

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 05, 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 August 5, 2011

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F X

Form 40-F ___

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

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

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

Yes ___

No X

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

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

 Risk and balance sheet management

Except as otherwise indicated by an asterisk (*), the information in the Risk and balance sheet management section on pages 118 to 171 has been reviewed by the Group's external auditor.

Key terms and acronyms used in this section are defined in the glossary of terms.

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 risk asset ratios calculated in accordance with Financial Services Authority (FSA) definitions are set out below.

| | 30 June 2011 | 31 March 2011 | 31 December 2010 |
|------------------------------------|-----------------|------------------|------------------------|
| | £bn | £bn | £bn |
| Risk-weighted assets (RWAs)* | | | |
| Credit risk | 366.1 | 367.9 | 385.9 |
| Counterparty risk | 66.1 | 62.8 | 68.1 |
| Market risk | 58.6 | 69.5 | 80.0 |
| Operational risk | 37.9 | 37.9 | 37.1 |
| | 528.7 | 538.1 | 571.1 |
| Benefit of Asset Protection Scheme | (95.2) | (98.4) | (105.6) |
| | 433.5 | 439.7 | 465.5 |
| Risk asset ratio* | % | % | % |
| Core Tier 1 | 11.1 | 11.2 | 10.7 |
| Tier 1 | 13.5 | 13.5 | 12.9 |
| Total | 14.4 | 14.5 | 14.0 |

Key points*

- Credit and counterparty risk RWAs increased by £1.5 billion in Q2 2011 principally driven by a change in risk parameters and business movements.
- Market risk RWAs decreased by £10.9 billion in Q2 2011 reflecting de-risking of the Non-Core portfolio and a reduction in trading VaR in both GBM and Non-Core.
- The APS benefit decreased by £3.2 billion, reflecting asset reductions, partially offset by adverse changes in risk parameters principally related to Ireland.
- The Core Tier 1 ratio remained strong at 11.1%.

* not reviewed

Risk and balance sheet management (continued)

Balance sheet management: Capital(continued)

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

| | 30 June 2011 £m | 31 March 2011 £m | 31 December 2010 £m |
|--|-----------------------|------------------------|------------------------------|
| Composition of regulatory capital | | | |
| Tier 1 | | | |
| Ordinary and B shareholders' equity | 70,000 | 69,332 | 70,388 |
| Non-controlling interests | 1,498 | 1,710 | 1,719 |
| Adjustments for: | | | |
| - goodwill and other intangible assets - continuing businesses | (14,592) | (14,409) | (14,448) |
| - unrealised losses on available-for-sale (AFS) debt securities | 1,103 | 2,125 | 2,061 |
| - reserves arising on revaluation of property and unrealised gains on AFS equities | (76) | (62) | (25) |
| - reallocation of preference shares and innovative securities | (548) | (548) | (548) |
| - other regulatory adjustments* | (1,014) | (379) | (1,097) |
| Less excess of expected losses over provisions net of tax | (2,156) | (2,385) | (1,900) |
| Less securitisation positions | (2,404) | (2,410) | (2,321) |
| Less APS first loss | (3,810) | (3,936) | (4,225) |
| Core Tier 1 capital | 48,001 | 49,038 | 49,604 |
| Preference shares | 5,372 | 5,380 | 5,410 |
| Innovative Tier 1 securities | 4,564 | 4,561 | 4,662 |
| Tax on the excess of expected losses over provisions | 777 | 860 | 758 |
| Less material holdings | (327) | (291) | (310) |
| Total Tier 1 capital | 58,387 | 59,548 | 60,124 |
| Tier 2 | | | |
| Reserves arising on revaluation of property and unrealised gains on AFS equities | | | |
| | 76 | 62 | 25 |
| Collective impairment provisions | 715 | 750 | 778 |
| Perpetual subordinated debt | 1,858 | 1,845 | 1,852 |
| Term subordinated debt | 15,697 | 16,334 | 16,745 |

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| | | | |
|--|----------------|----------------|----------------|
| Non-controlling and other interests in Tier 2 capital | 11 | 11 | 11 |
| Less excess of expected losses over provisions | (2,933) | (3,245) | (2,658) |
| Less securitisation positions | (2,404) | (2,410) | (2,321) |
| Less material holdings | (327) | (291) | (310) |
| Less APS first loss | (3,810) | (3,936) | (4,225) |
| Total Tier 2 capital | 8,883 | 9,120 | 9,897 |
| Supervisory deductions | | | |
| Unconsolidated investments | | | |
| - RBS Insurance | (4,176) | (3,988) | (3,962) |
| - other investments | (354) | (330) | (318) |
| Other deductions | (419) | (422) | (452) |
| Deductions from total capital | (4,949) | (4,740) | (4,732) |
| Total regulatory capital | 62,321 | 63,928 | 65,289 |
| * Includes reduction for own liabilities carried at fair value | (1,112) | (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) |
| Increase in capital deductions including APS first loss | (285) |
| Other movements | 312 |
| At 31 March 2011 | 49,038 |
| Attributable loss net of movement in fair value of own debt | (1,146) |
| Foreign currency reserves | 80 |
| Decrease in non-controlling interests | (212) |
| Decrease in capital deductions including APS first loss | 361 |
| Other movements | (120) |
| At 30 June 2011 | 48,001 |

Risk and balance sheet management (continued)

Balance sheet management: Capital: Risk-weighted assets by division*

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

| 30 June 2011 | Credit risk £bn | Counterparty risk £bn | Market risk £bn | Operational risk £bn | Gross RWAs £bn | APS relief £bn | Net RWAs £bn |
|-----------------------------|--------------------|--------------------------|--------------------|-------------------------|-------------------|-------------------|-----------------|
| UK Retail | 42.2 | - | - | 7.3 | 49.5 | (10.7) | 38.8 |
| UK Corporate Wealth | 71.2 | - | - | 6.7 | 77.9 | (19.3) | 58.6 |
| Global Transaction Services | 10.9 | - | 0.1 | 1.9 | 12.9 | - | 12.9 |
| Ulster Bank | 13.9 | - | - | 4.9 | 18.8 | - | 18.8 |
| US Retail & Commercial | 33.9 | 0.5 | 0.1 | 1.8 | 36.3 | (7.6) | 28.7 |
| | 49.6 | 0.8 | - | 4.4 | 54.8 | - | 54.8 |
| Retail & Commercial | 221.7 | 1.3 | 0.2 | 27.0 | 250.2 | (37.6) | 212.6 |
| Global Banking & Markets | 51.2 | 31.4 | 40.9 | 15.5 | 139.0 | (10.3) | 128.7 |
| Other | 10.7 | 0.4 | - | 0.7 | 11.8 | - | 11.8 |
| Core | 283.6 | 33.1 | 41.1 | 43.2 | 401.0 | (47.9) | 353.1 |
| Non-Core | 79.7 | 33.0 | 17.5 | (5.5) | 124.7 | (47.3) | 77.4 |
| Group before RFS MI | 363.3 | 66.1 | 58.6 | 37.7 | 525.7 | (95.2) | 430.5 |
| RFS MI | 2.8 | - | - | 0.2 | 3.0 | - | 3.0 |
| Group | 366.1 | 66.1 | 58.6 | 37.9 | 528.7 | (95.2) | 433.5 |
| 31 March 2011 | | | | | | | |
| UK Retail | 43.0 | - | - | 7.3 | 50.3 | (11.4) | 38.9 |
| UK Corporate Wealth | 72.6 | - | - | 6.7 | 79.3 | (21.5) | 57.8 |
| Global Transaction Services | 10.6 | - | 0.1 | 1.9 | 12.6 | - | 12.6 |
| Ulster Bank | 13.3 | - | - | 4.9 | 18.2 | - | 18.2 |
| US Retail & Commercial | 29.4 | 0.4 | 0.1 | 1.8 | 31.7 | (7.4) | 24.3 |
| | 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 |
| Core | 281.6 | 33.7 | 48.2 | 43.2 | 406.7 | (51.4) | 355.3 |

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| | | | | | | | |
|--------------------------|-------|------|------|-------|-------|---------|-------|
| 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 |

* not reviewed

Risk and balance sheet management (continued)

Balance sheet management: Capital(continued)

Basel 2.5 and Basel III impacts*

The Basel Committee on Banking Supervision completed its review of and finalised the Basel III capital requirements for credit valuation adjustments (CVAs) with respect to counterparty risk in June 2011. The review resulted in minor modifications to the text published in December 2010. Indicative impacts of the major Basel 2.5 and Basel III proposals on the Group's RWAs and Core Tier 1 ratio were disclosed in our 2010 Annual Report and Accounts and these remain unchanged. The Group continues to make progress on the mitigation actions and develop further opportunities to optimise the outcome.

On 20 July 2011, the European Commission published a preliminary version of the Capital Requirements Directive (CRD) IV to implement the Basel III agreement within the EU. The Group is assessing the impact of CRD IV on

RWAs, capital and liquidity.

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 and Asia. 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.

* not reviewed

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk: funding sources (continued)

Funding sources

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

| | 30 June 2011 | | 31 March 2011 | | 31 December 2010 | |
|-------------------|--------------|-----|---------------|-----|------------------|-----|
| | £m | % | £m | % | £m | % |
| Deposits by banks | | | | | | |
| - central banks | 8,156 | 1.1 | 10,679 | 1.5 | 11,612 | 1.6 |
| - cash collateral | 25,524 | 3.5 | 23,594 | 3.2 | 28,074 | 3.8 |
| - other | 37,893 | 5.1 | 29,556 | 4.0 | 26,365 | 3.6 |
| | 71,573 | 9.7 | 63,829 | 8.7 | 66,051 | 9.0 |

| | | | | | | |
|---|---------|-------|---------|-------|---------|-------|
| Debt securities in issue | | | | | | |
| - commercial paper | 22,369 | 3.0 | 24,216 | 3.3 | 26,235 | 3.5 |
| - certificates of deposits | 35,305 | 4.8 | 35,967 | 4.9 | 37,855 | 5.1 |
| - medium-term notes (MTNs) | 132,371 | 17.9 | 130,230 | 17.7 | 131,026 | 17.7 |
| - covered bonds | 6,972 | 0.9 | 6,850 | 0.9 | 4,100 | 0.6 |
| - securitisations | 16,780 | 2.3 | 18,705 | 2.6 | 19,156 | 2.6 |
| | 213,797 | 28.9 | 215,968 | 29.4 | 218,372 | 29.5 |
| Subordinated liabilities | 26,311 | 3.5 | 26,515 | 3.6 | 27,053 | 3.6 |
| Debt securities in issue and subordinated liabilities | 240,108 | 32.4 | 242,483 | 33.0 | 245,425 | 33.1 |
| Wholesale funding | 311,681 | 42.1 | 306,312 | 41.7 | 311,476 | 42.1 |
| Customer deposits | | | | | | |
| - cash collateral | 11,166 | 1.5 | 8,673 | 1.2 | 10,433 | 1.4 |
| - other | 417,537 | 56.4 | 419,801 | 57.1 | 418,166 | 56.5 |
| Total customer deposits | 428,703 | 57.9 | 428,474 | 58.3 | 428,599 | 57.9 |
| Total funding | 740,384 | 100.0 | 734,786 | 100.0 | 740,075 | 100.0 |

| | 30 June 2011 £bn | 31 March 2011 £bn | 31 December 2010 £bn |
|--|------------------------|-------------------------|-------------------------------|
| Short-term wholesale funding | 173.5 | 166.3 | 157.5 |
| Of which - bank deposits | 67.0 | 60.3 | 62.5 |
| - other | 106.5 | 106.0 | 95.0 |
| Short-term wholesale funding excluding derivative collateral | 148.0 | 142.7 | 129.4 |
| Of which - bank deposits | 41.5 | 36.7 | 34.4 |
| - other | 106.5 | 106.0 | 95.0 |

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk: funding sources (continued)

Key points

- Customer deposits remained stable in absolute terms at £428.7 billion and as a proportion of total funding at 58%.

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The proportion of funding from customer deposits, excluding cash collateral, remained broadly stable at 56.4% at 30 June 2011 compared with 31 December 2010 and reduced slightly from 57.1% at 31 March 2011 reflecting a net £5.4 billion increase in wholesale funding in Q2 2011.

- Short-term wholesale funding excluding derivative collateral and bank deposits increased from £95.0 billion at 31 December 2010 to £106.0 billion at 31 March 2011 and increased marginally to £106.5 billion at 30 June 2011. The £11.0 billion increase in the first quarter of 2011 was primarily due to the inclusion of MTNs issued under the Credit Guarantee Scheme (CGS) maturing through to Q2 2012.
- Short-term wholesale funding excluding derivative collateral increased from £129.4 billion at 31 December 2010 to £142.7 billion at 31 March 2011 and £148.0 billion at 30 June 2011, due primarily to the inclusion of CGS MTNs as discussed above.

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

| | Debt securities in issue | | | | Subordinated | | Total | % |
|-------------------|--------------------------|------------|------------------------|-----------------------|-------------------|--------|---------|-------|
| | CP and CDs £m | MTNs £m | Covered bonds £m | Securitisations £m | liabilities £m | £m | | |
| 30 June 2011 | | | | | | | | |
| Less than 1 year | 56,868 | 49,174 | - | 43 | 106,085 | 399 | 106,484 | 44.3 |
| 1-3 years | 788 | 33,366 | 1,114 | 18 | 35,286 | 1,962 | 37,248 | 15.6 |
| 3-5 years | 13 | 19,028 | 3,154 | 33 | 22,228 | 8,316 | 30,544 | 12.7 |
| More than 5 years | 5 | 30,803 | 2,704 | 16,686 | 50,198 | 15,634 | 65,832 | 27.4 |
| | 57,674 | 132,371 | 6,972 | 16,780 | 213,797 | 26,311 | 240,108 | 100.0 |
| 31 March 2011 | | | | | | | | |
| Less than 1 year | 59,533 | 45,530 | - | 105 | 105,168 | 826 | 105,994 | 43.7 |
| 1-3 years | 634 | 34,046 | 1,105 | 16 | 35,801 | 2,247 | 38,048 | 15.7 |
| 3-5 years | 11 | 22,242 | 1,326 | 34 | 23,613 | 7,217 | 30,830 | 12.7 |
| More than 5 years | 5 | 28,412 | 4,419 | 18,550 | 51,386 | 16,225 | 67,611 | 27.9 |
| | 60,183 | 130,230 | 6,850 | 18,705 | 215,968 | 26,515 | 242,483 | 100.0 |
| 31 December 2010 | | | | | | | | |
| Less than 1 year | 63,371 | 30,589 | - | 88 | 94,048 | 964 | 95,012 | 38.7 |
| 1-3 years | 702 | 47,357 | 1,078 | 12 | 49,149 | 754 | 49,903 | 20.3 |
| 3-5 years | 12 | 21,466 | 1,294 | 34 | 22,806 | 8,476 | 31,282 | 12.8 |
| More than 5 years | 5 | 31,614 | 1,728 | 19,022 | 52,369 | 16,859 | 69,228 | 28.2 |
| | 64,090 | 131,026 | 4,100 | 19,156 | 218,372 | 27,053 | 245,425 | 100.0 |

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk: funding sources (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) which are not reflected in the following tables.

| | Quarter ended | | Half year | Quarter ended | | Half year |
|----------------|---------------|----------|-----------|---------------|----------|-----------|
| | 30 June | 31 March | ended | 30 June | 31 March | ended |
| | 2011 | 2011 | 2011 | 2010 | 2010 | 2010 |
| | £m | £m | £m | £m | £m | £m |
| Public | | | | | | |
| - unsecured | 1,808 | 3,277 | 5,085 | 1,882 | 3,976 | 5,858 |
| - secured | 2,211 | 2,652 | 4,863 | 1,030 | - | 1,030 |
| Private | | | | | | |
| - unsecured | 3,997 | 4,251 | 8,248 | 2,370 | 4,158 | 6,528 |
| Gross issuance | 8,016 | 10,180 | 18,196 | 5,282 | 8,134 | 13,416 |

The table below shows the original maturity of public long-term debt securities issued in the half years ended 30 June 2011 and 2010.

| | 2-3 | 3-4 | 5-10 | > 10 | Total |
|------------------------------|-------|-------|-------|-------|-------|
| | years | years | years | years | |
| Half year ended 30 June 2011 | £m | £m | £m | £m | £m |
| MTNs | 904 | 1,407 | 1,839 | 935 | 5,085 |
| Covered bonds | - | - | 2,652 | - | 2,652 |
| Securitisations | - | - | - | 2,211 | 2,211 |
| | 904 | 1,407 | 4,491 | 3,146 | 9,948 |
| % of total | 9% | 14% | 45% | 32% | 100% |
| Half year ended 30 June 2010 | | | | | |
| MTNs | - | 260 | 3,828 | 1,770 | 5,858 |
| Covered bonds | - | 1,030 | - | - | 1,030 |
| | - | 1,290 | 3,828 | 1,770 | 6,888 |
| % of total | - | 19% | 55% | 26% | 100% |

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk: funding sources (continued)

The table below shows the currency breakdown of public and private long-term debt securities issued in the half years ended 30 June 2011 and 2010.

| Half year ended 30 June 2011 | GBP £m | EUR £m | USD £m | AUD £m | Other £m | Total £m |
|------------------------------|-----------|-----------|-----------|-----------|-------------|-------------|
| Public | | | | | | |
| - MTNs | - | 1,808 | 2,181 | 1,096 | - | 5,085 |
| - covered bonds | - | 2,652 | - | - | - | 2,652 |
| - securitisations | 258 | 1,293 | 660 | - | - | 2,211 |
| Private | 1,203 | 2,535 | 2,344 | 118 | 2,048 | 8,248 |
| | 1,461 | 8,288 | 5,185 | 1,214 | 2,048 | 18,196 |
| % of total | 8% | 46% | 28% | 7% | 11% | 100% |

Half year ended 30 June 2010

| | | | | | | |
|-----------------|-------|-------|-------|----|-----|--------|
| Public | | | | | | |
| - MTNs | 1,260 | 2,923 | 1,427 | - | 248 | 5,858 |
| - covered bonds | - | 1,030 | - | - | - | 1,030 |
| Private | 448 | 4,552 | 846 | 68 | 614 | 6,528 |
| | 1,708 | 8,505 | 2,273 | 68 | 862 | 13,416 |
| % of total | 13% | 63% | 17% | 1% | 6% | 100% |

Key points

- Gross term issuances in Q2 2011 were £8.0 billion, including £2.2 billion of securitisations with original maturity of greater than 10 years.
- The Group has continued to diversify its funding mix with 46% of issuance denominated in euros, 28% in US dollars and 26% in other currencies.
- The Group had completed £18 billion of its £23 billion 2011 issuance target by 30 June 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 | | |
|---|---------|----------|----------|
| | 30 June | 31 March | December |
| | 2011 | 2011 | 2010 |
| | £m | £m | £m |
| Liquidity portfolio | | | |
| Cash and balances at central banks | 59,010 | 58,936 | 53,661 |
| Treasury bills | 8,600 | 9,859 | 14,529 |
| Central and local government bonds (1) | | | |
| - AAA rated governments and US agencies (2) | 47,999 | 40,199 | 41,435 |
| - AA- to AA+ rated governments | 1,399 | 1,408 | 3,744 |
| - governments rated below AA | 836 | 1,052 | 1,029 |
| - local government | 4,881 | 4,771 | 5,672 |
| | 55,115 | 47,430 | 51,880 |
| Unencumbered collateral (3) | | | |
| - AAA rated | 18,335 | 21,328 | 17,836 |
| - below AAA rated and other high quality assets | 13,493 | 13,637 | 16,693 |
| | 31,828 | 34,965 | 34,529 |
| Total liquidity portfolio | 154,553 | 151,190 | 154,599 |

Notes:

- (1) Includes FSA eligible government bonds of £34.5 billion at 30 June 2011 (31 March 2011 - £30.1 billion; 31 December 2010 - £34.7 billion).
- (2) Includes AAA rated US government guaranteed and US government sponsored 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 £154.6 billion, an increase of £3.4 billion from 31 March 2011 and flat compared with the position at 31 December 2010. The Group increased its liquidity balances during the quarter given unsettled market conditions.
- The strategic target of £150 billion is unchanged.
- The liquidity portfolio is actively managed and as such its composition varies over time. Actions in H1 2011 to alter the maturity and currency mix resulted in a higher portfolio of cash and central bank balances compared with 31 December 2010.

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 (NSFR) 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 NSFR will continue to be refined over time in line with regulatory developments.

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| | 30 June 2011 | | 31 March 2011 | | 31 December 2010 | | Weighting % |
|---|--------------|------------|---------------|------------|------------------|------------|----------------|
| | ASF (1) | | ASF (1) | | ASF (1) | | |
| | £bn | £bn | £bn | £bn | £bn | £bn | |
| Equity | 76 | 76 | 76 | 76 | 76 | 76 | 100 |
| Wholesale funding > 1 year | 138 | 138 | 138 | 138 | 154 | 154 | 100 |
| Wholesale funding < 1 year | 174 | - | 168 | - | 157 | - | - |
| Derivatives | 388 | - | 361 | - | 424 | - | - |
| Repurchase agreements | 124 | - | 130 | - | 115 | - | - |
| Deposits | | | | | | | |
| - Retail and SME - more stable | 168 | 151 | 171 | 154 | 172 | 155 | 90 |
| - Retail and SME - less stable | 25 | 20 | 26 | 21 | 51 | 41 | 80 |
| - Other | 236 | 118 | 231 | 116 | 206 | 103 | 50 |
| Other (2) | 117 | - | 112 | - | 98 | - | - |
| Total liabilities and equity | 1,446 | 503 | 1,413 | 505 | 1,453 | 529 | |
| Cash | 64 | - | 60 | - | 57 | - | - |
| Inter bank lending | 53 | - | 59 | - | 58 | - | - |
| Debt securities > 1 year | | | | | | | |
| - central and local governments AAA to AA- | 87 | 4 | 83 | 4 | 89 | 4 | 5 |
| - other eligible bonds | 85 | 17 | 79 | 16 | 75 | 15 | 20 |
| - other bonds | 19 | 19 | 16 | 16 | 10 | 10 | 100 |
| Debt securities < 1 year | 53 | - | 53 | - | 43 | - | - |
| Derivatives | 395 | - | 361 | - | 427 | - | - |
| Reverse repurchase agreements | 98 | - | 106 | - | 95 | - | - |
| Customer loans and advances > 1 year | | | | | | | |
| - residential mortgages | 145 | 94 | 143 | 93 | 145 | 94 | 65 |
| - other | 182 | 182 | 200 | 200 | 211 | 211 | 100 |
| Customer loans and advances < 1 year | | | | | | | |
| - retail loans | 20 | 17 | 19 | 16 | 22 | 19 | 85 |
| - other | 143 | 72 | 132 | 66 | 125 | 63 | 50 |
| Other (3) | 102 | 102 | 102 | 102 | 96 | 96 | 100 |
| Total assets | 1,446 | 507 | 1,413 | 513 | 1,453 | 512 | |
| Undrawn commitments | 250 | 13 | 255 | 13 | 267 | 13 | 5 |
| Total assets and undrawn commitments | 1,696 | 520 | 1,668 | 526 | 1,720 | 525 | |
| Net stable funding ratio | | 97% | | 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 declined in Q1 2010 due to the roll down of CGS MTNs into wholesale funding maturing in less than one year. The ratio stabilised in Q2 2011 and we anticipate that the ratio will continue to improve in H2 2011.

* not reviewed

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 deposit ratio (1) | | Customer funding gap |
|-------------------|------------------------------|-----------|-------------------------|
| | Group % | Core % | (1) Group £bn |
| 30 June 2011 | 114 | 96 | 61 |
| 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 |

Note:

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

Key points

- The Group's loan to deposit ratio improved by 300 basis points to 114% in the six months to 30 June 2011, including a 100 basis points improvement in the second quarter of 2011. The customer funding gap narrowed by £13 billion in the six months to 30 June 2011, including a £5 billion reduction in Q2 2011, primarily due to a reduction in Non-Core customer loans.
- The loan to deposit ratio for the Group's Core business has remained stable at 96% since December 2010.

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.

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The table below 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. In addition the table includes the impact of a gradual 400 basis point steepening and a gradual 300 basis point flattening of the yield curve at tenors greater than a year.

| | 30 June 2011 £m |
|-------------------------------|-----------------------|
| + 100bp shift in yield curves | 319 |
| - 100bp shift in yield curves | (141) |
| Bear steepener | 417 |
| Bull flattener | (309) |

Key points*

- The Group's interest rate exposure remains slightly asset sensitive driven in part by changes to underlying business assumptions as rates rise.
- The reported sensitivity will vary over time due to a number of factors such as changing market conditions and strategic changes to the balance sheet mix and should not therefore be considered predictive of future performance.

* not reviewed

Risk and balance sheet management (continued)

Balance sheet management: Funding and liquidity risk (continued)

Structural foreign currency exposures

The Group does not maintain material non-trading open currency positions other than the structural foreign currency translation exposures arising from its investments in foreign subsidiaries and associated undertakings and their related currency funding.

The table below shows the Group's structural foreign currency exposures.

| | Net assets of overseas operations £m | RFS MI £m | Net investments in foreign operations £m | Net investment hedges £m | Structural foreign currency exposures pre-economic hedges £m | Economic hedges (1) £m | Residual structural foreign currency exposures £m |
|-----------------------|--|-----------------|--|-----------------------------------|--|---------------------------------|--|
| 30 June 2011 | | | | | | | |
| US dollar | 17,082 | 2 | 17,080 | (1,827) | 15,253 | (3,920) | 11,333 |
| Euro | 9,313 | 50 | 9,263 | (733) | 8,530 | (2,416) | 6,114 |
| Other non-sterling | 5,603 | 262 | 5,341 | (4,340) | 1,001 | - | 1,001 |
| | 31,998 | 314 | 31,684 | (6,900) | 24,784 | (6,336) | 18,448 |
| 31 December 2010 | | | | | | | |
| US dollar | 17,137 | 2 | 17,135 | (1,820) | 15,315 | (4,058) | 11,257 |
| Euro | 8,443 | 33 | 8,410 | (578) | 7,832 | (2,305) | 5,527 |

| | | | | | | | |
|--------------------|--------|-----|--------|---------|--------|---------|--------|
| Other non-sterling | 5,320 | 244 | 5,076 | (4,135) | 941 | - | 941 |
| | 30,900 | 279 | 30,621 | (6,533) | 24,088 | (6,363) | 17,725 |

Note:

(1) The economic hedges represent US dollar and euro preference shares in issue that are treated as equity under IFRS, and do not qualify as hedges for accounting purposes.

Key point

- Changes in foreign currency exchange rates will affect equity in proportion to the structural foreign currency exposure. A 5% strengthening in foreign currencies against sterling would result in a gain of £1,300 million (31 December 2010 - £1,200 million) recognised in equity, while a 5% weakening in foreign currencies would result in a loss of £1,200 million (31 December 2010 - £1,150 million) recognised in equity.

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 August, 2011

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary