

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
February 26, 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 February 25, 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

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

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:

Condensed consolidated balance sheet**at 31 December 2009 - pro forma (unaudited)**

| | 31 | 30 | 31 |
|---|------------------|-----------|-----------|
| | December | September | December |
| | 2009 | 2009 | 2008 |
| | £m | £m | £m |
| Assets | | | |
| Cash and balances at central banks | 51,548 | 36,567 | 11,830 |
| Net loans and advances to banks | 48,777 | 60,274 | 70,728 |
| Reverse repurchase agreements and stock borrowing | 35,097 | 37,190 | 58,771 |
| Loans and advances to banks | 83,874 | 97,464 | 129,499 |
| Net loans and advances to customers | 554,654 | 587,996 | 691,976 |
| Reverse repurchase agreements and stock borrowing | 41,040 | 43,463 | 39,289 |
| Loans and advances to customers | 595,694 | 631,459 | 731,265 |
| Debt securities | 249,095 | 251,281 | 253,159 |
| Equity shares | 15,960 | 16,830 | 22,198 |
| Settlement balances | 12,024 | 28,634 | 17,812 |
| Derivatives | 438,199 | 552,466 | 991,495 |
| Intangible assets | 14,786 | 15,339 | 16,415 |
| Property, plant and equipment | 17,773 | 18,208 | 17,181 |
| Deferred taxation | 6,492 | 7,667 | 5,786 |
| Prepayments, accrued income and other assets | 18,604 | 19,664 | 21,573 |
| Assets of disposal groups | 18,432 | 4,737 | 480 |
| Total assets | 1,522,481 | 1,680,316 | 2,218,693 |
| Liabilities | | | |
| Bank deposits | 115,642 | 138,584 | 178,943 |
| Repurchase agreements and stock lending | 38,006 | 39,816 | 83,666 |
| Deposits by banks | 153,648 | 178,400 | 262,609 |
| Customer deposits | 414,251 | 423,769 | 460,318 |
| Repurchase agreements and stock lending | 68,353 | 69,465 | 58,143 |
| Customer accounts | 482,604 | 493,234 | 518,461 |
| Debt securities in issue | 246,329 | 266,213 | 269,458 |
| Settlement balances and short positions | 50,875 | 71,891 | 54,264 |
| Derivatives | 421,534 | 537,522 | 969,409 |
| Accruals, deferred income and other liabilities | 24,624 | 20,754 | 24,140 |
| Retirement benefit liabilities | 2,715 | 1,410 | 1,564 |
| Deferred taxation | 2,161 | 3,275 | 3,177 |
| Insurance liabilities | 7,633 | 7,480 | 7,480 |
| Subordinated liabilities | 31,538 | 33,085 | 43,678 |
| Liabilities of disposal groups | 18,857 | 8,201 | 138 |

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| | | | |
|-------------------------------------|------------------|-----------|-----------|
| Total liabilities | 1,442,518 | 1,621,465 | 2,154,378 |
| Equity | | | |
| Minority interests | 2,227 | 2,185 | 5,436 |
| Owners' equity* | 77,736 | 56,666 | 58,879 |
| Total equity | 79,963 | 58,851 | 64,315 |
| Total liabilities and equity | 1,522,481 | 1,680,316 | 2,218,693 |
| | | | |
| * Owners' equity attributable to: | | | |
| Ordinary and B shareholders | 69,890 | 48,820 | 45,525 |
| Other equity owners | 7,846 | 7,846 | 13,354 |
| | 77,736 | 56,666 | 58,879 |

Commentary on condensed consolidated balance sheet - pro forma

Total assets of £1,522.5 billion at 31 December 2009 were down £696.2 billion, 31%, compared with 31 December 2008, principally reflecting substantial repayments of customer loans and advances, as corporate customer demand fell and corporates looked to deleverage their balance sheets. Lending to banks also fell in line with significantly reduced wholesale funding activity. There were also significant falls in the value of derivative assets, with a corresponding reduction in derivative liabilities.

Cash and balances at central banks were up £39.7 billion to £51.5 billion due to the placing of short-term cash surpluses, including the proceeds from the issue of B shares in December, with central banks.

Loans and advances to banks decreased by £45.6 billion, 35%, to £83.9 billion with reverse repurchase agreements and stock borrowing ('reverse repos') down by £23.7 billion, 40% to £35.1 billion and lower bank placings, down £22.0 billion, 31%, to £48.8 billion, largely as a result of reduced wholesale funding activity in Global Banking & Markets.

Loans and advances to customers were down £135.6 billion, 19%, at £595.7 billion. Within this, reverse repos increased by 4%, £1.8 billion to £41.0 billion. Excluding reverse repos, lending decreased by £137.3 billion to £554.7 billion or by £131.6 billion, 19%, before impairment provisions. This reflected reductions in Global Banking & Markets of £71.4 billion, and planned reductions in Non-Core of £30.1 billion, including a £3.2 billion transfer to disposal groups in respect of RBS Sempra Commodities and the Asian and Latin American businesses. There were also reductions in US Retail & Commercial, £7.4 billion; UK Corporate & Commercial, £5.4 billion; Ulster Bank, £1.8 billion; and the effect of exchange rate movements, £22.8 billion, following the strengthening of sterling during the year, partially offset by growth in UK Retail of £9.2 billion, and in Wealth of £1.4 billion.

Debt securities decreased by £4.1 billion, 2%, to £249.1 billion and equity shares decreased by £6.2 billion, 28%, to £16.0 billion, principally due to the sale of the Bank of China investment and lower holdings in Global Banking & Markets and Non-Core, largely offset by growth in Group Treasury, in part reflecting an £18.0 billion increase in the gilt liquidity portfolio.

Settlement balances were down £5.8 billion, 32%, at £12.0 billion as a result of lower customer activity.

Movements in the value of derivative assets, down £553.3 billion, 56%, to £438.2 billion, and liabilities, down £547.9 billion, 57%, to £421.5 billion, reflect the easing of market volatility, the strengthening of sterling and significant tightening in credit spreads in the continuing low interest rate environment.

Increases in assets and liabilities of disposal groups reflect the inclusion of the RBS Sempra Commodities business and the planned sale of a number of the Group's retail and commercial activities in Asia and Latin America.

Deposits by banks declined by £109.0 billion, 41%, to £153.6 billion, due to a decrease in repurchase agreements and stock lending ('repos'), down £45.7 billion, 55%, to £38.0 billion and reduced inter-bank deposits, down £63.3 billion, 35%, to £115.6 billion, principally in Global Banking & Markets reflecting reduced reliance on wholesale funding.

Commentary on condensed consolidated balance sheet - pro forma

Customer accounts were down £35.9 billion, 7%, to £482.6 billion. Within this, repos increased £10.2 billion, 18%, to £68.4 billion. Excluding repos, deposits were down £46.1 billion, 10%, to £414.3 billion, primarily due to reductions in Global Banking & Markets, down £43.6 billion; Non-Core, £13.0 billion, including the transfer of £8.9 billion to disposal groups; and Ulster Bank, £1.2 billion; together with exchange rate movements, £11.3 billion, offset in part by growth across all other divisions, up £23.0 billion.

Debt securities in issue were down £23.1 billion, 9% to £246.3 billion, mainly as a result of movements in exchange rates together with reductions in Global Banking & Markets and Non-Core.

Retirement benefit liabilities increased by £1.2 billion, 74%, to £2.7 billion, with net actuarial losses of £3.8 billion, arising from lower discount rates and higher assumed inflation, partially offset by curtailment gains of £2.1 billion due to changes in prospective pension benefits.

Subordinated liabilities were down £12.1 billion, 28% to £31.5 billion, reflecting the redemption of £5.0 billion undated loan capital, £1.5 billion trust preferred securities and £2.7 billion dated loan capital, together with the effect of exchange rate movements and other adjustments, £2.9 billion.

Equity minority interests decreased by £3.2 billion, 59%, to £2.2 billion. Equity withdrawals of £3.1 billion, due to the disposal of the investment in the Bank of China attributable to minority shareholders and the redemption, in part, of certain trust preferred securities, the recycling of related available-for-sale reserves to income, £0.4 billion, and dividends paid of £0.3 billion, were partially offset by attributable profits of £0.6 billion.

Owners' equity increased by £18.9 billion, 32% to £77.7 billion. The issue of B shares to HM Treasury in December 2009 raised £25.1 billion, net of expenses, and was offset in part by the creation of a £1.2 billion reserve in respect of contingent capital B shares. The placing and open offer in April 2009 raised £5.3 billion to fund the redemption of the £5.0 billion preference shares issued to HM Treasury in December 2008. Actuarial losses, net of tax, of £2.7 billion, the attributable loss for the period, £2.7 billion, exchange rate movements of £1.9 billion, the payment of other owners' dividends of £0.9 billion including £0.3 billion to HM Treasury on the redemption of preference shares, and partial redemption of paid-in equity, £0.3 billion, were partly offset by increases in available-for-sale reserves, £1.8 billion, cash flow hedging reserves, £0.6 billion, and the equity owners gain on withdrawal of minority interests, net of tax, of £0.5 billion arising from the redemption of trust preferred securities.

Condensed consolidated statement of changes in equity**for the year ended 31 December 2009 - pro forma**

| | 31 | 30 | 31 |
|---|-----------------|-----------|----------|
| | December | September | December |
| | 2009 | 2009 | 2008 |
| | £m | £m | £m |
| Called-up share capital | | | |
| At beginning of period | 9,898 | 9,898 | 2,530 |
| Ordinary shares issued in respect of placing and open offers | 4,227 | 4,227 | 5,728 |
| Ordinary shares issued in respect of rights issue | - | - | 1,531 |
| Ordinary shares issued in respect of capitalisation issue | - | - | 101 |
| B shares issued | 510 | - | - |
| Preference shares issued in respect of placing and open offer | - | - | 5 |
| Other shares issued during the period | - | - | 3 |
| Preference shares redeemed during the period | (5) | (5) | - |
| At end of period | 14,630 | 14,120 | 9,898 |
| Paid-in equity | | | |
| At beginning of period | 1,073 | 1,073 | 1,073 |
| Securities redeemed during the period | (308) | (308) | - |
| Transfer to retained earnings | (200) | (200) | - |
| At end of period | 565 | 565 | 1,073 |
| Share premium account | | | |
| At beginning of period | 27,471 | 27,471 | 17,322 |
| Ordinary shares issued in respect of placing and open offer, | | | |
| net of £95 million expenses | 1,047 | 1,047 | - |
| Ordinary shares issued in respect of rights issue, | | | |
| net of £246 million expenses | - | - | 10,469 |
| Ordinary shares issued in respect of capitalisation issue | - | - | (101) |
| Expenses of placing and open offer | - | - | (265) |
| Other shares issued during the year | - | - | 46 |
| Preference shares redeemed during the period | (4,995) | (4,995) | - |
| At end of period | 23,523 | 23,523 | 27,471 |
| Merger reserve | | | |
| At beginning of period | 10,881 | 10,881 | 10,881 |
| Issue of B shares, net of £399 million expenses | 24,591 | - | - |
| Placing and open offer | - | - | 14,273 |
| Transfer to retained earnings | (9,950) | - | (14,273) |

| | | | |
|--|----------------|---------|---------|
| At end of period | 25,522 | 10,881 | 10,881 |
| Available-for-sale reserves | | | |
| At beginning of period | (3,561) | (3,561) | 1,032 |
| Unrealised gains/(losses) in the period | 1,202 | 698 | (6,808) |
| Realised losses in the period | 981 | 866 | 842 |
| Taxation | (377) | (202) | 1,373 |
| At end of period | (1,755) | (2,199) | (3,561) |
| Cash flow hedging reserve | | | |
| At beginning of period | (876) | (876) | (555) |
| Amount recognised in equity during the period | 380 | 437 | (603) |
| Amount transferred from equity to earnings in the period | 513 | 239 | 198 |
| Taxation | (269) | (189) | 84 |
| At end of period | (252) | (389) | (876) |

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Condensed consolidated statement of changes in equity

for the year ended 31 December 2009 - pro forma (continued)

| | 31 | 30 | 31 |
|---|-----------------|-----------|----------|
| | December | September | December |
| | 2009 | 2009 | 2008 |
| | £m | £m | £m |
| Foreign exchange reserve | | | |
| At beginning of period | 6,385 | 6,385 | (426) |
| Retranslation of net assets | (2,322) | (2,041) | 11,970 |
| Foreign currency gains/(losses) on hedges of net assets | 456 | 387 | (5,801) |
| Taxation | 9 | (47) | 642 |
| At end of period | 4,528 | 4,684 | 6,385 |
| Capital redemption reserve | | | |
| At beginning and end of period | 170 | 170 | 170 |

Contingent capital reserve

| | | | |
|--|---------|---|---|
| At beginning of period | - | - | - |
| Contingent capital agreement - consideration payable | (1,208) | - | - |
| At end of period | (1,208) | - | - |

Retained earnings

| | | | |
|--|---------------|---------------|---------------|
| At beginning of period | 7,542 | 7,542 | 21,072 |
| Loss attributable to ordinary and B shareholders and other equity owners | (2,672) | (2,051) | (23,710) |
| Ordinary dividends paid | - | - | (2,312) |
| Equity preference dividends paid | (878) | (752) | (536) |
| Paid-in equity dividends paid, net of tax | (57) | (39) | (60) |
| Transfer from paid-in equity | 200 | 200 | - |
| Equity owners gain on withdrawal of minority interest | | | |
| - gross | 629 | 629 | - |
| - taxation | (176) | (176) | - |
| Transfer from merger reserve | 9,950 | - | 14,273 |
| Actuarial losses recognised in retirement benefit schemes | | | |
| - gross | (3,756) | - | (1,807) |
| - taxation | 1,043 | - | 472 |
| Net cost of shares bought and used to satisfy share-based payments | (16) | (15) | (19) |
| Share-based payments | | | |
| - gross | 325 | 95 | 177 |
| - taxation | - | - | (8) |
| At end of period | 12,134 | 5,433 | 7,542 |
| Own shares held | | | |
| At beginning of period | (104) | (104) | (61) |
| Shares purchased during the period | (33) | (33) | (64) |
| Shares issued under employee share schemes | 16 | 15 | 21 |
| At end of period | (121) | (122) | (104) |
| Owners' equity at end of period | 77,736 | 56,666 | 58,879 |

Condensed consolidated statement of changes in equity

for the year ended 31 December 2009 - pro forma (continued)

| | 31 | 30 | 31 |
|---|-----------------|-----------|----------|
| | December | September | December |
| | 2009 | 2009 | 2008 |
| | £m | £m | £m |
| Minority interests | | | |
| At beginning of period | 5,436 | 5,436 | 5,391 |
| Currency translation adjustments and other movements | (152) | (134) | 1,158 |
| Profit attributable to minority interests | 648 | 601 | 412 |
| Dividends paid | (313) | (326) | (285) |
| Movements in available-for-sale securities | | | |
| - unrealised gains/(losses) in the period | 23 | 23 | (1,304) |
| - realised gains in the period | (359) | (359) | - |
| - taxation | - | - | 1 |
| Equity raised | 9 | 9 | 1,071 |
| Equity withdrawn and disposals | (2,436) | (2,436) | (1,008) |
| Transfer to retained earnings | (629) | (629) | - |
| At end of period | 2,227 | 2,185 | 5,436 |
| Total equity at end of period | 79,963 | 58,851 | 64,315 |
| Total comprehensive income recognised in the statement of changes in | | | |
| equity is attributable as follows: | | | |
| Minority interests | 160 | 131 | 267 |
| Preference shareholders | 878 | 752 | 536 |
| Paid-in equity holders | 57 | 39 | 60 |
| Ordinary and B shareholders | (5,747) | (2,694) | (23,744) |
| | (4,652) | (1,772) | (22,881) |

Notes to pro forma results

1. Basis of preparation

The pro forma financial information shows the underlying performance of the Group including the results of the ABN AMRO businesses to be retained by the Group. This information is prepared using the Group's accounting policies and is being provided to give a better understanding of the results of the RBS operations excluding the results attributable to the other Consortium Members.

Group operating profit on a pro forma basis excludes:

- amortisation of purchased intangible assets;
- write-down of goodwill and other intangible assets;
- integration and restructuring costs;
- gain on redemption of own debt;
- strategic investments;
- gains on pensions curtailment; and
- bonus tax.

2. Loan impairment provisions

Operating loss is stated after charging loan impairment losses of £13,090 million (9 months ended 30 September 2009 - £10,058 million; year ended 31 December 2008 - £6,478 million). The balance sheet loan impairment provisions increased in the year ended 31 December 2009 from £9,451 million to £15,173 million, and the movements thereon were:

| 31 December 2009 | | | 30 September | 31 December |
|-------------------------|-----------------|--------------|-----------------|----------------|
| Core | Non-Core | Total | 2009 | 2008 |
| | | | | |

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| | £m | £m | £m | £m | £m |
|--|----------------|----------------|----------------|---------|---------|
| At beginning of period | 4,269 | 5,182 | 9,451 | 9,451 | 4,972 |
| Transfers to disposal groups | (16) | (305) | (321) | (312) | - |
| Currency translation and other adjustments | 423 | (851) | (428) | (428) | 1,007 |
| Disposals | (62) | (3) | (65) | - | (178) |
| Amounts written-off | (2,286) | (4,192) | (6,478) | (3,622) | (2,897) |
| Recoveries of amounts previously written-off | 189 | 136 | 325 | 254 | 261 |
| Charge to income statement | 4,567 | 8,523 | 13,090 | 10,058 | 6,478 |
| Unwind of discount | (163) | (238) | (401) | (277) | (192) |
| | 6,921 | 8,252 | 15,173 | 15,124 | 9,451 |

Provisions at 31 December 2009 include £157 million (30 September 2009 - £151 million; 31 December 2008 - £127 million) in respect of loans and advances to banks. The charge to the income statement in the table above excludes £809 million (9 months ended 30 September 2009 - £742 million; year ended 31 December 2008 - £954 million) relating to available-for-sale financial assets (See Note 3).

Notes to pro forma results

3. Available-for-sale financial assets

Available-for-sale financial assets are initially recognised at fair value plus directly related transaction costs and subsequently measured at fair value with changes in fair value reported in shareholders' equity until disposal, at which stage the cumulative gain or loss is recognised in profit or loss. When there is objective evidence that an available-for-sale financial asset is impaired, any decline in its fair value below original cost is removed from equity and recognised in profit or loss.

Impairment losses are recognised when there is objective evidence of impairment. The Group reviews its portfolios of available-for-sale financial assets for such evidence which includes: default or delinquency in interest or principal payments; significant financial difficulty of the issuer or obligor; and it becoming probable that the issuer will enter bankruptcy or other financial reorganisation. However, the disappearance of an active market because an entity's financial instruments are no longer publicly traded is not evidence of impairment. Furthermore, a downgrade of an entity's credit rating is not, of itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a financial asset below its cost or amortised cost is not necessarily evidence of impairment. Determining whether objective evidence of impairment exists requires the exercise of management judgment. The unrecognised losses on the Group's available for sale debt securities are concentrated in its portfolios of mortgage-backed securities. The losses reflect the widening of credit spreads as a result of the reduced market liquidity in these securities and the current uncertain macro-economic outlook in US and Europe. The underlying securities remain unimpaired.

During 2009 impairment losses of £809 million (2008 - £954 million) were charged to profit or loss and net unrealised gains of £1,202 million (2008 - £6,808 million loss) were recognised directly in equity on available-for-sale financial assets. Available-for-sale reserves at 31 December 2009 amounted to net losses of £1,755 million (2008 - net losses £3,561 million), and the movements were as follows:

| | 31 | 30 | 31 |
|---|-----------------|-----------|----------|
| | December | September | December |
| | 2009 | 2009 | 2008 |
| Available-for-sale reserves | £m | £m | £m |
| At beginning of period | (3,561) | (3,561) | 1,032 |
| Unrealised gains/(losses) in the period | 1,202 | 698 | (6,808) |
| Realised losses in the period | 981 | 866 | 842 |
| Taxation | (377) | (202) | 1,373 |

| | | | |
|------------------|---------|---------|---------|
| At end of period | (1,755) | (2,199) | (3,561) |
|------------------|---------|---------|---------|

The above excludes movements attributable to minority interest of £336 million (9 months ended 30 September 2009 - £336 million; year ended 31 December 2008 - £1,304 million).

Notes to pro forma results (continued)

4. Strategic disposals

| | Year ended | | Quarter ended | | |
|------------------------------------|-----------------|----------|-----------------|-----------|----------|
| | 31 | 31 | 31 | 30 | 31 |
| | December | December | December | September | December |
| | 2009 | 2008 | 2009 | 2009 | 2008 |
| | £m | £m | £m | £m | £m |
| Gain on sale of investments in: | | | | | |
| - Bank of China (1) | 236 | - | - | (5) | - |
| - Linea Directa | 214 | - | 2 | - | - |
| - Tesco Personal Finance | - | 442 | - | - | 442 |
| Provision for loss on disposal of: | | | | | |
| - Asian branches and businesses | (159) | - | (9) | (150) | - |
| - Latin American business | (159) | - | (159) | - | - |
| | 132 | 442 | (166) | (155) | 442 |

Note:

(1) Including £359 million attributable to minority interests.

5. Goodwill

| | Year ended | | Quarter ended | | |
|---|-----------------|----------|-----------------|-----------|----------|
| | 31 | 31 | 31 | 30 | 31 |
| | December | December | December | September | December |
| | 2009 | 2008 | 2009 | 2009 | 2008 |
| | £m | £m | £m | £m | £m |
| Write-down of goodwill and other intangible | 363 | 16,911 | 52 | - | 16,911 |

| | | | | | |
|-----------|------------|--------|-----------|---|--------|
| assets | | | | | |
| Less: tax | - | (715) | - | - | (715) |
| | 363 | 16,196 | 52 | - | 16,196 |

The write-down of goodwill for the year ended 31 December 2009 principally relates to ABN AMRO and NatWest goodwill allocated to Non-Core businesses.

6. Pensions

Pension costs, excluding curtailment gains, for the year ended 31 December 2009 amounted to £653 million (year ended 31 December 2008 - £536 million; quarter ended 31 December 2009 - £110 million; quarter ended 30 September 2009 - £204 million; quarter ended 31 December 2008 - £94 million). Defined benefit schemes charges are based on the actuarially determined pension cost rates at 31 December 2008. At 31 December 2009, increased benefit obligations reflecting lower discount rates and higher assumed inflation, have been partially offset by increased asset values. This has resulted in net actuarial losses of £3,756 million at 31 December 2009 (30 September 2009 - nil; 31 December 2008 - £1,807 million).

The most recent funding valuation of the main UK scheme, as at 31 March 2007, showed a surplus of assets over liabilities of £0.7 billion. The next valuation is due as at 31 March 2010 and the Group expects this valuation to show that liabilities exceed the value of the assets. Following this valuation, the Group and scheme Trustees will agree the level of contributions to be paid to the scheme. This could result in the amount of contributions payable in 2010 and subsequent years being materially different from the current rates based on the previous valuation.

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Notes to pro forma results (continued)

7. Gains on pensions curtailment

Curtailment gains of £2,148 million have been recognised in 2009 arising from changes to pension benefits in the main UK scheme and certain other subsidiary schemes due to the capping of future salary increases that will count for pension purposes to the lower of 2% or the rate of inflation in any year.

8. Taxation

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The credit for taxation differs from the tax credit computed by applying the standard UK corporation tax rate of 28% (2008 - 28.5%) as follows:

| | Year ended | | Quarter ended | | |
|---|------------------------------|----------------|------------------------------|-----------------|----------------|
| | 31 December | 31 December | 31 December | 30 September | 31 December |
| | 2009 | 2008 | 2009 | 2009 | 2008 |
| | £m | £m | £m | £m | £m |
| (Loss)/profit before tax | (1,928) | (8,296) | 134 | (2,077) | (9,473) |
| Expected tax (credit)/charge at 28% | | | | | |
| (2008 - 28.5%) | (540) | (2,364) | 38 | (582) | (2,700) |
| Unrecognised timing differences | (274) | 274 | (67) | (223) | 186 |
| Other non-deductible items | 508 | 371 | 400 | 35 | 169 |
| Non-taxable items: | | | | | |
| - Gain on redemption of own debt | (693) | - | - | - | - |
| - Other | (410) | (491) | (208) | (27) | (232) |
| Taxable foreign exchange movements | (1) | 80 | 13 | 9 | 64 |
| Foreign profits taxed at other rates | 332 | 271 | 159 | 126 | 206 |
| Losses in year not recognised | 715 | 942 | 448 | 83 | 907 |
| Losses brought forward and utilised | (94) | (11) | (65) | (6) | (11) |
| Adjustments in respect of prior periods | 118 | (352) | (69) | 9 | (290) |
| Actual tax (credit)/charge | (339) | (1,280) | 649 | (576) | (1,701) |

The Group has recognised a deferred tax asset at 31 December 2009 of £6,492 million (30 September 2009 - £7,667 million; 31 December 2008 - £5,786 million), of which £4,803 million (30 September 2009 - £6,032 million; 31 December 2008 - £4,706 million) relates to carried forward trading losses in the UK. Under UK tax legislation, these UK losses can be carried forward indefinitely to be utilised against profits arising in the future. The Group has considered the carrying value of this asset as at 31 December 2009 and concluded that it is recoverable based on base case future profit projections.

Notes to pro forma results (continued)

9. Profit attributable to minority interests

| | Year ended | | Quarter ended | | |
|---|------------------------------|----------------|------------------------------|-----------------|----------------|
| | 31 December | 31 December | 31 December | 30 September | 31 December |
| | 2009 £m | 2008 £m | 2009 £m | 2009 £m | 2008 £m |
| Trust preferred securities | 39 | 65 | (8) | 2 | 5 |
| Investment in Bank of China | 359 | 78 | - | - | 5 |
| Sempra | 234 | 164 | 55 | 35 | 96 |
| ABN AMRO | 4 | 91 | - | 2 | 113 |
| Other | 12 | 14 | - | 8 | 2 |
| Profit attributable to minority interests | 648 | 412 | 47 | 47 | 221 |

10. Other owners' dividends

| | Year ended | | Quarter ended | | |
|--|------------------------------|----------------|------------------------------|-----------------|----------------|
| | 31 December | 31 December | 31 December | 30 September | 31 December |
| | 2009 £m | 2008 £m | 2009 £m | 2009 £m | 2008 £m |
| Preference shareholders | | | | | |
| Non-cumulative preference shares of US\$0.01 | 342 | 293 | 63 | 100 | 72 |
| Non-cumulative preference shares of €0.01 | 201 | 183 | 63 | 81 | 59 |
| Non-cumulative preference shares of £1: | | | | | |
| - issued to UK Financial Investments Limited (1) | 274 | - | - | - | - |
| - other | 61 | 60 | - | 61 | - |

Paid-in equity holders

Interest on securities classified as equity,
net

| | | | | | |
|--------|------------|-----|------------|-----|-----|
| of tax | 57 | 60 | 18 | 3 | 31 |
| | 935 | 596 | 144 | 245 | 162 |

Note:

(1) Includes £50 million redemption premium on repayment of preference shares.

Notes to pro forma results (continued)

11. Earnings per ordinary and B share

Earnings per ordinary and B share have been calculated based on the following:

| | Year ended | | Quarter ended | | |
|--|-----------------|----------|-----------------|-----------|----------|
| | 31 | 31 | 31 | 30 | 31 |
| | December | December | December | September | December |
| | 2009 | 2008 | 2009 | 2009 | 2008 |
| | £m | £m | £m | £m | £m |
| Earnings | | | | | |
| Loss from continuing operations attributable | | | | | |
| to ordinary and B shareholders | (3,535) | (24,220) | (758) | (1,793) | (24,351) |
| Gain on redemption of paid-in equity | 200 | - | - | - | - |
| Adjusted loss from continuing operations | | | | | |
| attributable to ordinary and B shareholders | (3,335) | (24,220) | (758) | (1,793) | (24,351) |
| (Loss)/profit from discontinued operations | | | | | |
| attributable to ordinary and B shareholders | (72) | (86) | (7) | (7) | 1 |
| Ordinary shares in issue during the period | 51,494 | 16,563 | 56,227 | 56,230 | 24,241 |
| B shares in issue during the period | 1,397 | - | 5,543 | - | - |
| Weighted average number of ordinary | | | | | |
| and B shares in issue during the | | | | | |
| period (millions) | 52,891 | 16,563 | 61,770 | 56,230 | 24,241 |

Basic loss per ordinary and B share from

| | | | | | |
|--|---------------|----------|---------------|--------|----------|
| continuing operations | (6.3p) | (146.2p) | (1.2p) | (3.2p) | (100.5p) |
| Intangibles amortisation | 0.4p | 2.1p | 0.1p | 0.1p | 0.2p |
| Write-down of goodwill and other intangible assets | 0.7p | 97.8p | 0.1p | - | 66.8p |
| Integration and restructuring costs | 1.6p | 5.9p | 0.3p | 0.4p | 2.3p |
| Gain on redemption of own debt (1) | (6.8p) | - | - | - | - |
| Strategic disposals | (0.2p) | (2.7p) | 0.3p | 0.3p | (1.8p) |
| Gains on pensions curtailment | (3.0p) | - | (2.6p) | - | - |
| Bonus tax | 0.4p | - | 0.3p | - | - |

Adjusted loss per ordinary and B share

| | | | | | |
|--|----------------|---------|---------------|--------|---------|
| from continuing operations | (13.2p) | (43.1p) | (2.7p) | (2.4p) | (33.0p) |
| Loss from Non-Core divisions attributable to | | | | | |
| ordinary and B shareholders | 24.9p | 63.0p | 4.9p | 3.1p | 27.9p |

Core adjusted earnings/(loss) per ordinary

| | | | | | |
|--|--------------|-------|-------------|------|--------|
| and B share from continuing operations | 11.7p | 19.9p | 2.2p | 0.7p | (5.1p) |
| Core impairment losses | 7.7p | 13.3p | 2.2p | 1.6p | 5.7p |

Pre-impairment Core adjusted earnings

| | | | | | |
|--------------------------|--------------|-------|-------------|------|------|
| per ordinary and B share | 19.4p | 33.2p | 4.4p | 2.3p | 0.6p |
|--------------------------|--------------|-------|-------------|------|------|

Basic loss per ordinary and B share from discontinued operations

| | | | | | |
|--|---------------|--------|---|---|---|
| | (0.1p) | (0.5p) | - | - | - |
|--|---------------|--------|---|---|---|

Note:

- (1) Gain on redemption of own debt includes gains on redemption of instruments classified as equity which are included in basic earnings.

Notes to pro forma results (continued)

12. Segmental analysis

Analysis of divisional operating profit/(loss)

The tables below provide an analysis of the divisional profit/(loss) for the years ended 31 December 2009 and 2008 and the quarter ended 31 December 2009, by main income statement captions. The pro forma divisional income statements on pages 46 to 73 reflect certain presentational reallocations as described in the notes below. These do not affect the overall operating profit/(loss).

| | Net | Non- | Insurance | | | | |
|---|----------|----------|-----------|-----------|---------|------------|---------------|
| | interest | interest | Total | Operating | net | Impairment | Operating |
| | income | income | income | expenses | claims | losses | profit/(loss) |
| | £m | £m | £m | £m | £m | £m | £m |
| Year ended 31 December 2009 | | | | | | | |
| UK Retail (1) | 3,452 | 1,629 | 5,081 | (3,039) | (134) | (1,679) | 229 |
| UK Corporate | 2,292 | 1,290 | 3,582 | (1,530) | - | (927) | 1,125 |
| Wealth | 663 | 446 | 1,109 | (656) | - | (33) | 420 |
| Global Banking & Markets | | | | | | | |
| (2) | 2,375 | 8,634 | 11,009 | (4,660) | - | (640) | 5,709 |
| Global Transaction Services | 912 | 1,575 | 2,487 | (1,475) | - | (39) | 973 |
| Ulster Bank | 780 | 254 | 1,034 | (753) | - | (649) | (368) |
| US Retail & Commercial | 1,775 | 949 | 2,724 | (2,135) | - | (702) | (113) |
| RBS Insurance | 354 | 4,106 | 4,460 | (759) | (3,635) | (8) | 58 |
| Central items | (284) | 524 | 240 | 53 | - | (1) | 292 |
| Core | 12,319 | 19,407 | 31,726 | (14,954) | (3,769) | (4,678) | 8,325 |
| Non-Core (3) | 1,248 | (3,549) | (2,301) | (2,447) | (588) | (9,221) | (14,557) |
| Amortisation of purchased intangible assets | - | - | - | (272) | - | - | (272) |
| Write-down of goodwill | - | - | - | (363) | - | - | (363) |
| Integration and restructuring costs | - | - | - | (1,286) | - | - | (1,286) |
| Gain on redemption of own debt | - | 3,790 | 3,790 | - | - | - | 3,790 |
| Strategic disposals | - | 132 | 132 | - | - | - | 132 |
| Gains on pensions curtailment | - | - | - | 2,148 | - | - | 2,148 |

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| | | | | | | | |
|--------------------------------|---------------|---------------|---------------|-----------------|----------------|-----------------|----------------|
| Bonus tax | - | - | - | (208) | - | - | (208) |
| | 13,567 | 19,780 | 33,347 | (17,382) | (4,357) | (13,899) | (2,291) |
| RFS Holdings minority interest | 2,937 | 2,406 | 5,343 | (4,096) | (500) | (1,051) | (304) |
| Total statutory | 16,504 | 22,186 | 38,690 | (21,478) | (4,857) | (14,950) | (2,595) |

Notes:

- (1) Reallocation of netting of bancassurance claims of £134 million from non-interest income.
- (2) Reallocation of £49 million between net interest income and non-interest income in respect of funding costs of rental assets, and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £181 million.
- (3) Reallocation of £256 million between net interest income and non-interest income in respect of funding costs of rental assets and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £30 million.

Notes to pro forma results (continued)

12. Segmental analysis (continued)

Analysis of divisional operating profit/(loss) (continued)

| | Net interest income £m | Non- interest income £m | Total income £m | Operating expenses £m | Insurance claims £m | net Impairment losses £m | Operating profit/(loss) £m |
|--|---------------------------------|----------------------------------|-----------------------|-----------------------------|---------------------------|--------------------------------|----------------------------------|
| Year ended 31 December 2008 | | | | | | | |
| UK Retail (1) | 3,187 | 1,935 | 5,122 | (3,196) | (184) | (1,019) | 723 |
| UK Corporate Wealth | 2,448 | 1,289 | 3,737 | (1,637) | - | (319) | 1,781 |
| | 578 | 481 | 1,059 | (695) | - | (16) | 348 |
| Global Banking & Markets (2) | 2,326 | 388 | 2,714 | (3,988) | - | (522) | (1,796) |
| Global Transaction Services | 937 | 1,494 | 2,431 | (1,375) | - | (54) | 1,002 |
| Ulster Bank (3) | 708 | 331 | 1,039 | (715) | - | (106) | 218 |
| US Retail & Commercial | 1,726 | 861 | 2,587 | (1,622) | - | (437) | 528 |
| RBS Insurance | 496 | 3,934 | 4,430 | (772) | (3,032) | (42) | 584 |
| Central items | 1,710 | (1,198) | 512 | 495 | (1) | 19 | 1,025 |
| Core | 14,116 | 9,515 | 23,631 | (13,505) | (3,217) | (2,496) | 4,413 |
| Non-Core (4) | 1,648 | (4,680) | (3,032) | (2,683) | (700) | (4,936) | (11,351) |
| Amortisation of purchased intangible assets | - | - | - | (443) | - | - | (443) |
| Write-down of goodwill and other | | | | | | | |
| intangible assets | - | - | - | (32,581) | - | - | (32,581) |
| Integration and restructuring costs | - | - | - | (1,357) | - | - | (1,357) |
| Strategic disposals | - | 442 | 442 | - | - | - | 442 |
| | 15,764 | 5,277 | 21,041 | (50,569) | (3,917) | (7,432) | (40,877) |
| | 2,911 | 1,916 | 4,827 | (3,633) | (513) | (640) | 41 |

RFS Holdings minority
interest

| | | | | | | | |
|-----------------|--------|-------|--------|----------|---------|---------|----------|
| Total statutory | 18,675 | 7,193 | 25,868 | (54,202) | (4,430) | (8,072) | (40,836) |
|-----------------|--------|-------|--------|----------|---------|---------|----------|

Notes:

- (1) Reallocation of netting of bancassurance claims of £184 million from non-interest income.
- (2) Reallocation of £64 million between net interest income and non-interest income in respect of funding costs of rental assets, and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £50 million.
- (3) Reallocation of £65 million between net interest income and non-interest income in respect of interest on financial assets and liabilities designated as at fair value through profit or loss.
- (4) Reallocation of £380 million between net interest income and non-interest income in respect of funding costs of rental assets and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £128 million.

Notes to pro forma results (continued)

12. Segmental analysis (continued)

Analysis of divisional operating profit/(loss) (continued)

| | Net | Non- | Insurance | | | | |
|---------------------------|----------|----------|-----------|-----------|---------|------------|---------------|
| | interest | interest | Total | Operating | net | Impairment | Operating |
| | income | income | income | expenses | claims | losses | profit/(loss) |
| | £m | £m | £m | £m | £m | £m | £m |
| Quarter ended 31 | | | | | | | |
| December 2009 | | | | | | | |
| UK Retail (1) | 939 | 360 | 1,299 | (703) | (17) | (451) | 128 |
| UK Corporate | 626 | 322 | 948 | (418) | - | (190) | 340 |
| Wealth | 161 | 113 | 274 | (175) | - | (10) | 89 |
| Global Banking & Markets | | | | | | | |
| (2) | 406 | 1,663 | 2,069 | (1,068) | - | (130) | 871 |
| Global Transaction | | | | | | | |
| Services | 233 | 404 | 637 | (409) | - | (4) | 224 |
| Ulster Bank | 194 | 91 | 285 | (212) | - | (348) | (275) |
| US Retail & Commercial | 423 | 221 | 644 | (510) | - | (153) | (19) |
| RBS Insurance | 86 | 1,090 | 1,176 | (190) | (1,156) | - | (170) |
| Central items | (133) | 233 | 100 | (103) | - | (2) | (5) |
| Core | 2,935 | 4,497 | 7,432 | (3,788) | (1,173) | (1,288) | 1,183 |
| Non-Core (3) | 511 | (403) | 108 | (685) | (148) | (1,811) | (2,536) |
| Amortisation of purchased | | | | | | | |
| intangible assets | - | - | - | (59) | - | - | (59) |
| Write-down of goodwill | - | - | - | (52) | - | - | (52) |
| Integration and | | | | | | | |
| restructuring costs | - | - | - | (228) | - | - | (228) |
| Strategic disposals | - | (166) | (166) | - | - | - | (166) |
| Gains on pensions | | | | | | | |
| curtailment | - | - | - | 2,148 | - | - | 2,148 |
| Bonus tax | - | - | - | (208) | - | - | (208) |
| | 3,446 | 3,928 | 7,374 | (2,872) | (1,321) | (3,099) | 82 |
| RFS Holdings minority | | | | | | | |
| interest | 821 | 574 | 1,395 | (1,163) | (193) | (303) | (264) |

| | | | | | | | |
|-----------------|--------------|--------------|--------------|----------------|----------------|----------------|--------------|
| Total statutory | 4,267 | 4,502 | 8,769 | (4,035) | (1,514) | (3,402) | (182) |
|-----------------|--------------|--------------|--------------|----------------|----------------|----------------|--------------|

Notes:

- (1) Reallocation of netting of bancassurance claims of £17 million from non-interest income.
- (2) Reallocation of £10 million between net interest income and non-interest income in respect of funding costs of rental assets, and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £92 million.
- (3) Reallocation of £64 million between net interest income and non-interest income in respect of funding costs of rental assets and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £3 million.

Notes to pro forma results (continued)

13. Financial instruments

Classification

The following tables analyse the Group's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 'Financial Instruments: Recognition and Measurement'. Assets and liabilities outside the scope of IAS 39 are shown separately.

| | Designated | | Other | | | | | Total £m |
|---------------------------------------|----------------------------|--|------------------------------|--------------------------------|---|-------------------------|---------------------------------------|-------------|
| | Held-for- trading £m | at fair value through profit or loss £m | Available- for-sale £m | Loans and receivables £m | financial instruments (amortised cost) £m | Finance leases £m | Other assets/ liabilities £m | |
| 2009 | | | | | | | | |
| Cash and balances at | | | | | | | | |
| central banks | - | - | - | 51,548 | - | - | - | 51,548 |
| Loans and advances to | | | | | | | | |
| banks | 45,449 | - | - | 38,425 | - | - | - | 83,874 |
| Loans and advances to customers | 41,684 | 1,981 | - | 538,669 | - | 13,360 | - | 595,694 |
| Debt securities | 111,413 | 2,429 | 125,382 | 9,871 | - | - | - | 249,095 |
| Equity shares | 11,318 | 2,083 | 2,559 | - | - | - | - | 15,960 |
| Settlement balances | - | - | - | 12,024 | - | - | - | 12,024 |
| Derivatives (1) | 438,199 | - | - | - | - | - | - | 438,199 |
| Intangible assets | - | - | - | - | - | - | 14,786 | 14,786 |
| Property, plant and equipment | - | - | - | - | - | - | 17,773 | 17,773 |
| Deferred taxation | - | - | - | - | - | - | 6,492 | 6,492 |
| Prepayments, accrued | - | - | - | 1,421 | - | - | 17,183 | 18,604 |

| | | | | | | | | | |
|--|----------------|---------------|----------------|----------------|----------------|---------------|---------------|------------------|--------|
| income and other assets | | | | | | | | | |
| Assets of disposal groups | - | - | - | - | - | - | - | 18,432 | 18,432 |
| Total assets | 648,063 | 6,493 | 127,941 | 651,958 | - | 13,360 | 74,666 | 1,522,481 | |
| Deposits by banks | 53,609 | - | - | - | 100,039 | - | - | 153,648 | |
| Customer accounts | 52,737 | 5,256 | - | - | 424,611 | - | - | 482,604 | |
| Debt securities in issue | 3,925 | 41,444 | - | - | 200,960 | - | - | 246,329 | |
| Settlement balances and short positions | 40,463 | - | - | - | 10,412 | - | - | 50,875 | |
| Derivatives (1) | 421,534 | - | - | - | - | - | - | 421,534 | |
| Accruals, deferred income and other liabilities | - | - | - | - | 1,888 | 467 | 22,269 | 24,624 | |
| Retirement benefit liabilities | - | - | - | - | - | - | 2,715 | 2,715 | |
| Deferred taxation | - | - | - | - | - | - | 2,161 | 2,161 | |
| Insurance liabilities | - | - | - | - | - | - | 7,633 | 7,633 | |
| Subordinated liabilities | - | 1,277 | - | - | 30,261 | - | - | 31,538 | |
| Liabilities of disposal groups | - | - | - | - | - | - | 18,857 | 18,857 | |
| Total liabilities | 572,268 | 47,977 | - | - | 768,171 | 467 | 53,635 | 1,442,518 | |
| Equity | | | | | | | | 79,963 | |
| | | | | | | | | 1,522,481 | |

Note:

(1) Held-for-trading derivatives include hedging derivatives.

Notes to pro forma results(continued)

13. Financial instruments (continued)

Classification (continued)

| | Held-for- trading £m | Designated at fair value through profit or loss £m | Available- for-sale £m | Loans and receivables £m | Other financial instruments (amortised cost) £m | Finance leases £m | Other assets/ liabilities £m | Total £m |
|--|----------------------------|--|------------------------------|--------------------------------|--|-------------------------|---------------------------------------|-------------|
| 2008 | | | | | | | | |
| Cash and balances at central banks | - | - | - | 11,830 | - | - | - | 11,830 |
| Loans and advances to banks | 56,234 | - | - | 73,265 | - | - | - | 129,499 |
| Loans and advances to customers | 51,501 | 2,141 | - | 663,170 | - | 14,453 | - | 731,265 |
| Debt securities | 116,159 | 5,294 | 118,722 | 12,984 | - | - | - | 253,159 |
| Equity shares | 13,314 | 2,075 | 6,809 | - | - | - | - | 22,198 |
| Settlement balances | - | - | - | 17,812 | - | - | - | 17,812 |
| Derivatives (1) | 991,495 | - | - | - | - | - | - | 991,495 |
| Intangible assets | - | - | - | - | - | - | 16,415 | 16,415 |
| Property, plant and equipment | - | - | - | - | - | - | 17,181 | 17,181 |
| | - | - | - | - | - | - | 5,786 | 5,786 |

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| | | | | | | | | | |
|---|-----------|--------|---------|---------|---------|--------|--------|-----------|--|
| Deferred taxation Prepayments, accrued | | | | | | | | | |
| income and other assets | - | - | - | 1,326 | - | - | 20,247 | 21,573 | |
| Assets of disposal groups | - | - | - | - | - | - | 480 | 480 | |
| Total assets | 1,228,703 | 9,510 | 125,531 | 780,387 | - | 14,453 | 60,109 | 2,218,693 | |
| Deposits by banks | 81,154 | - | - | - | 181,455 | - | - | 262,609 | |
| Customer accounts | 55,926 | 4,349 | - | - | 458,186 | - | - | 518,461 | |
| Debt securities in issue | 3,992 | 46,022 | - | - | 219,444 | - | - | 269,458 | |
| Settlement balances and | | | | | | | | | |
| short positions | 42,536 | - | - | - | 11,728 | - | - | 54,264 | |
| Derivatives (1) | 969,409 | - | - | - | - | - | - | 969,409 | |
| Accruals, deferred income | | | | | | | | | |
| and other liabilities | 260 | - | - | - | 1,619 | 22 | 22,239 | 24,140 | |
| Retirement benefit liabilities | - | - | - | - | - | - | 1,564 | 1,564 | |
| Deferred taxation | - | - | - | - | - | - | 3,177 | 3,177 | |
| Insurance liabilities | - | - | - | - | - | - | 7,480 | 7,480 | |
| Subordinated liabilities | - | 1,410 | - | - | 42,268 | - | - | 43,678 | |
| Liabilities of disposal groups | - | - | - | - | - | - | 138 | 138 | |
| Total liabilities | 1,153,277 | 51,781 | - | - | 914,700 | 22 | 34,598 | 2,154,378 | |
| Equity | | | | | | | | 64,315 | |
| | | | | | | | | 2,218,693 | |

Note:

- (1) Held-for-trading derivatives include hedging derivatives.

Notes to pro forma results (continued)**13. Financial instruments** (continued)**Valuation techniques of financial instruments carried at fair value**

Certain aspects relating to the valuation of financial instruments carried at fair value are discussed below.

Valuation reserves

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, liquidity, credit risk and future administrative costs.

Valuation reserves and adjustments comprise:

| | 2009 | 2008 |
|-----------------------------------|----------------|---------|
| | £m | £m |
| Credit valuation adjustments: | | |
| Monoline insurers | 3,796 | 5,988 |
| CDPCs | 499 | 1,311 |
| Other counterparties | 1,588 | 1,738 |
| | 5,883 | 9,037 |
| Bid-offer and liquidity reserves | 2,814 | 3,260 |
| | 8,697 | 12,297 |
| Debit valuation adjustments: | | |
| Debt securities in issue | (2,331) | (2,373) |
| Derivatives | (467) | (450) |
| Total debit valuation adjustments | (2,798) | (2,823) |
| Total reserves (net) | 5,899 | 9,474 |

Credit valuation adjustments (CVA) represent an estimate of the adjustment to fair value that a market participant would make to incorporate the credit risk inherent in counterparty derivative exposures. The Group makes such credit adjustments to derivative exposures it has to counterparties, as well as debit valuation adjustments (DVA) to liabilities issued by the Group. CVA is discussed in Risk and capital management - Market turmoil - Credit valuation adjustments (page 157). Bid-offer and liquidity reserves and own credit (page 100) are discussed below.

Bid-offer and liquidity reserves

Fair value positions are adjusted to bid or offer levels, by marking individual cash based positions directly to bid or offer or by taking bid-offer reserves calculated on a portfolio basis for derivatives exposures.

Bid-offer and liquidity reserves reduced during the year, driven mainly by the tightening of spreads across all asset classes in the first half of the year and risk reductions in the second half of the year, most notably in interest rate trading business, partly offset by additional reserves reflecting the implementation of a revised derivative discounting approach.

Notes to pro forma results (continued)

13. Financial instruments (continued)

Own credit

In accordance with IFRS, when valuing financial liabilities recorded at fair value, the Group takes into account the effect of its own credit standing. The categories of financial liabilities on which own credit spread adjustments are made are issued debt, including structured notes, and derivatives. An own credit adjustment is applied to positions where it is believed that counterparties would consider the Group's creditworthiness when pricing trades.

For issued debt and structured notes, this adjustment is based on independent quotes from market participants for the debt issuance spreads above average inter-bank rates (at a range of tenors), which the market would demand when purchasing new senior or sub-debt issuances from the Group. Where necessary, these quotes are interpolated using a curve shape derived from CDS prices.

The reserve movement between periods will not equate to the reported profit or loss for own credit. The balance sheet reserves are stated by conversion of underlying currency balances at spot rates for each period whereas the income statement includes intra-period foreign exchange sell-offs.

The table below shows the own credit spread adjustments on liabilities recorded during the year.

| | Debt securities in issue Designated at fair value | | Total £m | Derivatives (2) £m | Total £m |
|----------------------------------|--|--------------------------|--------------|--------------------------|--------------|
| | Held-for -trading (1) £m | profit and loss £m | | | |
| Cumulative own credit adjustment | | | | | |
| 2009 | 1,237 | 1,094 | 2,331 | 467 | 2,798 |
| 2008 | 1,346 | 1,027 | 2,373 | 450 | 2,823 |

| | £bn | £bn | £bn | £bn | £bn |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| Book value of underlying liabilities | | | | | |
| 2009 | 36.6 | 13.3 | 49.9 | 16.8 | 66.7 |
| 2008 | 25.5 | 16.9 | 42.4 | 43.5 | 85.9 |

Notes:

- (1) The held-for-trading portfolio consists of wholesale and retail note issuances.
- (2) The effect of changes in foreign exchange rates, new issues and redemptions are not captured separately.

Notes to pro forma results (continued)

13. Financial instruments (continued)

Valuation hierarchy

The table below analyses financial instruments carried at fair value by valuation method.

| 2009 | Total £bn | Level 1 £bn | Level 2 £bn | Level 3 £bn | Level 3 sensitivity (2) £m £m | |
|---------------------|--------------|----------------|----------------|----------------|---|----------------|
| Assets | | | | | | |
| Loans and advances: | | | | | | |
| - banks | 45.4 | - | 45.4 | - | - | - |
| - customers | 43.7 | - | 42.6 | 1.1 | 80 | (40) |
| Debt securities | | | | | | |
| - government | 134.1 | 118.2 | 15.9 | - | - | - |
| - RMBS | 57.1 | - | 56.6 | 0.5 | 30 | (10) |
| - CMBS | 4.1 | - | 4.0 | 0.1 | 30 | - |
| - CDOs | 3.6 | - | 2.6 | 1.0 | 130 | (80) |
| - CLOs | 8.8 | - | 8.0 | 0.8 | 80 | (50) |
| - other ABS | 6.1 | - | 5.2 | 0.9 | 120 | (40) |
| - corporate | 10.5 | - | 9.9 | 0.6 | 70 | (20) |
| - other (3) | 14.9 | - | 14.7 | 0.2 | 10 | (30) |
| | 239.2 | 118.2 | 116.9 | 4.1 | 470 | (230) |
| Equity shares | 16.0 | 12.2 | 2.5 | 1.3 | 260 | (200) |
| Derivatives | | | | | | |
| - foreign exchange | 68.3 | - | 68.1 | 0.2 | 10 | - |
| - interest rate | 321.5 | 0.3 | 319.7 | 1.5 | 80 | (100) |
| - equities | 6.4 | 0.3 | 5.8 | 0.3 | 20 | (20) |
| - commodities | 0.3 | - | 0.3 | - | - | - |
| - credit - APS | 1.4 | - | - | 1.4 | 1,370 | (1,540) |
| - credit - other | 40.3 | 0.1 | 37.2 | 3.0 | 420 | (360) |
| | 438.2 | 0.7 | 431.1 | 6.4 | 1,900 | (2,020) |
| Total assets | 782.5 | 131.1 | 638.5 | 12.9 | 2,710 | (2,490) |
| Liabilities | | | | | | |
| Deposits: | | | | | | |
| - banks | 53.6 | - | 53.6 | - | - | - |

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| | | | | | | |
|-----------------------------|--------------|-------------|--------------|------------|------------|--------------|
| - customers | 58.0 | - | 57.9 | 0.1 | - | (10) |
| Debt securities in issue | 45.4 | - | 43.1 | 2.3 | 50 | (10) |
| Short positions | 40.5 | 27.1 | 13.2 | 0.2 | 10 | (20) |
| Derivatives | | | | | | |
| - foreign exchange | 63.6 | - | 63.6 | - | - | - |
| - interest rate | 309.3 | 0.1 | 308.4 | 0.8 | 40 | (60) |
| - equities | 9.3 | 0.8 | 8.3 | 0.2 | 20 | (70) |
| - commodities | 0.2 | - | 0.2 | - | - | - |
| - credit - other | 39.1 | - | 38.2 | 0.9 | 80 | (100) |
| | 421.5 | 0.9 | 418.7 | 1.9 | 140 | (230) |
| Other financial liabilities | | | | | | |
| (4) | 1.3 | - | 1.3 | - | - | - |
| Total liabilities | 620.3 | 28.0 | 587.8 | 4.5 | 200 | (270) |

For notes refer to page 104.

Notes to pro forma results (continued)

13. Financial instruments (continued)

Valuation hierarchy (continued)

| 2008 | Total £bn | Level 1 £bn | Level 2 £bn | Level 3 £bn | Level 3 sensitivity (2) £m £m | |
|--------------------------|----------------|----------------|----------------|----------------|---------------------------------------|----------------|
| Assets | | | | | | |
| Loans and advances: | | | | | | |
| - banks | 56.2 | - | 56.2 | - | - | - |
| - customers | 53.5 | - | 50.4 | 3.1 | 70 | (50) |
| Debt securities | | | | | | |
| - government | 95.7 | 67.6 | 28.1 | - | - | - |
| - RMBS | 73.3 | - | 72.8 | 0.5 | 40 | (90) |
| - CMBS | 3.9 | - | 3.3 | 0.6 | 30 | (30) |
| - CDOs | 8.6 | - | 6.9 | 1.7 | 410 | (440) |
| - CLOs | 8.7 | - | 7.7 | 1.0 | 40 | (40) |
| - other ABS | 8.2 | - | 6.7 | 1.5 | 10 | (10) |
| - corporate | 17.1 | 0.2 | 15.6 | 1.3 | 40 | (40) |
| - other (3) | 24.8 | 2.9 | 21.6 | 0.3 | - | - |
| | 240.3 | 70.7 | 162.7 | 6.9 | 570 | (650) |
| Equity shares | 22.2 | 13.7 | 7.4 | 1.1 | 80 | (160) |
| Derivatives | | | | | | |
| - foreign exchange | 172.9 | 2.2 | 170.6 | 0.1 | - | - |
| - interest rate | 654.3 | 0.4 | 652.4 | 1.5 | 80 | (80) |
| - equities | 9.0 | 0.3 | 8.6 | 0.1 | - | (10) |
| - commodities: Sempra | 11.6 | - | 11.0 | 0.6 | 50 | (50) |
| - commodities: other | 1.4 | - | 1.4 | - | - | - |
| - credit | 142.3 | 0.8 | 133.5 | 8.0 | 1,030 | (1,200) |
| | 991.5 | 3.7 | 977.5 | 10.3 | 1,160 | (1,340) |
| Total assets | 1,363.7 | 88.1 | 1,254.2 | 21.4 | 1,880 | (2,200) |
| Liabilities | | | | | | |
| Deposits: | | | | | | |
| - banks | 81.1 | - | 81.1 | - | - | - |
| - customers | 60.3 | - | 60.0 | 0.3 | - | - |
| Debt securities in issue | 50.0 | - | 45.6 | 4.4 | 190 | (170) |

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| | | | | | | |
|-----------------------------|----------------|-------------|----------------|------------|------------|--------------|
| Short positions | 42.5 | 35.4 | 7.1 | - | - | - |
| Derivatives | | | | | | |
| - foreign exchange | 172.8 | 2.2 | 170.6 | - | - | - |
| - interest rate | 639.7 | 0.4 | 638.4 | 0.9 | 90 | (90) |
| - equities | 12.1 | 0.8 | 11.2 | 0.1 | - | - |
| - commodities: Sempra | 10.9 | - | 10.5 | 0.4 | 30 | (30) |
| - commodities: other | 1.2 | - | 1.2 | - | - | - |
| - credit | 132.8 | 0.1 | 130.1 | 2.6 | 180 | (160) |
| | 969.5 | 3.5 | 962.0 | 4.0 | 300 | (280) |
| Other financial liabilities | | | | | | |
| (4) | 1.6 | - | 1.3 | 0.3 | 60 | (40) |
| Total liabilities | 1,205.0 | 38.9 | 1,157.1 | 9.0 | 550 | (490) |

For notes refer to page 104.

Notes to pro forma results (continued)

13. Financial instruments (continued)

Valuation hierarchy (continued)

Key points: level 3

- Level 3 assets and liabilities as a proportion of total financial instruments carried at fair value were similar to proportions at the end of 2008.
- Decrease in loans and advances to customers of £2.0 billion primarily reflected the reclassification of certain leveraged and real estate finance loans from held-for-trading to loans and receivables in first half of the year.
- The decrease in debt securities of £2.8 billion reflects the sale of the US fund derivative portfolio (£1.6 billion), liquidations and write-downs.
- Derivative assets include hedges with CDPCs, illiquid credit and interest rate derivatives: The reduction of £3.9 billion included £1 billion transfers to level 2, due to improved observability, and Sempra assets (£0.6 billion) included within disposal groups in 2009.
- Debt securities in issue were £2.3 billion and comprised structured medium-term notes. The decrease is due to a transfer to level 2 of £1.6 billion of constant proportion portfolio insurance (CPPI) notes reflecting the minimal residual equity component within these notes at 31 December 2009. The decrease in other debt securities in issue of £0.4 billion primarily reflects transfers to level 2, due to improved observability.
- Derivative liabilities decreased due to Sempra (£0.4 billion) included within disposal groups and transfers to level 2 reflecting improved observability.

Notes to pro forma results (continued)**13. Financial instruments** (continued)**Valuation hierarchy** (continued)

Amounts classified as available-for-sale comprise:

| | Total £bn | Level 1 £bn | Level 2 £bn | Level 3 £bn | Level 3 sensitivity (2) £m £m | |
|-----------------|--------------|----------------|----------------|----------------|---------------------------------------|--------------|
| 2009 | | | | | | |
| Debt securities | 125.4 | 58.2 | 65.9 | 1.3 | 90 | (50) |
| Equity shares | 2.6 | 0.3 | 1.6 | 0.7 | 100 | (90) |
| | 128.0 | 58.5 | 67.5 | 2.0 | 190 | (140) |
| 2008 | | | | | | |
| Debt securities | 118.6 | 18.0 | 97.5 | 3.1 | 90 | (120) |
| Equity shares | 6.7 | 4.6 | 1.8 | 0.3 | 60 | (110) |
| | 125.3 | 22.6 | 99.3 | 3.4 | 150 | (230) |

Notes:

(1) Level 1: valued using quoted prices in active markets, examples include G10 government securities, listed equity shares, certain exchange-traded derivatives, and certain US agency securities.

Level 2: includes most government agency securities, investment-grade corporate bonds, certain mortgage products, certain bank and bridge loans, repos and reverse repos, less liquid listed equities, state and municipal obligations, most physical commodities, investment contracts issued by the Group's life assurance businesses and certain money market securities and loan commitments and most OTC derivatives.

Level 3: includes cash instruments which trade infrequently, certain syndicated and commercial mortgage loans, unlisted equity shares, certain residual interests in securitisations, super senior

tranches of high grade and mezzanine CDOs, other mortgage-based products and less liquid debt securities, certain structured debt securities in issue, and OTC derivatives where valuation depends upon unobservable inputs such as certain credit and exotic derivatives. No gain or loss is recognised on the initial recognition of a financial instrument valued using a technique incorporating significant unobservable data.

- (2) Sensitivity represents the favourable and unfavourable impact respectively on the income statement or the statement of comprehensive income due to reasonably possible changes to valuations using reasonably possible alternative inputs to the Group's valuation techniques or models. Totals for sensitivities are not indicative of the total potential effect on the income statement or the statement of comprehensive income.
- (3) Primarily includes debt securities issued by banks and building societies.
- (4) Comprises subordinated liabilities and write-downs relating to undrawn syndicated loan facilities.

Notes to pro forma results (continued)

13. Financial instruments (continued)

Reclassification of financial instruments

During 2008, as permitted by amended IAS 39, the Group reclassified certain financial assets from the held-for-trading and available-for-sale categories into the loans and receivables category and from the held-for-trading category into the available-for-sale category. There were further reclassifications from the held-for-trading category to the loans and receivables category during 2009. The following tables detail the effect of the reclassifications and the balance sheet values of the assets.

Reduction in profit or increase in loss as a
result of reclassifications for the year
ended 2009

| | Total £m | Reclassified in: | |
|---------------------------|-------------|------------------|------------|
| | | 2009 £m | 2008 £m |
| From held-for-trading to: | | | |
| Available-for-sale | 1,280 | - | 1,280 |
| Loans and receivables | 1,705 | 37 | 1,668 |
| | 2,985 | 37 | 2,948 |

Assets

| reclassified in | 2009 | | 2008 | | |
|------------------------------|----------------------------------|--|------------------|---|------------------|
| | 2009: Carrying value £m | All reclassifications Carrying value £m | Fair value £m | All reclassifications (1) Carrying value £m | Fair value £m |
| From held-for-trading to: | | | | | |
| Available-for-sale | - | 7,629 | 7,629 | 12,047 | 12,047 |
| Loans and receivables | 1,995 | 12,933 | 10,644 | 20,774 | 16,628 |

| | | | | | |
|--------------------------------|--------------|---------------|---------------|--------|--------|
| | 1,995 | 20,562 | 18,273 | 32,821 | 28,675 |
| From available-for-sale to: | | | | | |
| Loans and receivables | - | 869 | 745 | 1,016 | 956 |
| | 1,995 | 21,431 | 19,018 | 33,837 | 29,631 |

Note:

(1) 31 December 2008 amounts have been restated.

During the year ended 31 December 2009, the balance sheet value of reclassified assets decreased by £12.4 billion. This was primarily due to disposals and repayments of £12.1 billion across a range of asset backed securities and loans, including disposals through restructures of £3.4 billion on real estate and leverage financed positions. Other movements include impairment charges of £1.7 billion, foreign exchange rate losses of £2.0 billion, offset by gains taken to the available-for-sale reserve of £1.1 billion and reclassifications of £2.0 billion in 2009.

For assets reclassified from held-for-trading to available-for-sale, net unrealised losses recorded in equity at 31 December 2009 were £0.6 billion (2008 - £2.2 billion).

Notes to pro forma results (continued)

14. Debt securities

| | UK central and local government £m | US central and local government £m | Other central and local government £m | Bank and building society £m | Asset backed securities £m | Corporate £m | Other £m | Total £m |
|---|---|---|---|--|-------------------------------------|-----------------|--------------|----------------|
| 31 December 2009 | | | | | | | | |
| Held-for-trading | 8,128 | 10,427 | 50,150 | 6,103 | 28,820 | 6,892 | 893 | 111,413 |
| Designated as at fair value through profit or loss | 122 | 3 | 385 | 418 | 394 | 1,087 | 20 | 2,429 |
| Available-for-sale | 18,350 | 12,789 | 33,727 | 7,472 | 50,464 | 2,550 | 30 | 125,382 |
| Loans and receivables | 1 | - | - | - | 7,924 | 1,853 | 93 | 9,871 |
| | 26,601 | 23,219 | 84,262 | 13,993 | 87,602 | 12,382 | 1,036 | 249,095 |
| 30 September 2009 | | | | | | | | |
| Held-for-trading | 4,811 | 13,888 | 54,452 | 8,076 | 29,611 | 6,897 | 502 | 118,237 |
| Designated as at fair value through profit or loss | 374 | 3 | 391 | 453 | 377 | 1,101 | 6 | 2,705 |
| Available-for-sale | 11,940 | 9,146 | 31,506 | 10,111 | 51,787 | 4,303 | 439 | 119,232 |
| Loans and receivables | 11 | - | 1 | 41 | 8,848 | 2,174 | 32 | 11,107 |
| | 17,136 | 23,037 | 86,350 | 18,681 | 90,623 | 14,475 | 979 | 251,281 |
| 31 December 2008 | | | | | | | | |
| Held-for-trading | 5,373 | 9,858 | 37,519 | 10,947 | 39,879 | 11,013 | 1,570 | 116,159 |
| Designated as at fair value through profit or loss | 2,085 | 510 | 456 | - | 236 | 1,551 | 456 | 5,294 |
| Available-for-sale | 11,330 | 6,145 | 21,735 | 11,650 | 62,067 | 4,588 | 1,207 | 118,722 |
| Loans and receivables | - | - | - | 114 | 8,961 | 3,749 | 160 | 12,984 |

18,788 16,513 59,710 22,711 111,143 20,901 3,393 253,159

Key points

- 54% of the debt securities portfolios were issued by central and local governments and federal agencies compared to 38% at end of 2008.
- Of the ABS portfolios, nearly 75% was AAA rated and 49% was guaranteed or effectively guaranteed by G10 governments.
- Part of the decrease in corporate debt securities relates to the unwinding of the US funds derivatives portfolio.
- 63% of corporate debt securities are investment grade.

Notes to pro forma results (continued)

15. Derivatives

| | 31 December 2009 | | 30 September 2009 | | 31 December 2008 | |
|--------------------------------|------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| | Assets £m | Liabilities £m | Assets £m | Liabilities £m | Assets £m | Liabilities £m |
| Exchange rate contracts | | | | | | |
| Spot, forwards and futures | 26,559 | 24,763 | 34,228 | 34,628 | 82,963 | 83,433 |
| Currency swaps | 25,221 | 23,337 | 30,838 | 30,053 | 53,231 | 54,413 |
| Options purchased | 16,572 | - | 18,528 | - | 36,688 | - |
| Options written | - | 15,499 | - | 16,998 | - | 34,946 |
| Interest rate contracts | | | | | | |
| Interest rate swaps | 263,902 | 251,829 | 337,824 | 327,217 | 547,566 | 530,843 |
| Options purchased | 55,471 | - | 64,191 | - | 99,176 | - |
| Options written | - | 55,462 | - | 64,547 | - | 102,210 |
| Futures and forwards | 2,088 | 2,033 | 2,989 | 2,772 | 7,600 | 6,620 |
| Credit derivatives | 41,748 | 39,127 | 49,019 | 42,512 | 142,367 | 132,734 |
| Equity and commodity | | | | | | |
| contracts | 6,638 | 9,484 | 14,849 | 18,795 | 21,904 | 24,210 |
| | 438,199 | 421,534 | 552,466 | 537,522 | 991,495 | 969,409 |

Key points

The Group enters into master netting agreements in respect of its derivative activities. These arrangements give the Group a legal right to set-off derivative assets and liabilities with the same counterparty. They do not result in a net presentation in the Group's balance sheet for which IFRS requires an intention to settle net or to realise the asset and settle the liability simultaneously, as well as a legally enforceable right to set-off. These agreements are, however, effective in reducing the Group's credit exposure from derivative assets. The Group has executed master netting agreements with the majority of its derivative counterparties resulting in a significant reduction in its net exposure to derivative assets.

Of the £438 billion (30 September 2009 - £552 billion; 31 December 2008 - £991 billion) derivatives assets shown above, £359 billion (30 September 2009 - £459 billion; 31 December 2008 - £834 billion) were under such agreements. Furthermore, the Group holds substantial collateral against this net derivative asset exposure.

Notes to pro forma results (continued)

16. Analysis of contingent liabilities and commitments

| | 31 December 2009 | | | 30 September 2009 £m | 31 December 2008 £m |
|--|------------------|----------------|----------------|----------------------------|---------------------------|
| | Core £m | Non-Core £m | Total £m | | |
| Contingent liabilities | | | | | |
| Guarantees and assets pledged as | | | | | |
| collateral security | 33,300 | 3,279 | 36,579 | 39,654 | 45,931 |
| Other contingent liabilities | 12,651 | 759 | 13,410 | 13,992 | 21,765 |
| | 45,951 | 4,038 | 49,989 | 53,646 | 67,696 |
| Commitments | | | | | |
| Undrawn formal standby facilities, credit | | | | | |
| lines and other commitments to lend | 255,555 | 33,580 | 289,135 | 304,702 | 349,417 |
| Other commitments | 730 | 2,753 | 3,483 | 3,656 | 6,876 |
| | 256,285 | 36,333 | 292,618 | 308,358 | 356,293 |
| Total contingent liabilities and | | | | | |
| Commitments | 302,236 | 40,371 | 342,607 | 362,004 | 423,989 |

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material loss will arise from these transactions.

17. The Financial Services Compensation Scheme

The Financial Services Compensation Scheme (FSCS), the UK's statutory fund of last resort for customers of authorised financial services firms, pays compensation if a firm is unable to meet its obligations. The FSCS funds compensation for customers by raising management expenses levies and compensation levies on the industry. In

relation to protected deposits, each deposit-taking institution contributes towards these levies in proportion to their share of total protected deposits on 31 December of the year preceding the scheme year (which runs from 1 April to 31 March), subject to annual maxima set by the Financial Services Authority (FSA). In addition, the FSCS has the power to raise levies ('exit levies') on firms who have ceased to participate in the scheme and are in the process of ceasing to be authorised for the amount that the firm would otherwise have been asked to pay during the relevant levy year.

FSCS has borrowed from HM Treasury to fund the compensation costs associated with Bradford & Bingley, Heritable Bank, Kaupthing Singer & Friedlander, Landsbanki 'Icesave' and London Scottish Bank plc. These borrowings are on an interest-only basis until September 2011. The annual limit on the FSCS management expenses levy for the three years from September 2008 in relation to these institutions has been capped at £1 billion per annum.

Notes to pro forma results (continued)

17. The Financial Services Compensation Scheme (continued)

The FSCS will receive funds from asset sales, surplus cash flow, or other recoveries in relation to these institutions which will be used to reduce the principal amount of the FSCS's borrowings. Only after the interest only period, which is expected to end in September 2011, will a schedule for repayment of any remaining principal outstanding (after recoveries) on the borrowings be agreed between the FSCS and HM Treasury. It is expected that, from that point, the FSCS will begin to raise compensation levies (principal repayments). No provision has been made for these levies as the amount is not yet known and is unlikely to be determined before 2011.

The Group has accrued £135 million for its share of FSCS management expenses levies for the 2009/10 and 2010/11 scheme years

Notes to pro forma results (continued)

18. Analysis of non-interest income, expenses and impairment losses

| | Year ended | | Quarter ended | | |
|--|----------------|----------------|----------------|-----------------|----------------|
| | 31 December | 31 December | 31 December | 30 September | 31 December |
| | 2009 £m | 2008 £m | 2009 £m | 2009 £m | 2008 £m |
| Fees and commissions receivable | 8,738 | 8,845 | 2,353 | 1,919 | 2,058 |
| Fees and commissions payable | | | | | |
| - banking | (2,424) | (2,010) | (810) | (450) | (487) |
| - insurance related | (366) | (401) | (84) | (95) | (96) |
| Net fees and commissions | 5,948 | 6,434 | 1,459 | 1,374 | 1,475 |
| Foreign exchange | 2,339 | 1,927 | 572 | 108 | 802 |
| Interest rate | 3,931 | 1,174 | (386) | 1,460 | (402) |
| Credit | (4,147) | (12,191) | 109 | (837) | (6,760) |
| Other | 1,683 | 261 | 416 | 320 | (402) |
| Income from trading activities | 3,806 | (8,829) | 711 | 1,051 | (6,762) |
| Operating lease and other rental income | 1,323 | 1,469 | 341 | 320 | 309 |
| Changes in the fair value of own debt | 51 | 977 | 349 | (238) | 450 |
| Changes in the fair value of securities and other financial assets and liabilities | 42 | (1,364) | 54 | 45 | (1,286) |
| Changes in the fair value of investment properties | (117) | (86) | 36 | (6) | (84) |
| Profit on sale of securities | (56) | 113 | 92 | 26 | (9) |
| Profit on sale of property, plant and equipment | 40 | 177 | 13 | 2 | 81 |
| Profit on sale of subsidiaries and associates | (57) | 501 | (38) | (8) | (20) |
| Life business profits/(losses) | 156 | (52) | 24 | 108 | 42 |
| Dividend income | 74 | 275 | 17 | 18 | 59 |
| Share of profits less losses of associated entities | (150) | 10 | (83) | (13) | 7 |
| Other income | (468) | (499) | (189) | (147) | 235 |
| Other operating income | 838 | 1,521 | 616 | 107 | (216) |
| | 10,592 | (874) | 2,786 | 2,532 | (5,503) |

Non-interest income (excluding insurance premiums)

| | | | | | |
|---|---------------|--------|--------------|-------|---------|
| Insurance net premium income | 5,266 | 5,709 | 1,308 | 1,301 | 1,439 |
| Total non-interest income | 15,858 | 4,835 | 4,094 | 3,833 | (4,064) |
| Staff costs | | | | | |
| - wages, salaries and other staff costs | 7,826 | 6,884 | 1,957 | 1,840 | 1,061 |
| - social security costs | 602 | 570 | 179 | 131 | 131 |
| - pension costs | 653 | 536 | 110 | 204 | 94 |
| Premises and equipment | 2,468 | 2,099 | 618 | 619 | 566 |
| Other | 3,979 | 4,267 | 1,075 | 943 | 1,360 |
| Administrative expenses | 15,528 | 14,356 | 3,939 | 3,737 | 3,212 |
| Depreciation and amortisation | 1,873 | 1,832 | 534 | 458 | 523 |
| Operating expenses | 17,401 | 16,188 | 4,473 | 4,195 | 3,735 |

Notes to pro forma results (continued)

18. Analysis of non-interest income, expenses and impairment losses (continued)

| | Year ended | | Quarter ended | | |
|---|------------------------------|----------------|------------------------------|-----------------|----------------|
| | 31 December | 31 December | 31 December | 30 September | 31 December |
| | 2009 £m | 2008 £m | 2009 £m | 2009 £m | 2008 £m |
| General insurance | 4,223 | 3,733 | 1,304 | 1,054 | 940 |
| Bancassurance | 134 | 184 | 17 | 91 | 116 |
| Insurance net claims | 4,357 | 3,917 | 1,321 | 1,145 | 1,056 |
| Loan impairment losses | 13,090 | 6,478 | 3,032 | 3,262 | 4,049 |
| Impairment of available-for-sale securities | 809 | 954 | 67 | 17 | 624 |
| Impairment losses | 13,899 | 7,432 | 3,099 | 3,279 | 4,673 |

Note:

- (1) The data above exclude purchased intangibles amortisation, integration and restructuring costs, gain on redemption of own debt, strategic disposals, write-down of goodwill and other intangible assets, gains on pensions curtailment and bonus tax.

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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: 25 February 2010

THE ROYAL BANK OF SCOTLAND
GROUP plc (Registrant)

By: /s/ A N Taylor

Name: A N Taylor

Title: Head of Group Secretariat