

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
November 06, 2009

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 6, 2009

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 Company announcements in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

Appendix 3

Asset Protection
Scheme

Appendix 3 Asset Protection Scheme

THE ASSET POOLS TO BE COVERED BY THE ASSET PROTECTION SCHEME WERE ONLY AGREED VERY RECENTLY. THE DATA FOR 30 SEPTEMBER 2009 ARE ESTIMATES AND ACTUAL NUMBERS WILL BE PROVIDED IN THE CIRCULAR TO SHAREHOLDERS.

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Appendix 3 Asset Protection Scheme

1. Summary of APS revisions

| | Original APS | Revised APS |
|---|---|---|
| Capital injection | £19.5 billion | £25.5 billion |
| Contingent capital reserve | £6.0 billion | £8.0 billion, (fee of 4% p.a.) |
| <i>Details on Insurance cover:</i> | | |
| Covered assets at 31 December 2008 | £325 billion | £282 billion |
| RWA relief at 30 June 2009 | £149.6 billion | £140.7 billion |
| First loss | £42.2 billion | £60.0 billion |
| - provisions recorded at 31 December 2008 | £22.7 billion | £21.3 billion |
| - remaining | £19.5 billion | £38.7 billion |
| Fees: | | |
| - base | £6.5 billion | £700 million p.a. (2009 to 2011), £500 million thereafter |
| - in deferred tax assets ('DTA') give up | £5.2 billion historical plus DTA on future tax losses | Nil |
| Termination rights | Limited | At any time provided FSA stress test framework is met |
| Exit fees | Negotiable | £2.5 billion less cumulative fees paid |
| FSA stress test | Meets FSA framework | Meets FSA framework |

Key messages:

- .
- RBS continues to meet the FSA stress test framework
- .
- RBS is exposed to higher credit losses and less capital relief under revised APS
- .
- However, RBS will have more capital to serve as offsets through:
 - (a) lower fees and retention of deferred tax assets

- (b) issuance of additional B shares
- (c) access to contingent capital

Original APS structure provided higher equivalent capital benefits relative to 8% CT1 target than revised APS because of the way the securitisation formula works. Lower deductible policy resulted in lower capital charges through the period as the first loss is fully utilised.

Appendix 3 Asset Protection Scheme

2. Asset coverage

2.1 Roll forward of covered assets to 30 June 2009

| | £bn |
|---|--------|
| Covered assets at 31 December 2008 - as announced on 26 February 2009 | 325.0 |
| Asset pool refinements | (9.2) |
| Covered assets at 31 December 2008 - as published on 7 August 2009 | 315.8 |
| Refinements and exclusions | |
| o asset pool refinements | (1.1) |
| o credit derivative product companies | (7.2) |
| o derivatives buffer | (4.8) |
| o conduits | (6.3) |
| o reverse repurchase agreements | (5.2) |
| o assets potentially eligible for other sovereign schemes | (6.9) |
| o other asset removals | (2.8) |
| Covered assets at 31 December 2008 - as announced on 3 November 2009 | 281.5 |
| Disposals, rollovers and repayments | (12.9) |
| Effect of foreign currency movements | (14.8) |
| Amortisations and other movements | (11.0) |
| Covered assets at 30 June 2009 | 242.8 |

Removals are a function of ineligibility in line with the Scheme rules, operational complexity, eligibility for other sovereign schemes and more economic forms of covering risk.

Appendix 3 Asset Protection Scheme

2. Asset coverage (continued)

2.2 Covered assets* at 30 June 2009 and 31 December 2008

The tables below show balances by asset classes, as defined by the Scheme, with underlying product categories, at 30 June 2009 and 31 December 2008.

| | Carrying value (1) £m (a) | Provisions and adjustments to par value £m (b) | Par value £m (c)=(a)+(b) | Undrawn commitments, and other adjustments (2) £m (d) | Covered amount £m (e)=(c)+(d) |
|--------------------------------------|------------------------------------|--|--------------------------------|--|--|
| 30 June 2009 | | | | | |
| Residential mortgages | 15,052 | 204 | 15,256 | 10 | 15,266 |
| Consumer finance | 17,944 | 2,405 | 20,349 | 2,361 | 22,710 |
| <i>Personal loans</i> | 8,203 | 1,864 | 10,067 | 1,395 | 11,462 |
| <i>Business and commercial loans</i> | 9,741 | 541 | 10,282 | 966 | 11,248 |
| Commercial real estate finance | 33,241 | 1,179 | 34,420 | 4,727 | 39,147 |
| Leveraged finance | 14,549 | 3,820 | 18,369 | 5,201 | 23,570 |
| Lease finance | 4,945 | 331 | 5,276 | 614 | 5,890 |
| Project finance | 1,535 | 24 | 1,559 | 312 | 1,871 |
| Structured finance | 16,782 | 7,523 | 24,305 | 4,397 | 28,702 |
| <i>Structured loans</i> | 11,188 | 743 | 11,931 | 3,002 | 14,933 |
| <i>Asset-backed securities</i> | 5,594 | 6,780 | 12,374 | 1,395 | 13,769 |
| Loans | 42,201 | 4,008 | 46,209 | 23,795 | 70,004 |
| Bonds (3) | 719 | (8) | 711 | 21 | 732 |
| Derivatives | 13,231 | 7,178 | 20,409 | 14,464 | 34,873 |
| <i>Monoline insurers</i> | 4,104 | 6,845 | 10,949 | 8,832 | 19,781 |
| <i>Other counterparties</i> | 9,127 | 333 | 9,460 | 5,632 | 15,092 |

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| | | | | | |
|--------------------------|---------|--------|---------|--------|---------|
| Total | 160,199 | 26,664 | 186,863 | 55,902 | 242,765 |
| UK Retail | 16,909 | 1,772 | 18,681 | 1,363 | 20,044 |
| UK Corporate | 33,608 | 504 | 34,112 | 13,245 | 47,357 |
| Global Banking & Markets | 33,023 | 1,453 | 34,476 | 20,035 | 54,511 |
| Ulster | 10,170 | 210 | 10,380 | 829 | 11,209 |
| Non-Core | 66,489 | 22,725 | 89,214 | 20,430 | 109,644 |
| | 160,199 | 26,664 | 186,863 | 55,902 | 242,765 |
| Loans and advances | 142,455 | 10,914 | 153,369 | 40,022 | 193,391 |
| Debt securities | 6,313 | 6,772 | 13,085 | 1,416 | 14,501 |
| Derivatives | 11,431 | 8,978 | 20,409 | 14,464 | 34,873 |
| | 160,199 | 26,664 | 186,863 | 55,902 | 242,765 |

Appendix 3 Asset Protection Scheme

4. Asset coverage (continued)

2.2 Covered assets* at 30 June 2009 and 31 December 2008 (continued)

| | Carrying value (1) £m (a) | Provisions and adjustments to par value £m (b) | Par value £m (c)=(a)+(b) | Undrawn commitments and other adjustments (2) £m (d) | Covered amount £m (e)=(c)+(d) |
|--------------------------------------|---------------------------------|--|--------------------------------|--|-------------------------------------|
| 31 December 2008 | | | | | |
| Residential mortgages | 15,283 | 144 | 15,427 | - | 15,427 |
| Consumer finance | 20,297 | 2,003 | 22,300 | 2,085 | 24,385 |
| <i>Personal loans</i> | 9,544 | 1,687 | 11,231 | 1,440 | 12,671 |
| <i>Business and commercial loans</i> | 10,753 | 316 | 11,069 | 645 | 11,714 |
| Commercial real estate finance | 41,367 | 975 | 42,342 | 9,077 | 51,419 |
| Leveraged finance | 16,290 | 2,944 | 19,234 | 5,112 | 24,346 |

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| | | | | | |
|--------------------------------|---------------|--------------|---------------|---------------|---------------|
| Lease finance | 5,880 | 236 | 6,116 | 890 | 7,006 |
| Project finance | 1,642 | 58 | 1,700 | 414 | 2,114 |
| Structured finance | 19,478 | 7,047 | 26,525 | 5,700 | 32,225 |
| <i>Structured loans</i> | <i>12,674</i> | <i>261</i> | <i>12,935</i> | <i>3,294</i> | <i>16,229</i> |
| <i>Asset-backed securities</i> | <i>6,804</i> | <i>6,786</i> | <i>13,590</i> | <i>2,406</i> | <i>15,996</i> |
| Loans | 55,537 | 1,373 | 56,910 | 27,510 | 84,420 |
| Bonds (3) | 1,285 | (103) | 1,182 | 65 | 1,247 |
| Derivatives | 21,068 | 6,575 | 27,643 | 11,272 | 38,915 |
| <i>Monoline insurers</i> | <i>5,620</i> | <i>5,892</i> | <i>11,512</i> | <i>10,758</i> | <i>22,270</i> |
| <i>Other counterparties</i> | <i>15,448</i> | <i>683</i> | <i>16,131</i> | <i>514</i> | <i>16,645</i> |
| Total | 198,127 | 21,252 | 219,379 | 62,125 | 281,504 |
| UK Retail | 18,186 | 1,565 | 19,751 | 1,415 | 21,166 |
| UK Corporate | 39,191 | 330 | 39,521 | 12,165 | 51,686 |
| Global Banking & Markets | 49,487 | 2,142 | 51,629 | 23,415 | 75,044 |
| Ulster | 11,772 | 167 | 11,939 | 1,163 | 13,102 |
| Non-Core | 79,491 | 17,048 | 96,539 | 23,967 | 120,506 |
| Total | 198,127 | 21,252 | 219,379 | 62,125 | 281,504 |
| Loans and advances | 168,970 | 7,994 | 176,964 | 48,382 | 225,346 |
| Debt securities | 8,089 | 6,683 | 14,772 | 2,471 | 17,243 |
| Derivatives | 21,068 | 6,575 | 27,643 | 11,272 | 38,915 |
| Total | 198,127 | 21,252 | 219,379 | 62,125 | 281,504 |

Notes:

- (1) Carrying value represents the amounts recorded on the balance sheet and includes assets classified as loans and receivables, fair valued through profit or loss and available-for-sale
- (2) Other adjustments include: add-back of available-for-sale reserves (taken through equity) and adjustment to covered amounts for derivatives (for 30 June 2009 only) and rollovers and refinancing (for 30 June 2009 only)
- (3) Comprises non asset-backed securities

*Detailed information is presented as at 30 June 2009 and 31 December 2008. Information as at 30 September 2009 is being updated for incorporation in the APS shareholder circular.

Appendix 3 Asset Protection Scheme

2. Asset coverage (continued)

2.3 Credit impairments and write downs

Cumulative credit impairment losses and adjustments to par value relating to covered assets are set out below:

| | Closing balance | |
|--------------------------|--------------------|------------------------|
| | 30 June 2009 £m | 31 December 2008 £m |
| Loans and advances | 10,914 | 7,994 |
| Debt securities | 6,772 | 6,683 |
| Derivatives | 8,978 | 6,575 |
| Total | 26,664 | 21,252 |
| UK Retail | 1,772 | 1,565 |
| UK Corporate | 504 | 330 |
| Global Banking & Markets | 1,453 | 2,142 |
| Ulster | 210 | 167 |
| Non-Core | 22,725 | 17,048 |
| | 26,664 | 21,252 |

2.4 Risk elements in lending and potential problem loans

Risk elements in lending (REILs) and potential problem loans (PPLs) for the Group and the amount relating to assets in the Scheme are set out below.

| | 30 June 2009 | | 31 December 2008 | |
|----------------------|--------------|-----------|------------------|-----------|
| | Group £m | APS £m | Group £m | APS £m |
| Non-performing loans | 27,229 | 20,627 | 17,082 | 12,679 |
| Other REIL | 3,500 | 2,900 | 1,709 | 1,498 |

| | | | | |
|---------------|--------|--------|--------|--------|
| Total REIL | 30,729 | 23,527 | 18,791 | 14,177 |
| PPLs | 296 | 239 | 226 | 187 |
| REIL and PPLs | 31,025 | 23,766 | 19,017 | 14,364 |
| Core | 10,364 | 6,711 | | |
| Non-Core | 20,661 | 17,055 | | |
| | 31,025 | 23,766 | | |

Key points:

More than 75% of the Group's REILs and PPLs relate to assets in the Scheme.

Of the REILs and PPLs in Non-Core, more than 80% were in APS.

Appendix 3 Asset Protection Scheme

2. Asset coverage
(continued)

2.5 Credit quality

The internal reporting and oversight of risk assets principles are set out in the Group 2008 Report and Accounts credit risk section on page 90. The table below shows the credit quality of the Group's credit risk assets by risk bands and the proportion relating to assets in the Scheme.

| Asset quality band | Probability of default | 30 June 2009 | | 31 December 2008 | |
|--------------------|------------------------|--------------|------------------------------------|------------------|------------------------------------|
| | | Group £bn | % relating to assets in the Scheme | Group £bn | % relating to assets in the Scheme |
| AQ1 | 0% - 0.034% | 109 | 2% | 127 | 3% |
| AQ2 | 0.034% - 0.048% | 20 | 9% | 26 | 16% |
| AQ3 | 0.048% - 0.095% | 33 | 10% | 38 | 17% |
| AQ4 | 0.095% - 0.381% | 114 | 16% | 150 | 15% |
| AQ5 | 0.381% - 1.076% | 121 | 26% | 148 | 28% |
| AQ6 | 1.076% - 2.153% | 99 | 32% | 103 | 36% |
| AQ7 | 2.153% - 6.089% | 49 | 45% | 46 | 52% |
| AQ8 | 6.089% | 25 | 42% | 26 | 46% |

| | | | | | |
|-----------|----------------|-----|-----|-----|-----|
| | 6.089% - | | | | |
| | 17.222% | | | | |
| AQ9 | 17.222% - 100% | 17 | 55% | 12 | 69% |
| AQ10 | 100% | 33 | 81% | 18 | 72% |
| Other (1) | | 38 | 5% | 41 | 8% |
| | | 658 | 24% | 735 | 24% |

Notes:

- (1) 'Other' largely comprises assets covered by the standardised approach for which a probability of default (PD) equivalent to those assigned to assets covered by the internal ratings based approach is not available.
- (2) Reverse repurchase agreements, carrying value relating to net derivative positions and issuer risk relating to debt securities are excluded from both Group numbers and APS covered assets above.

Over 80% of Group's credit risk assets with 100% probability of default are in the Scheme.

2.6 Risk-weighted assets

Risk-weighted assets (RWAs) were as follows:

| | 30 September 2009 | | 30 June 2009 | | 31 December 2008 | |
|---------|-------------------------|-----|-----------------|-----|------------------------|-----|
| | £bn | % | £bn | % | £bn | % |
| APS | 166.5 | 28 | 140.7 | 26 | 158.7 | 27 |
| Non APS | 428.2 | 72 | 406.6 | 74 | 419.1 | 73 |
| Group | 594.7 | 100 | 547.3 | 100 | 577.8 | 100 |

| | 30 June 2009 | | |
|-----------------------------------|--------------|---------|-------|
| | APS | Non APS | Total |
| Risk-weighted assets by division: | £bn | £bn | £bn |
| UK Retail | 18.3 | 35.7 | 54.0 |
| UK Corporate | 32.5 | 57.0 | 89.5 |
| Global Banking & Markets | 29.3 | 93.1 | 122.4 |
| Ulster | 8.1 | 18.1 | 26.2 |
| Other divisions | - | 91.1 | 91.1 |
| Core | 88.2 | 295.0 | 383.2 |
| Non-Core | 52.5 | 111.6 | 164.1 |
| Group | 140.7 | 406.6 | 547.3 |

Appendix 3 Asset Protection Scheme

3. Basis of asset selection

The selection has been carried out primarily between February and April 2009 and was driven by three principal criteria

- (1) Risk and degree of impairment in base case and stressed scenarios;
- (2) Liquidity of exposure; and
- (3) Capital intensity under procyclicality.

The approach for high volume commercial and retail exposures was on a portfolio basis. Selection for large corporates and GBM was at the counterparty/asset level.

Set out below are the selection criteria for the affected divisions.

| | |
|--------------------------------------|---|
| GBM* | <p>Banking book: Selection by individual asset pool (e.g., Corporate loans, Real estate finance, Leveraged finance), Global Restructuring Group (GRG) work-out unit counterparties/assets and high risk counterparties/assets. Additional counterparties/assets were selected through an individual risk review of the total portfolio.</p> <p>Trading book: Selection by individual assets (e.g., Monolines, Derivatives, Mortgage trading).</p> |
| UK Corporate* | <p>Commercial & Corporate real estate: All defaulted assets in the work-out/restructuring unit or in high risk bands.</p> <p>Corporate: All defaulted assets in the work-out/restructuring unit. Corporate banking clients in high risk sectors or with high concentration risk.</p> <p>Business Banking: Portfolios in the work out / restructuring unit or in high risk bands.</p> |
| UK Retail* | <p>Mortgages: assets with higher Loan to Values and in higher risk segments (e.g. LTVs >97% on general book, LTVs >85% on buy-to-let book), and those assets in arrears (at 31 December 2008).</p> <p>Loans and overdrafts - higher risk customers based on internal bandings, and those assets in arrears (as at 31 December 2008).</p> |
| EME* (Corporate & Retail) | <p>Mortgages: Assets with greater than 85% LTV, broker mortgages and interest only with a higher probability of default.</p> <p>Retail: Portfolios of accounts in default, >1 month arrears, <2 years old and a higher probability of default.</p> |

| |
|--|
| Corporate: Counterparties/assets in work-out / restructuring groups or in high risk bands, and other assets identified as part of an individual review of cases. |
|--|

* including assets transferred to Non-Core division

Appendix 3 Asset Protection Scheme

4. Pro forma capital ratios

| 30 September 2009 (estimated) | RWAs | Core tier 1 capital | Core tier 1 capital ratio | Tier 1 capital | Tier 1 capital ratio | Total capital £bn | Total capital ratio % |
|--|---------|------------------------|------------------------------|-------------------|-------------------------|-------------------------|--------------------------------|
| | £bn | £bn | % | £bn | % | £bn | % |
| As reported | 594.7 | 33.0 | 5.5% | 47.6 | 8.0% | 62.1 | 10.4% |
| <u>Pro forma effects:</u> | | | | | | | |
| B share issuance | | 25.5 | | 25.5 | | 25.5 | |
| <i>Less</i> | | | | | | | |
| CDS Value | | (2.5) | | (2.5) | | (2.5) | |
| Contingent Capital fee deducted upfront | | (1.6) | | (1.6) | | (1.6) | |
| Capital requirements at 8% | | (13.4) | | | | | |
| APS coverage benefit at 4% | | 6.7 | | | | | |
| Net (BiPru 9) deduction | | (6.7) | | (6.7) | | (6.7) | |
| Tier 2 deduction | | | | | | (6.7) | |
| RWA relief | (166.5) | | | | | | |
| | 428.2 | 47.7 | 11.1% | 62.3 | 14.5% | 70.1 | 16.4% |

| 30 June 2009 | RWAs | Core tier 1 capital | Core tier 1 capital ratio | Tier 1 capital | Tier 1 capital ratio | Total capital | Total capital ratio |
|---|---------|---------------------|---------------------------|----------------|----------------------|---------------|---------------------|
| | £bn | £bn | % | £bn | % | £bn | % |
| As reported | 547.3 | 35.2 | 6.4% | 49.4 | 9.0% | 64.0 | 11.7% |
| <u>Pro forma effects:</u> | | | | | | | |
| B share issuance | | 25.5 | | 25.5 | | 25.5 | |
| <i>Less</i> | | | | | | | |
| CDS Value | | (2.5) | | (2.5) | | (2.5) | |
| Contingent Capital fee deducted upfront | | (1.6) | | (1.6) | | (1.6) | |
| Capital requirements at 8% | | (11.2) | | | | | |
| APS coverage benefit at 4% | | 5.6 | | | | | |
| Net (BiPru 9) deduction | | (5.6) | | (5.6) | | (5.6) | |
| Tier 2 deduction | | | | | | (5.6) | |
| RWA relief | (140.7) | | | | | | |
| | 406.6 | 51.0 | 12.5% | 65.2 | 16.0% | 74.2 | 18.2% |

Key messages:

-
- CT1, Tier 1 and Total Capital ratios are significantly improved on a pro forma basis
-
- Legacy credit losses will be absorbed through higher capital base
-
- APS coverage provides capital equivalent benefit versus the RBS Group targeted 8% CT1 ratio of approximately £6.7 billion (30 June 2009: £5.6 billion) which, net of the valuation of the CDS (minimum fee), is approximately £4.2 billion (30 June 2009: £3.1 billion).
-
- Contingent capital fee for 5 year option deducted upfront

Signatures

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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: 06 November 2009

THE ROYAL BANK OF SCOTLAND
GROUP plc (Registrant)

By: /s/ A N Taylor

Name: A N Taylor

Title: Head of Group Secretariat