

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

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

Report of Foreign Private Issuer

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

For May 6, 2011

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000  
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F ☒ X

Form 40-F ☐ \_\_\_\_

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

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

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

Yes ☐ \_\_\_\_

No ☒ X

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

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



## Risk and balance sheet management

## Balance sheet management

## Capital

The Group aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements as capital adequacy and risk management are closely aligned. The Group's regulatory capital resources and risk asset ratios calculated in accordance with FSA definitions are set out below.

|                                    | 31<br>March<br>2011<br>£bn | 31<br>December<br>2010<br>£bn |
|------------------------------------|----------------------------|-------------------------------|
| Risk-weighted assets (RWAs)        |                            |                               |
| Credit risk                        | 367.9                      | 385.9                         |
| Counterparty risk                  | 62.8                       | 68.1                          |
| Market risk                        | 69.5                       | 80.0                          |
| Operational risk                   | 37.9                       | 37.1                          |
|                                    | 538.1                      | 571.1                         |
| Benefit of Asset Protection Scheme | (98.4)                     | (105.6)                       |
|                                    | 439.7                      | 465.5                         |
| Risk asset ratio                   | %                          | %                             |
| Core Tier 1                        | 11.2                       | 10.7                          |
| Tier 1                             | 13.5                       | 12.9                          |
| Total                              | 14.5                       | 14.0                          |

## Key points

- Credit and counterparty RWAs fell by £23.3 billion principally driven by asset run-off, disposals and restructurings, and a reclassification of certain trades in Non-Core.
- Market risk decreased by £10.5 billion reflecting a lower event risk charge and reductions in VaR.
- The reduction in APS RWA benefit reflects the run-off of covered assets.
- The benefit of the APS to the Core Tier 1 was 1.3% compared with 1.2% at 31 December 2010.

Risk and balance sheet management (continued)

## Balance sheet management: Capital(continued)

|                                                                                    | 31<br>March<br>2011<br>£m | 31<br>December<br>2010<br>£m |
|------------------------------------------------------------------------------------|---------------------------|------------------------------|
| Composition of regulatory capital                                                  |                           |                              |
| Tier 1                                                                             |                           |                              |
| Ordinary and B shareholders' equity                                                | 69,332                    | 70,388                       |
| Non-controlling interests                                                          | 1,710                     | 1,719                        |
| Adjustments for:                                                                   |                           |                              |
| - goodwill and other intangible assets - continuing businesses                     | (14,409)                  | (14,448)                     |
| - unrealised losses on available-for-sale (AFS) debt securities                    | 2,125                     | 2,061                        |
| - reserves arising on revaluation of property and unrealised gains on AFS equities | (62)                      | (25)                         |
| - reallocation of preference shares and innovative securities                      | (548)                     | (548)                        |
| - other regulatory adjustments*                                                    | (379)                     | (1,097)                      |
| Less excess of expected losses over provisions net of tax                          | (2,385)                   | (1,900)                      |
| Less securitisation positions                                                      | (2,410)                   | (2,321)                      |
| Less APS first loss                                                                | (3,936)                   | (4,225)                      |
| Core Tier 1 capital                                                                | 49,038                    | 49,604                       |
| Preference shares                                                                  | 5,380                     | 5,410                        |
| Innovative Tier 1 securities                                                       | 4,561                     | 4,662                        |
| Tax on the excess of expected losses over provisions                               | 860                       | 758                          |
| Less material holdings                                                             | (291)                     | (310)                        |
| Total Tier 1 capital                                                               | 59,548                    | 60,124                       |
| Tier 2                                                                             |                           |                              |
| Reserves arising on revaluation of property and unrealised gains on AFS equities   | 62                        | 25                           |
| Collective impairment provisions                                                   | 750                       | 778                          |
| Perpetual subordinated debt                                                        | 1,845                     | 1,852                        |
| Term subordinated debt                                                             | 16,334                    | 16,745                       |
| Non-controlling and other interests in Tier 2 capital                              | 11                        | 11                           |
| Less excess of expected losses over provisions                                     | (3,245)                   | (2,658)                      |
| Less securitisation positions                                                      | (2,410)                   | (2,321)                      |
| Less material holdings                                                             | (291)                     | (310)                        |
| Less APS first loss                                                                | (3,936)                   | (4,225)                      |
| Total Tier 2 capital                                                               | 9,120                     | 9,897                        |
| Supervisory deductions                                                             |                           |                              |
| Unconsolidated investments                                                         |                           |                              |
| - RBS Insurance                                                                    | (3,988)                   | (3,962)                      |

|                                                                |         |         |
|----------------------------------------------------------------|---------|---------|
| - other investments                                            | (330)   | (318)   |
| Other deductions                                               | (422)   | (452)   |
| Deductions from total capital                                  | (4,740) | (4,732) |
| Total regulatory capital                                       | 63,928  | 65,289  |
| * Includes reduction for own liabilities carried at fair value | (863)   | (1,182) |

# Risk and balance sheet management (continued)

## Balance sheet management: Capital (continued)

|                                                             |        |
|-------------------------------------------------------------|--------|
| Movement in Core Tier 1 capital                             | £m     |
| At 1 January 2011                                           | 49,604 |
| Attributable loss net of movement in fair value of own debt | (209)  |
| Foreign currency reserves                                   | (384)  |
| Issue of ordinary shares                                    | 31     |
| Increase in capital deductions including APS first loss     | (285)  |
| Other movements                                             | 281    |
| At 31 March 2011                                            | 49,038 |

## Risk-weighted assets by division

Risk-weighted assets by risk category and division are set out below.

|                        | Credit risk | Counterparty risk | Market risk | Operational risk | Gross total | APS relief | Net total |
|------------------------|-------------|-------------------|-------------|------------------|-------------|------------|-----------|
| 31 March 2011          | £bn         | £bn               | £bn         | £bn              | £bn         | £bn        | £bn       |
| UK Retail              | 43.0        | -                 | -           | 7.3              | 50.3        | (11.4)     | 38.9      |
| UK Corporate           | 72.6        | -                 | -           | 6.7              | 79.3        | (21.5)     | 57.8      |
| Wealth                 | 10.6        | -                 | 0.1         | 1.9              | 12.6        | -          | 12.6      |
| Global                 |             |                   |             |                  |             |            |           |
| Transaction            |             |                   |             |                  |             |            |           |
| Services               | 13.3        | -                 | -           | 4.9              | 18.2        | -          | 18.2      |
| Ulster Bank            | 29.4        | 0.4               | 0.1         | 1.8              | 31.7        | (7.4)      | 24.3      |
| US Retail & Commercial | 48.4        | 0.8               | -           | 4.4              | 53.6        | -          | 53.6      |
| Retail & Commercial    | 217.3       | 1.2               | 0.2         | 27.0             | 245.7       | (40.3)     | 205.4     |
| Global                 |             |                   |             |                  |             |            |           |
| Banking & Markets      | 51.0        | 32.0              | 48.0        | 15.5             | 146.5       | (11.1)     | 135.4     |
| Other                  | 13.3        | 0.5               | -           | 0.7              | 14.5        | -          | 14.5      |

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|              |       |      |      |       |       |         |       |
|--------------|-------|------|------|-------|-------|---------|-------|
| Core         | 281.6 | 33.7 | 48.2 | 43.2  | 406.7 | (51.4)  | 355.3 |
| Non-Core     | 83.6  | 29.1 | 21.3 | (5.5) | 128.5 | (47.0)  | 81.5  |
| Group before |       |      |      |       |       |         |       |
| RFS MI       | 365.2 | 62.8 | 69.5 | 37.7  | 535.2 | (98.4)  | 436.8 |
| RFS MI       | 2.7   | -    | -    | 0.2   | 2.9   | -       | 2.9   |
| Group        | 367.9 | 62.8 | 69.5 | 37.9  | 538.1 | (98.4)  | 439.7 |
| 31 December  |       |      |      |       |       |         |       |
| 2010         |       |      |      |       |       |         |       |
| UK Retail    | 41.7  | -    | -    | 7.1   | 48.8  | (12.4)  | 36.4  |
| UK Corporate | 74.8  | -    | -    | 6.6   | 81.4  | (22.9)  | 58.5  |
| Wealth       | 10.4  | -    | 0.1  | 2.0   | 12.5  | -       | 12.5  |
| Global       |       |      |      |       |       |         |       |
| Transaction  |       |      |      |       |       |         |       |
| Services     | 13.7  | -    | -    | 4.6   | 18.3  | -       | 18.3  |
| Ulster Bank  | 29.2  | 0.5  | 0.1  | 1.8   | 31.6  | (7.9)   | 23.7  |
| US Retail &  |       |      |      |       |       |         |       |
| Commercial   | 52.0  | 0.9  | -    | 4.1   | 57.0  | -       | 57.0  |
| Retail &     |       |      |      |       |       |         |       |
| Commercial   | 221.8 | 1.4  | 0.2  | 26.2  | 249.6 | (43.2)  | 206.4 |
| Global       |       |      |      |       |       |         |       |
| Banking &    |       |      |      |       |       |         |       |
| Markets      | 53.5  | 34.5 | 44.7 | 14.2  | 146.9 | (11.5)  | 135.4 |
| Other        | 16.4  | 0.4  | 0.2  | 1.0   | 18.0  | -       | 18.0  |
| Core         | 291.7 | 36.3 | 45.1 | 41.4  | 414.5 | (54.7)  | 359.8 |
| Non-Core     | 91.3  | 31.8 | 34.9 | (4.3) | 153.7 | (50.9)  | 102.8 |
| Group before |       |      |      |       |       |         |       |
| RFS MI       | 383.0 | 68.1 | 80.0 | 37.1  | 568.2 | (105.6) | 462.6 |
| RFS MI       | 2.9   | -    | -    | -     | 2.9   | -       | 2.9   |
| Group        | 385.9 | 68.1 | 80.0 | 37.1  | 571.1 | (105.6) | 465.5 |

## Risk and balance sheet management (continued)

## Balance sheet management: Funding and liquidity risk

The Group's balance sheet composition is a function of the broad array of product offerings and diverse markets served by its Core divisions. The structural composition of the balance sheet is augmented as needed through active management of both asset and liability portfolios. The objective of these activities is to optimise liquidity transformation in normal business environments while ensuring adequate coverage of all cash requirements under extreme stress conditions.

Diversification of the Group's funding base is central to its liquidity management strategy. The Group's businesses have developed large customer franchises based on strong relationship management and high quality service. These customer franchises are strongest in the UK, US and Ireland but extend into Europe, Asia and Latin America. Customer deposits provide large pools of stable funding to support the majority of the Group's lending. It is a strategic objective to improve the Group's loan to deposit ratio to 100%, or better, by 2013.

The Group also accesses professional markets funding by way of public and private debt issuances on an unsecured and secured basis. These debt issuance programmes are spread across multiple currencies and maturities to appeal to a broad range of investor types and preferences around the world. This market based funding supplements the Group's structural liquidity needs and in some cases achieves certain capital objectives.

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

|                               | 31 March 2011 |      | 31 December 2010 |      |
|-------------------------------|---------------|------|------------------|------|
|                               | £m            | %    | £m               | %    |
| Deposits by banks             |               |      |                  |      |
| - central banks               | 13,773        | 1.9  | 11,612           | 1.6  |
| - cash collateral             | 23,594        | 3.2  | 28,074           | 3.8  |
| - other                       | 26,462        | 3.6  | 26,365           | 3.6  |
|                               | 63,829        | 8.7  | 66,051           | 9.0  |
| Debt securities in issue      |               |      |                  |      |
| - commercial paper            | 24,216        | 3.3  | 26,235           | 3.5  |
| - certificates of deposits    | 35,967        | 4.9  | 37,855           | 5.1  |
| - medium-term notes and other |               |      |                  |      |
| bonds                         | 130,230       | 17.7 | 131,026          | 17.7 |
| - covered bonds               | 6,850         | 0.9  | 4,100            | 0.6  |
| - other securitisations       | 18,705        | 2.6  | 19,156           | 2.6  |
|                               | 215,968       | 29.4 | 218,372          | 29.5 |
| Subordinated liabilities      | 26,515        | 3.6  | 27,053           | 3.6  |
| Total wholesale funding       | 306,312       | 41.7 | 311,476          | 42.1 |

|                         |         |       |         |       |
|-------------------------|---------|-------|---------|-------|
| Customer deposits       |         |       |         |       |
| - cash collateral       | 8,673   | 1.2   | 10,433  | 1.4   |
| - other                 | 419,801 | 57.1  | 418,166 | 56.5  |
| Total customer deposits | 428,474 | 58.3  | 428,599 | 57.9  |
| Total funding           | 734,786 | 100.0 | 740,075 | 100.0 |

## Risk and balance sheet management (continued)

## Balance sheet management: Funding and liquidity risk (continued)

The table below shows the Group's debt securities in issue and subordinated liabilities by remaining maturity.

|                   | 31 March 2011                  |                                |             |       | 31 December 2010               |                                |             |       |
|-------------------|--------------------------------|--------------------------------|-------------|-------|--------------------------------|--------------------------------|-------------|-------|
|                   | Debt securities in issue<br>£m | Subordinated liabilities<br>£m | Total<br>£m | %     | Debt securities in issue<br>£m | Subordinated liabilities<br>£m | Total<br>£m | %     |
| Less than 1 year  | 107,110                        | 826                            | 107,936     | 44.5  | 94,048                         | 964                            | 95,012      | 38.7  |
| 1-3 years         | 35,801                         | 2,247                          | 38,048      | 15.7  | 49,149                         | 754                            | 49,903      | 20.3  |
| 3-5 years         | 23,613                         | 7,217                          | 30,830      | 12.7  | 22,806                         | 8,476                          | 31,282      | 12.8  |
| More than 5 years | 49,444                         | 16,225                         | 65,669      | 27.1  | 52,369                         | 16,859                         | 69,228      | 28.2  |
|                   | 215,968                        | 26,515                         | 242,483     | 100.0 | 218,372                        | 27,053                         | 245,425     | 100.0 |

## Key points

- The proportion of funding from customer deposits, excluding cash collateral, improved marginally from 56.5% to 57.1%.
- Short-term wholesale funding excluding derivative collateral increased from £129.4 billion to £144.7 billion during the first quarter of 2011 due to the inclusion of £15.6 billion of medium-term notes issued under the Credit Guarantee Scheme which will mature in Q1 2012. Short-term wholesale instruments (excluding repos and cash collateral) declined by £1.6 billion in Q1 2011.

## Risk and balance sheet management (continued)

## Balance sheet management: Funding and liquidity risk (continued)

## Long-term debt issuances

The table below shows debt securities issued by the Group with an original maturity of one year or more. The Group also executes other long-term funding arrangements (predominately term repos) not reflected in the tables below.

|                | Quarter ended |          |           |         | Year ended |          |
|----------------|---------------|----------|-----------|---------|------------|----------|
|                | 31            | 31       | 30        |         | 31         | 31       |
|                | March         | December | September | 30 June | March      | December |
|                | 2011          | 2010     | 2010      | 2010    | 2010       | 2010     |
|                | £m            | £m       | £m        | £m      | £m         | £m       |
| Public         |               |          |           |         |            |          |
| - unsecured    | 3,277         | 775      | 6,254     | 1,882   | 3,976      | 12,887   |
| - secured      | 2,652         | 1,725    | 5,286     | 1,030   | -          | 8,041    |
| Private        |               |          |           |         |            |          |
| - unsecured    | 4,251         | 4,623    | 6,299     | 2,370   | 4,158      | 17,450   |
| Gross issuance | 10,180        | 7,123    | 17,839    | 5,282   | 8,134      | 38,378   |

The table below shows the original maturity and currency breakdown of long-term debt securities issued in Q1 2011 and Q4 2010.

|                   | Quarter ended |       |                  |       |
|-------------------|---------------|-------|------------------|-------|
|                   | 31 March 2011 |       | 31 December 2010 |       |
|                   | £m            | %     | £m               | %     |
| Original maturity |               |       |                  |       |
| 1-2 years         | 438           | 4.3   | 433              | 6.1   |
| 2-3 years         | 184           | 1.8   | 618              | 8.6   |
| 3-4 years         | 2,474         | 24.3  | 697              | 9.8   |
| 4-5 years         | 248           | 2.5   | 290              | 4.1   |
| 5-10 years        | 5,001         | 49.1  | 2,321            | 32.6  |
| > 10 years        | 1,835         | 18.0  | 2,764            | 38.8  |
|                   | 10,180        | 100.0 | 7,123            | 100.0 |

## Currency

|       |       |      |       |      |
|-------|-------|------|-------|------|
| GBP   | 483   | 4.7  | 264   | 3.7  |
| EUR   | 4,069 | 40.0 | 3,935 | 55.2 |
| USD   | 3,310 | 32.5 | 1,280 | 18.0 |
| Other | 2,318 | 22.8 | 1,644 | 23.1 |

|        |       |       |       |
|--------|-------|-------|-------|
| 10,180 | 100.0 | 7,123 | 100.0 |
|--------|-------|-------|-------|

## Key points

- Term issuances in Q1 2011 were £10.2 billion, including £2.7 billion of euro denominated covered bonds, of which £0.9 billion had original maturity of 7 years and the balance had original maturity of 5 years.
- Issuances in Q1 2011 were £3.1 billion higher than in Q4 2010, of which £2.0 billion related to US dollar denominated instruments.
- The Group issued a further £3.8 billion of term debt in April 2011.

## Risk and balance sheet management (continued)

## Balance sheet management: Funding and liquidity risk (continued)

## Liquidity portfolio

The table below shows the composition of the Group's liquidity portfolio.

|                                                 | 31<br>March<br>2011<br>£m | 31<br>December<br>2010<br>£m |
|-------------------------------------------------|---------------------------|------------------------------|
| Liquidity portfolio                             |                           |                              |
| Cash and balances at central banks              | 58,936                    | 53,661                       |
| Treasury bills                                  | 9,859                     | 14,529                       |
| Central and local government bonds (1)          |                           |                              |
| - AAA rated governments (2)                     | 40,199                    | 41,435                       |
| - AA- to AA+ rated governments                  | 1,408                     | 3,744                        |
| - governments rated below AA                    | 1,052                     | 1,029                        |
| - local government                              | 4,771                     | 5,672                        |
|                                                 | 47,430                    | 51,880                       |
| Unencumbered collateral (3)                     |                           |                              |
| - AAA rated                                     | 21,328                    | 17,836                       |
| - below AAA rated and other high quality assets | 13,637                    | 16,693                       |
|                                                 | 34,965                    | 34,529                       |
| Total liquidity portfolio                       | 151,190                   | 154,599                      |

## Notes:

- (1) Includes FSA eligible government bonds of £30.1 billion at 31 March 2011 (31 December 2010 - £34.7 billion).
- (2) Includes AAA rated US government guaranteed agencies.
- (3) Includes secured assets eligible for discounting at central banks, comprising loans and advances and debt securities.

## Key points

- The Group's liquidity portfolio was £151.2 billion, a decline of £3.4 billion from 31 December 2010.
- The strategic target of £150 billion is unchanged.
- The liquidity portfolio is actively managed and as such its composition varies over time. Actions initiated in March 2011 to alter the maturity and currency mix resulted in a higher proportion of cash and central bank balances at the end of the quarter.

## Risk and balance sheet management (continued)

## Balance sheet management: Funding and liquidity risk (continued)

## Net stable funding

The table below shows the Group's net stable funding ratio estimated by applying the Basel III guidance issued in December 2010. This measure seeks to show the proportion of structural term assets which are funded by stable funding including customer deposits, long-term wholesale funding, and equity. The Group's net stable funding ratio calculation will continue to be refined over time in line with regulatory developments.

|                                            | 31 March 2011 |     | 31 December 2010 |     |             |
|--------------------------------------------|---------------|-----|------------------|-----|-------------|
|                                            |               | ASF |                  | ASF |             |
|                                            | £bn           | (1) | £bn              | (1) | Weighting % |
| Equity                                     | 76            | 76  | 76               | 76  | 100         |
| Wholesale funding > 1 year                 | 138           | 138 | 154              | 154 | 100         |
| Wholesale funding < 1 year                 | 168           | -   | 157              | -   | -           |
| Derivatives                                | 361           | -   | 424              | -   | -           |
| Repurchase agreements                      | 130           | -   | 115              | -   | -           |
| Deposits                                   |               |     |                  |     |             |
| - Retail and SME - more stable             | 171           | 154 | 172              | 155 | 90          |
| - Retail and SME - less stable             | 26            | 21  | 51               | 41  | 80          |
| - Other                                    | 231           | 116 | 206              | 103 | 50          |
| Other (2)                                  | 112           | -   | 98               | -   | -           |
| Total liabilities and equity               | 1,413         | 505 | 1,453            | 529 |             |
| Cash                                       | 60            | -   | 57               | -   | -           |
| Inter bank lending                         | 59            | -   | 58               | -   | -           |
| Debt securities > 1 year                   |               |     |                  |     |             |
| - central and local governments AAA to AA- | 83            | 4   | 89               | 4   | 5           |
| - other eligible bonds                     | 79            | 16  | 75               | 15  | 20          |
| - other bonds                              | 16            | 16  | 10               | 10  | 100         |
| Debt securities < 1 year                   | 53            | -   | 43               | -   | -           |
| Derivatives                                | 361           | -   | 427              | -   | -           |

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|                                         |       |     |       |      |     |
|-----------------------------------------|-------|-----|-------|------|-----|
| Reverse repurchase agreements           | 106   | -   | 95    | -    | -   |
| Customer loans and advances ><br>1 year |       |     |       |      |     |
| - residential mortgages                 | 143   | 93  | 145   | 94   | 65  |
| - other                                 | 200   | 200 | 211   | 211  | 100 |
| Customer loans and advances <<br>1 year |       |     |       |      |     |
| - retail loans                          | 19    | 16  | 22    | 19   | 85  |
| - other                                 | 132   | 66  | 125   | 63   | 50  |
| Other (3)                               | 102   | 102 | 96    | 96   | 100 |
| Total assets                            | 1,413 | 513 | 1,453 | 512  |     |
| Undrawn commitments                     | 255   | 13  | 267   | 13   | 5   |
| Total assets and undrawn<br>commitments | 1,668 | 526 | 1,720 | 525  |     |
| Net stable funding ratio                |       | 96% |       | 101% |     |

Notes:

- (1) Available stable funding.
- (2) Deferred tax, insurance liabilities and other liabilities.
- (3) Prepayments, accrued income, deferred tax and other assets.

Key point

- The Group's net stable funding ratio reduced to 96% at 31 March 2011, from 101% at 31 December 2010, primarily due to an increase in the wholesale funding with maturity of less than one year arising from the inclusion of £15.6 billion medium-term notes issued under the Credit Guarantee Scheme maturing during Q1 2012.

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk (continued)

Loan deposit ratio and funding gap

The table below shows quarterly trends in the loan to deposit ratio and customer funding gap.

|                   | Loan to<br>deposit ratio (1) |           | Customer<br>funding<br>gap (1) |
|-------------------|------------------------------|-----------|--------------------------------|
|                   | Group<br>%                   | Core<br>% | Group<br>£bn                   |
| 31 March 2011     | 115                          | 96        | 66                             |
| 31 December 2010  | 117                          | 96        | 74                             |
| 30 September 2010 | 126                          | 101       | 107                            |
| 30 June 2010      | 128                          | 102       | 118                            |
| 31 March 2010     | 131                          | 102       | 131                            |
| 31 December 2009  | 135                          | 104       | 142                            |

Note:

- (1) Excludes repurchase agreements and bancassurance deposits to 31 March 2010 and loans are net of provisions.

Key points

- The Group's loan to deposit ratio improved by 200 basis points in Q1 2011 to 115%. The customer funding gap narrowed by £8 billion to £66 billion in Q1 2011, primarily due to a reduction in Non-Core customer loans.
- The loan to deposit ratio for the Group's Core business at 31 March 2011 remained stable at 96%.

Sensitivity of net interest income

The Group seeks to mitigate the effect of prospective interest rate movements which could reduce future net interest income through its management of market risk in the Group's businesses, whilst balancing the cost of such hedging activities on the current net revenue stream. Hedging activities also consider the impact on market value sensitivity under stress.

The following table shows the sensitivity of net interest income over the next twelve months to an immediate up and down 100 basis points change to all interest rates.

|                               | 31<br>March<br>2011<br>£m | 31<br>December<br>2010<br>£m |
|-------------------------------|---------------------------|------------------------------|
| + 100bp shift in yield curves | 266                       | 232                          |
| - 100bp shift in yield curves | (302)                     | (352)                        |

Key points

- In aggregate, the Group's interest rate exposure continues to reflect a slight asset sensitive bias in Q1 2011.
- There were no material actions taken to alter the position during the quarter. Certain assumptions used for modelling customer pricing have been modified to show greater opportunity for margin expansion as and when short-term interest rates begin to rise.

Signatures

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

Date: 6 May 2011

THE ROYAL BANK OF  
SCOTLAND GROUP plc  
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill  
Title: Deputy Secretary