

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
November 02, 2012

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 02, 2012

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:

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 Risk and balance sheet management
 

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## Balance sheet management

## Capital

The Group aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements. Capital adequacy and risk management are closely aligned. The Group's risk-weighted assets and risk asset ratios, calculated in accordance with Financial Services Authority (FSA) definitions, are set out below.

	30 September 2012 £bn	30 June 2012 £bn	31 December 2011 £bn
Risk-weighted assets (RWAs) by risk			
Credit risk	334.5	334.8	344.3
Counterparty risk	53.3	53.0	61.9
Market risk	47.4	54.0	64.0
Operational risk	45.8	45.8	37.9
	481.0	487.6	508.1
Asset Protection Scheme (APS) relief	(48.1)	(52.9)	(69.1)
	432.9	434.7	439.0
Risk asset ratios	%	%	%
Core Tier 1	11.1	11.1	10.6
Core Tier 1 excluding capital relief provided by APS	10.4	10.3	9.7
Tier 1	13.4	13.4	13.0
Total	14.6	14.6	13.8

## Key points

- The Core Tier 1 ratio remained stable at 11.1%. Excluding the capital relief provided by APS, the Core Tier 1 ratio improved by 70 basis points year-to-date, of which 10 basis points were in Q3 2012, reflecting reductions in RWAs and capital deductions. Gross RWAs decreased by £27.1 billion year-to-date, of which £6.6 billion was in Q3 2012.
- Non-Core RWAs decreased by £21.1 billion year-to-date (Q3 2012 - down £10.5 billion) mainly as a result of lower market risk through active reduction in

derivatives, including the impact of restructuring a large derivative exposure to a highly leveraged counterparty in the first half of 2012. Credit and counterparty RWAs fell, driven by sales and run-off partly offset by the impact of regulatory uplifts.

- In Markets, RWAs fell driven by lower market risk.
- Retail & Commercial credit risk RWAs remained stable at c.£250 billion despite the impact of regulatory wholesale credit model changes, particularly in International Banking and UK Corporate.
- The decrease in capital deductions principally related to securitisations, reflecting the continuation of Non-Core's de-risking strategy.

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

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Balance sheet management: Capital (continued) The Group's regulatory capital resources in accordance with FSA definitions were as follows:

	30 September 2012 £m	30 June 2012 £m	31 December 2011 £m
Shareholders' equity (excluding non-controlling interests)			
Shareholders' equity per balance sheet	72,699	74,016	74,819
Preference shares - equity	(4,313)	(4,313)	(4,313)
Other equity instruments	(431)	(431)	(431)
	67,955	69,272	70,075
Non-controlling interests			
Non-controlling interests per balance sheet	1,194	1,200	1,234
Non-controlling preference shares	(548)	(548)	(548)
Other adjustments to non-controlling interests for regulatory purposes	(259)	(259)	(259)
	387	393	427
Regulatory adjustments and deductions			
Own credit	651	(402)	(2,634)
Unrealised losses on AFS debt securities	375	520	1,065
Unrealised gains on AFS equity shares	(84)	(70)	(108)
Cash flow hedging reserve	(1,746)	(1,399)	(879)
Other adjustments for regulatory purposes	895	637	571
Goodwill and other intangible assets	(14,798)	(14,888)	(14,858)
50% excess of expected losses over impairment provisions (net of tax)	(2,429)	(2,329)	(2,536)

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50% of securitisation positions	(1,180)	(1,461)	(2,019)
50% of APS first loss	(1,926)	(2,118)	(2,763)
	(20,242)	(21,510)	(24,161)
Core Tier 1 capital	48,100	48,155	46,341
Other Tier 1 capital			
Preference shares - equity	4,313	4,313	4,313
Preference shares - debt	1,055	1,082	1,094
Innovative/hybrid Tier 1 securities	4,065	4,466	4,667
	9,433	9,861	10,074
Tier 1 deductions			
50% of material holdings	(242)	(313)	(340)
Tax on excess of expected losses over impairment provisions	788	756	915
	546	443	575
Total Tier 1 capital	58,079	58,459	56,990
Qualifying Tier 2 capital			
Undated subordinated debt	2,245	1,958	1,838
Dated subordinated debt - net of amortisation	12,641	13,346	14,527
Unrealised gains on AFS equity shares	84	70	108
Collectively assessed impairment provisions	500	552	635
Non-controlling Tier 2 capital	11	11	11
	15,481	15,937	17,119
Tier 2 deductions			
50% of securitisation positions	(1,180)	(1,461)	(2,019)
50% excess of expected losses over impairment provisions	(3,217)	(3,085)	(3,451)
50% of material holdings	(242)	(313)	(340)
50% of APS first loss	(1,926)	(2,118)	(2,763)
	(6,565)	(6,977)	(8,573)
Total Tier 2 capital	8,916	8,960	8,546

Risk and balance sheet management (continued)

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Balance sheet management: Capital (continued)

	30		31
	September	30 June	December
	2012	2012	2011
	£m	£m	£m

Supervisory deductions			
Unconsolidated Investments			
- Direct Line Group	(3,537)	(3,642)	(4,354)
- Other investments	(144)	(141)	(239)
Other deductions	(217)	(197)	(235)
	(3,898)	(3,980)	(4,828)
Total regulatory capital	63,097	63,439	60,708

Movement in Core Tier 1 capital	£m
At 1 January 2012	46,341
Attributable profit net of movements in fair value of own debt	242
Share capital and reserve movements in respect of employee share schemes	659
Foreign currency reserves	(461)
Decrease in non-controlling interests	(34)
Decrease in capital deductions including APS first loss	1,410
Increase in goodwill and intangibles	(30)
Other movements	28
At 30 June 2012	48,155
Attributable loss net of movements in fair value of own debt	(330)
Ordinary shares issued	123
Share capital and reserve movements in respect of employee share schemes	46
Foreign currency reserves	(567)
Decrease in non-controlling interests	(6)
Decrease in capital deductions including APS first loss	373
Decrease in goodwill and intangibles	90
Other movements	216
At 30 September 2012	48,100

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

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#### Balance sheet management: Capital (continued)

#### 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 RWAs
30 September 2012	£bn	£bn	£bn	£bn	£bn
UK Retail	39.9	-	-	7.8	47.7
UK Corporate	73.5	-	-	8.6	82.1

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Wealth	10.3	-	0.1	1.9	12.3
International Banking	44.5	-	-	5.2	49.7
Ulster Bank	32.4	0.9	0.1	1.7	35.1
US Retail & Commercial	50.9	0.9	-	4.9	56.7
Retail & Commercial	251.5	1.8	0.2	30.1	283.6
Markets	15.4	35.3	41.6	15.7	108.0
Other	12.1	0.4	-	1.4	13.9
Core	279.0	37.5	41.8	47.2	405.5
Non-Core	52.4	15.8	5.6	(1.6)	72.2
Group before RFS					
Holdings MI	331.4	53.3	47.4	45.6	477.7
RFS Holdings MI	3.1	-	-	0.2	3.3
Group	334.5	53.3	47.4	45.8	481.0
APS relief	(42.2)	(5.9)	-	-	(48.1)
Net RWAs	292.3	47.4	47.4	45.8	432.9

30 June 2012

UK Retail	39.6	-	-	7.8	47.4
UK Corporate	70.8	-	-	8.6	79.4
Wealth	10.3	-	0.1	1.9	12.3
International Banking	41.2	-	-	4.8	46.0
Ulster Bank	34.7	0.9	0.1	1.7	37.4
US Retail & Commercial	52.5	1.1	-	4.9	58.5
Retail & Commercial	249.1	2.0	0.2	29.7	281.0
Markets	15.7	33.4	43.1	15.7	107.9
Other	10.5	0.2	0.2	1.8	12.7
Core	275.3	35.6	43.5	47.2	401.6
Non-Core	56.4	17.4	10.5	(1.6)	82.7
Group before RFS	331.7	53.0	54.0	45.6	484.3
Holdings MI					
RFS Holdings MI	3.1	-	-	0.2	3.3
Group	334.8	53.0	54.0	45.8	487.6
APS relief	(46.2)	(6.7)	-	-	(52.9)
Net RWAs	288.6	46.3	54.0	45.8	434.7

Risk and balance sheet management (continued)

## Balance sheet management: Capital: Risk-weighted assets by division(continued)

31 December 2011	Credit risk £bn	Counterparty risk £bn	Market risk £bn	Operational risk £bn	Gross RWAs £bn
UK Retail	41.1	-	-	7.3	48.4
UK Corporate Wealth	71.2	-	-	8.1	79.3
International Banking	10.9	-	0.1	1.9	12.9
Ulster Bank	38.9	-	-	4.3	43.2
US Retail & Commercial	33.6	0.6	0.3	1.8	36.3
	53.6	1.0	-	4.7	59.3
Retail & Commercial	249.3	1.6	0.4	28.1	279.4
Markets	16.7	39.9	50.6	13.1	120.3
Other	9.8	0.2	-	2.0	12.0
Core	275.8	41.7	51.0	43.2	411.7
Non-Core	65.6	20.2	13.0	(5.5)	93.3
Group before RFS Holdings MI	341.4	61.9	64.0	37.7	505.0
RFS Holdings MI	2.9	-	-	0.2	3.1
Group	344.3	61.9	64.0	37.9	508.1
APS relief	(59.6)	(9.5)	-	-	(69.1)
Net RWAs	284.7	52.4	64.0	37.9	439.0

## Risk and balance sheet management (continued)

## Balance sheet management (continued)

## Liquidity and funding risk

Liquidity risk is the risk that the Group is unable to meet its obligations, including financing maturities as they fall due. Liquidity risk is heavily influenced by the maturity profile and mix of the Group's funding base, as well as the quality and liquidity value of its liquidity portfolio.

## Overview

The Group continues to improve the structure and composition of its balance sheet against a backdrop of improved wholesale funding market conditions and a tempering of UK regulatory requirements relating to liquidity risk.

- Short-term wholesale funding (STWF) excluding derivative collateral continued to be actively reduced and stood at £49 billion at 30 September 2012, which was well covered by a strong Group liquidity buffer of £147 billion. STWF accounted for 5%

of the funded balance sheet and 31% of wholesale funding, compared with 7% and 34%, respectively at 30 June 2012.

- The Group's liquidity buffer was lowered by £9 billion during the quarter to £147 billion reflecting the shrinking overall balance sheet and reduced STWF.
- The Group's customer funding gap has decreased significantly, from £37 billion at the end of 2011 to £19 billion at 30 June 2012 and £8 billion at 30 September 2012. Customer deposits now account for 70% of the Group's primary funding sources.
- Progress against the Group's strategic plan has resulted in a balance sheet structure which is broadly matched. At 30 September 2012, the Group's loan:deposit ratio improved to 102% with a Core ratio of 91%.
- The combined impacts of the ongoing deleveraging process being driven by Non-Core and Markets have allowed the Group to further reduce its wholesale funding base. During the third quarter, the Group completed a cash tender offer to repurchase £4.4 billion of senior unsecured debt securities issued by RBS plc. The repurchase was across dollar, sterling and euro securities of varying maturities and interest rates.
- The Group took advantage of the improved wholesale market conditions in the quarter and issued US\$2 billion of public fixed rate notes to help pre-fund future financing needs of the holding company.
- The Group has drawn £750 million under the Bank of England's Funding for Lending Scheme (FLS) and held a comparable amount of related treasury bills at 30 September 2012.
- The 'A' senior unsecured credit rating was affirmed with a stable outlook for the Group by Fitch in July 2012 and for RBS plc by S&P in October 2012.

Risk and balance sheet management (continued)

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Balance sheet management: Liquidity and funding risk (continued)

Funding sources

The table below shows the Group's primary funding sources including deposits in disposal groups and excluding repurchase agreements.

	30 September 2012 £m	30 June 2012 £m	31 December 2011 £m
Deposits by banks			
derivative cash collateral	28,695	32,001	31,807
other deposits	29,433	35,619	37,307



	58,128	67,620	69,114
Debt securities in issue			
conduit asset-backed commercial paper (ABCP)	2,909	4,246	11,164
other commercial paper (CP)	2,829	1,985	5,310
certificates of deposits (CDs)	6,696	10,397	16,367
medium-term notes (MTNs)	70,417	81,229	105,709
covered bonds	9,903		