have been reported on the assets had they been accounted for on a fair value through profit or loss basis.

The Group also has indirect exposures to monoline insurers through wrapped securities and other assets with credit enhancement from monoline insurers. These securities are traded with the benefit of this credit enhancement. Any deterioration in the credit rating of the monoline is reflected in the fair value of these assets.

## Credit derivative product companies (CDPC)

A summary of the Group's exposure to CDPCs, which is all in Non-Core, at 30 September 2010, is detailed below:

|                             | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 31 March<br>2010<br>£m | 31<br>December<br>2009<br>£m |
|-----------------------------|-------------------------------|-----------------------|------------------------|------------------------------|
| Gross exposure to CDPCs     | 1,467                         | 1,747                 | 1,243                  | 1,275                        |
| Credit valuation adjustment | (622)                         | (791)                 | (465)                  | (499)                        |
| Net exposure to CDPCs       | 845                           | 956                   | 778                    | 776                          |

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|                                   |        |        |        |        |
|-----------------------------------|--------|--------|--------|--------|
| CVA as a % of gross exposure      | 42%    | 45%    | 37%    | 39%    |
| Counterparty and credit risk RWAs | £8.1bn | £8.8bn | £7.9bn | £7.5bn |
| Capital deductions                | £297m  | £292m  | £309m  | £347m  |

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## Risk and capital management (continued)

## Other risk exposures: Credit valuation adjustments (continued)

## Credit derivative product companies (continued)

The table below summarises CDPC exposures by rating.

|                      | Notional<br>amount:<br>protected<br>assets<br>£m | Fair value:<br>protected<br>reference<br>assets<br>£m | Gross<br>exposure<br>£m | Credit<br>valuation<br>adjustment<br>£m | Net<br>exposure<br>to CDPCs<br>£m |
|----------------------|--|---|-------------------------|---|-----------------------------------|
| 30 September 2010    |  |   |                         |   |                                   |
| AAA                  | 1,070  | 1,060   | 10                      | 6                                       | 4                                 |
| A to AA-             | 637  | 618   | 19                      | 8                                       | 11                                |
| Non investment grade | 19,468   | 18,286  | 1,182                   | 476                                     | 706                               |
| Rating withdrawn     | 3,426  | 3,170   | 256                     | 132                                     | 124                               |
|                      | 24,601   | 23,134  | 1,467                   | 622                                     | 845                               |
| 30 June 2010         |  |   |                         |   |                                   |
| AAA                  | 1,128  | 1,115   | 13                      | 9                                       | 4                                 |
| BBB- to A-           | 668  | 642   | 26                      | 14                                      | 12                                |
| Non investment grade | 20,051   | 18,655  | 1,396                   | 586                                     | 810                               |
| Rating withdrawn     | 3,742  | 3,430   | 312                     | 182                                     | 130                               |
|                      | 25,589   | 23,842  | 1,747                   | 791                                     | 956                               |
| 31 December 2009     |  |   |                         |   |                                   |
| AAA                  | 1,658  | 1,637   | 21                      | 5                                       | 16                                |
| BBB- to A-           | 1,070  | 1,043   | 27                      | 9                                       | 18                                |
| Non investment grade | 17,696   | 16,742  | 954                     | 377                                     | 577                               |
| Rating withdrawn     | 3,926  | 3,653   | 273                     | 108                                     | 165                               |
|                      | 24,350   | 23,075  | 1,275                   | 499                                     | 776                               |

Credit ratings are based on those from rating agencies S&P and Moody's. Where the ratings differ, the lower of the two is taken.

The net income statement effect arising from CDPC exposures is shown below.

|  |           |         |          |          |
|--|-----------|---------|----------|----------|
|  | 30        | 30 June | 31 March | 31       |
|  | September | 2010    | 2010     | December |

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|   | 2010  |       |       | 2009  |
|---|-------|-------|-------|-------|
|   | £m    | £m    | £m    | £m    |
| Credit valuation adjustment at beginning of quarter                         | (791) | (465) | (499) | (592) |
| Credit valuation adjustment at end of quarter                               | (622) | (791) | (465) | (499) |
| Decrease/(increase) in credit valuation adjustment                          | 169   | (326) | 34    | 93    |
| Net (debit)/credit relating to hedges, foreign exchange and other movements | (184) | 270   | (66)  | (205) |
| Net debit to income statement (income from trading activities)              | (15)  | (56)  | (32)  | (112) |

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Other risk exposures: Credit valuation adjustments (continued)

## Credit derivative product companies (continued)

## Key points

- Exposure to CDPCs decreased over the period due to a combination of tighter credit spreads of the referenced assets and the strengthening of sterling against the US and Canadian dollar, partially offset by an increase in the relative value of senior tranches compared to the underlying reference portfolios.
- CVA decreased both on a total and relative basis, reflecting the decreased exposure.
- The Group has predominantly traded senior tranches with CDPCs. The average attachment and detachment points were 13% and 48% respectively at 30 September 2010 (30 June 2010 – 13% and 50% respectively), and the majority of the reference portfolios are investment grade.
- Counterparty and credit RWAs relating to gross CDPC exposures decreased by £0.7 billion in the quarter whereas capital deductions increased marginally.

## Other counterparties

The net income statement effect arising from the change in level of CVA for all other counterparties and related trades is shown in the table below.

|   | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 31 March<br>2010<br>£m | 31<br>December<br>2009<br>£m |
|---|-------------------------------|-----------------------|------------------------|------------------------------|
| Credit valuation adjustment at the beginning of the quarter                 | (1,916)                       | (1,737)               | (1,588)                | (1,856)                      |
| Credit valuation adjustment at the end of the quarter                       | (1,937)                       | (1,916)               | (1,737)                | (1,588)                      |
| (Increase)/decrease in credit valuation adjustment                          | (21)                          | (179)                 | (149)                  | 268                          |
| Net credit/(debit) relating to hedges, foreign exchange and other movements | 37                            | 185                   | 12                     | (204)                        |
|   | 16                            | 6                     | (137)                  | 64                           |

Net credit/(debit) to income statement  
(income from trading  
activities)

Key points

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The increase in CVA was primarily driven by an increase in exposure, reflecting market movements and rating downgrades of certain counterparties in the quarter. This was partially offset by the tightening of credit spreads.

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Gains on hedges are the primary driver of the £37 million credit to the income statement in Q3 2010.

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Other risk exposures: Leveraged finance

The table below details the Group's global markets sponsor-led leveraged finance exposures, all in Non-Core, by industry and geography.

|                 | 30 September 2010 |       |        |       |        | 30 June 2010 |       |        |       |        | 31 December 2009 |       |        |       |        |
|-----------------|-------------------|-------|--------|-------|--------|--------------|-------|--------|-------|--------|------------------|-------|--------|-------|--------|
|                 | Americas          | UK    | Europe | RoW   | Total  | Americas     | UK    | Europe | RoW   | Total  | Americas         | UK    | Europe | RoW   | Total  |
|                 | £m                | £m    | £m     | £m    | £m     | £m           | £m    | £m     | £m    | £m     | £m               | £m    | £m     | £m    | £m     |
| Gross exposure: |                   |       |        |       |        |              |       |        |       |        |                  |       |        |       |        |
| TMT (1)         | 871               | 1,513 | 775    | 519   | 3,678  | 1,044        | 1,592 | 849    | 531   | 4,016  | 1,781            | 1,656 | 1,081  | 605   | 5,063  |
| Industrial      | 393               | 1,052 | 1,249  | 312   | 3,006  | 726          | 1,110 | 1,334  | 334   | 3,504  | 1,584            | 1,523 | 1,781  | 207   | 5,095  |
| Retail          | 8                 | 437   | 1,060  | 63    | 1,568  | 24           | 380   | 1,083  | 60    | 1,547  | 17               | 476   | 1,354  | 71    | 1,928  |
| Other           | 198               | 1,100 | 771    | 216   | 2,285  | 235          | 1,301 | 1,022  | 231   | 2,789  | 244              | 1,527 | 1,168  | 191   | 3,130  |
|                 | 1,470             | 4,102 | 3,855  | 1,110 | 10,537 | 2,029        | 4,383 | 4,288  | 1,156 | 11,856 | 3,626            | 5,182 | 5,384  | 1,074 | 15,266 |
| Net exposure:   |                   |       |        |       |        |              |       |        |       |        |                  |       |        |       |        |
| TMT (1)         | 795               | 1,325 | 759    | 401   | 3,280  | 928          | 1,430 | 845    | 428   | 3,631  | 1,502            | 1,532 | 1,045  | 590   | 4,699  |
| Industrial      | 274               | 949   | 1,083  | 302   | 2,608  | 535          | 1,001 | 1,178  | 329   | 3,043  | 524              | 973   | 1,594  | 205   | 3,299  |
| Retail          | 8                 | 424   | 1,006  | 60    | 1,498  | 24           | 366   | 1,028  | 57    | 1,475  | 17               | 445   | 1,282  | 68    | 1,807  |
| Other           | 197               | 1,025 | 765    | 216   | 2,203  | 233          | 1,232 | 1,013  | 232   | 2,710  | 244              | 1,461 | 1,147  | 191   | 3,043  |
|                 | 1,274             | 3,723 | 3,613  | 979   | 9,589  | 1,720        | 4,029 | 4,064  | 1,046 | 10,859 | 2,287            | 4,411 | 5,068  | 1,054 | 12,820 |
| Of which:       |                   |       |        |       |        |              |       |        |       |        |                  |       |        |       |        |
| Drawn           | 938               | 3,260 | 2,829  | 806   | 7,833  | 1,313        | 3,604 | 3,332  | 870   | 9,119  | 1,944            | 3,737 | 3,909  | 950   | 10,540 |
| Undrawn         | 336               | 463   | 784    | 173   | 1,756  | 407          | 425   | 732    | 176   | 1,740  | 343              | 674   | 1,159  | 104   | 2,280  |
|                 | 1,274             | 3,723 | 3,613  | 979   | 9,589  | 1,720        | 4,029 | 4,064  | 1,046 | 10,859 | 2,287            | 4,411 | 5,068  | 1,054 | 12,820 |

## Notes:

(1) Telecommunications, media and technology.

(2) All of the above are classified as loans and receivables, except for £153 million (30 June 2010 - £154 million; 31 December 2009 - £143 million) that is classified as held-for-trading.





## Risk and capital management (continued)

## Other risk exposures: Leveraged finance (continued)

The table below analyses the movements in leveraged finance exposures.

|  | 30 September 2010 |               |             | 30 June    | 31 March   |
|--|-------------------|---------------|-------------|------------|------------|
|  | Drawn<br>£m       | Undrawn<br>£m | Total<br>£m | 2010<br>£m | 2010<br>£m |
| Balance at beginning of quarter        | 9,119             | 1,740         | 10,859      | 11,609     | 12,820     |
| Transfers                              | (29)              | -             | (29)        | 68         | 8          |
| Sales and restructurings               | (1,203)           | (60)          | (1,263)     | (573)      | (929)      |
| Repayments and facility reductions     | (196)             | 48            | (148)       | (120)      | (387)      |
| Funded deals                           | (1)               | 1             | -           | -          | -          |
| Changes in fair value                  | 41                | -             | 41          | 17         | (2)        |
| Accretion of interest                  | 9                 | -             | 9           | 15         | 13         |
| Net recoveries/(impairment provisions) | 8                 | -             | 8           | 268        | (198)      |
| Exchange and other movements           | 85                | 27            | 112         | (425)      | 284        |
| Balance at end of quarter              | 7,833             | 1,756         | 9,589       | 10,859     | 11,609     |

## Key points

- The Group's exposure to leveraged finance has reduced primarily as a result of sales of £1.3 billion, as part of the active management in line with the Non-Core strategy.
- Credit impairments in the quarter were £85 million which were more than offset by recoveries of £93 million.
- Approximately 90% of the above exposures represent senior lending.

## Not included in the table above are:

- UK Corporate leveraged finance net exposures of £6.5 billion at 30 September 2010 (30 June 2010 - £7.2 billion; 31 March 2010 - £7.5 billion) related to debt and banking facilities provided to UK mid-corporates. Of this £3.8 billion (30 June 2010 - £4.0 billion; 31 March 2010 - £4.2 billion) relates specifically to debt transactions financing UK mid-market buyouts, supplementing equity capital provided by third party private equity investors. The balance was senior debt transactions to mid-corporate clients supporting acquisitions, recapitalisations or general corporate purposes where higher leverage criteria were met.

Ulster Bank leveraged finance net exposure was £0.6 billion (30 June 2010 - £0.6 billion; 31 March 2010 - £0.6 billion).

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## Risk and capital management (continued)

## Other risk exposures: Special purpose entities

The table below sets out the asset categories, together with the carrying value of the assets and associated liabilities for those securitisations and other asset transfers, other than conduits (discussed below), where the assets continue to be recorded on the Group's balance sheet.

|                           | 30 September 2010 |                   | 30 June 2010 |                   | 31 December 2009 |                   |
|---------------------------|-------------------|-------------------|--------------|-------------------|------------------|-------------------|
|                           | Assets<br>£m      | Liabilities<br>£m | Assets<br>£m | Liabilities<br>£m | Assets<br>£m     | Liabilities<br>£m |
| Residential mortgages     | 74,351            | 18,164            | 71,022       | 15,012            | 69,927           | 15,937            |
| Credit card receivables   | 4,059             | 1,592             | 4,148        | 1,585             | 2,975            | 1,592             |
| Other loans               | 31,364            | 1,003             | 34,097       | 986               | 36,448           | 1,010             |
| Finance lease receivables | 582               | 582               | 621          | 621               | 597              | 597               |

Assets are significantly greater than liabilities, as all notes issued by funding-related own asset securitisation SPEs are purchased by Group companies.

## Conduits

Group-sponsored conduits can be divided into multi-seller conduits and own-asset conduits. The Group consolidates both types of conduits where the substance of the relationship between the Group and the conduit vehicle is such that the vehicle is controlled by the Group. Liquidity commitments from the Group to the conduit exceed the nominal amount of assets funded by the conduit as liquidity commitments are sized to cover the funding cost of the related assets.

During the period both multi-seller and own asset conduit assets have been reduced in line with wider Group balance sheet management. The total assets held by Group-sponsored conduits were £19.8 billion at 30 September 2010 (30 June 2010 - £22.5 billion; 31 December 2009 - £27.4 billion).

The exposure to conduits which are consolidated by the Group, the assets held and commercial papers issued by these vehicles is set out below.

|                         | 30 September 2010 |                |             | 30 June 2010 |                |             | 31 December 2009 |                |             |
|-------------------------|-------------------|----------------|-------------|--------------|----------------|-------------|------------------|----------------|-------------|
|                         | Core<br>£m        | Non-Core<br>£m | Total<br>£m | Core<br>£m   | Non-Core<br>£m | Total<br>£m | Core<br>£m       | Non-Core<br>£m | Total<br>£m |
| Total assets            | 16,183            | 3,642          | 19,825      | 18,645       | 3,841          | 22,486      | 23,409           | 3,957          | 27,366      |
| Commercial paper issued | 15,430            | 2,563          | 17,993      | 17,987       | 2,592          | 20,579      | 22,644           | 2,939          | 25,583      |

## Liquidity and credit enhancements:

## Deal specific liquidity:

|           |        |       |        |        |       |        |        |       |        |
|-----------|--------|-------|--------|--------|-------|--------|--------|-------|--------|
| - drawn   | 733    | 1,104 | 1,837  | 637    | 1,274 | 1,911  | 738    | 1,059 | 1,797  |
| - undrawn | 22,472 | 3,277 | 25,749 | 26,049 | 3,367 | 29,416 | 28,628 | 3,852 | 32,480 |
| PWCE (1)  | 918    | 275   | 1,193  | 1,119  | 316   | 1,435  | 1,167  | 341   | 1,508  |

|  |        |       |        |        |       |        |        |       |        |
|--|--------|-------|--------|--------|-------|--------|--------|-------|--------|
|  | 24,123 | 4,656 | 28,779 | 27,805 | 4,957 | 32,762 | 30,533 | 5,252 | 35,785 |
|--|--------|-------|--------|--------|-------|--------|--------|-------|--------|

## Maximum exposure

|             |        |       |        |        |       |        |        |       |        |
|-------------|--------|-------|--------|--------|-------|--------|--------|-------|--------|
| to loss (2) | 23,205 | 4,381 | 27,586 | 26,686 | 4,641 | 31,327 | 29,365 | 4,911 | 34,276 |
|-------------|--------|-------|--------|--------|-------|--------|--------|-------|--------|

## Notes:

- (1) Programme-wide credit enhancement.
- (2) Maximum exposure to loss is determined as the Group's total liquidity commitments to the conduits and additionally programme-wide credit support which would absorb first loss on transactions where liquidity support is provided by a third party. Third party maximum exposure to loss is reduced by repo trades conducted with an external counterparty.

## Risk and capital management (continued)

## Other risk exposures: Conduits (continued)

Multi-seller conduits accounted for 42% of the total liquidity and credit enhancements committed by the Group at 30 September 2010 (30 June 2010 and 31 December 2009 – 43%). The Group's multi-seller conduits have continued to fund the vast majority of their assets solely through asset-backed commercial paper (ABCP) issuance. There have been no significant systemic failures within the financial markets similar to that experienced in the second half of 2008 following Lehman Brothers bankruptcy filing in September 2008. The improvement in market conditions has allowed these conduits to move towards more normal ABCP funding and reduced the need for backstop funding from the Group.

## Key points

- The maturity of the commercial paper issued by the Group's conduits is managed to mitigate the short-term contingent liquidity risk of providing back-up facilities. The Group's limits sanctioned for such liquidity facilities at 30 September 2010 totalled approximately £21.9 billion (30 June 2010 - £24.3 billion; 31 December 2009 - £25.0 billion). For a very small number of transactions within one multi-seller conduit the liquidity facilities have been provided by third-party banks. This typically occurs on transactions where the third-party bank does not use, or have, its own conduit vehicles.
- The Group's maximum exposure to loss on its multi-seller conduits is £22.0 billion (30 June 2010 - £24.5 billion; 31 December 2009 - £25.2 billion), being the total amount of the Group's liquidity commitments plus the extent of PWCE of conduit assets for which liquidity facilities were not provided by third parties.
- The demand for high quality ABCP continued during the period to 30 September 2010 with a higher demand for longer dated paper, compared with the previous quarter.

The average maturity of ABCP issued by the Group's conduits at 30 September 2010 was 68.3 days (30 June 2010 – 62.7 days; 31 December 2009 - 58.4 days).

The Group holds two own-asset conduits, which have assets that were previously funded by the Group. The Group's maximum exposure to loss on these two conduits was £5.6 billion at 30 September 2010 (30 June 2010 - £6.9 billion; 31 December 2009 - £9.1 billion), with £3.2 billion of ABCP outstanding at that date (30 June 2010 - £4.2 billion; 31 December 2009 - £7.7 billion).

Additionally the Group has established an own-asset conduit with a committed liquidity of £26.0 billion (30 June 2010 - £26.0 billion; 31 December 2009 - £25.1 billion) to access the Bank of England's open market operations for contingent funding purposes.

The Group also extends liquidity commitments to multi-seller conduits sponsored by other banks, but typically does not consolidate these entities as the Group does not retain the majority of risks and rewards. The Group's exposure from third-party conduits was £136 million (30 June 2010 - £403 million; 31 December 2009 - £587 million) representing deal specific liquidity.

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Signatures

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

Date: 5 November 2010

THE ROYAL BANK OF  
SCOTLAND GROUP plc  
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill  
Title: Deputy Secretary