

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
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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

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(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

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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:

Appendix 3

The Asset Protection Scheme

Appendix 3 The Asset Protection Scheme

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Appendix 3 The Asset Protection Scheme

1. Key aspects of the Scheme

On 22 December 2009, the Group acceded to the Asset Protection Scheme ('APS' or 'the Scheme') with HM Treasury acting on behalf of the UK Government. Under the Scheme, the Group purchased credit protection over a portfolio of specified assets and exposures ("covered assets") from HM Treasury. The

portfolio of covered assets had a par value of approximately £282 billion as at 31 December 2008 and .the protection is subject to a first loss of £60 billion and covers 90% of, subsequent losses. Once through the first loss, when a covered asset has experienced a trigger event⁽¹⁾ losses and recoveries in respect of that asset are included in the balance receivable under the APS. Receipts from HM Treasury will, over time, amount to 90% of cumulative losses (net of cumulative recoveries) on the portfolio of covered assets less the first loss amount.

The Group has the right to terminate the Scheme at any time provided that the Financial Services Authority has confirmed in writing to HM Treasury that it has no objection to the proposed termination. On termination, the Group is liable to pay HM Treasury a termination fee. The termination fee would be the difference between £2.5 billion (or, if higher, a sum related to the economic benefit of regulatory capital relief obtained as a result of having entered APS) and the aggregate fees paid. In addition, the Group would have to repay any amounts received from HM Treasury under the terms of the APS (or as otherwise agreed with HM Treasury). In consideration for the protection provided by the APS, the Group paid an initial premium of £1.4 billion on 31 December 2009 for the years 2009 and 2010. A further premium of £700 million is payable on 1 January 2011 and subsequently annual premiums of £500 million until the earlier of 31 December 2099 or the termination of the agreement.

The APS is a single contract providing credit protection in respect of a portfolio of financial assets: the unit of account is the contract as a whole. Under IFRS, credit protection is either treated as a financial guarantee contract ('FGC') or a derivative depending on the terms of the agreement and the nature of the protected assets and exposures. The portfolio contains more than an insignificant element of derivatives and limited recourse assets, and hence the contract does not meet the definition of an FGC. The APS contract is therefore treated as a derivative and is recognised at fair value, with changes in fair value recognised in profit or loss. The APS derivative did not have any effect on the Group's 2009 income statement; however in future period's changes in value of the APS derivative will have an effect on the Group's profit or loss.

There is no change in the recognition and measurement of the covered assets as a result of the APS. Impairment provisions on covered assets measured at amortised cost are assessed and charged in accordance with the Group's accounting policy; held-for-trading assets, assets designated at fair value and available-for-sale assets within the APS portfolio continue to be measured at fair value with no adjustments to reflect the protection provided by the APS. There is no change in how gains and losses on the covered assets are recognised in the income statement or in other comprehensive income.

- Trigger events (subject to specific rules detailed in the terms of the APS) comprise:
 - failure to pay: the counterparty to the covered asset has (subject to specified grace periods) failed to pay an amount due under the terms of its agreement with the Group.
 - bankruptcy: the counterparty is subject to a specified insolvency or bankruptcy-related event.
 - restructuring: a covered asset which is individually impaired and is subject to a restructuring.

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Appendix 3 The Asset Protection Scheme

2. Basis of asset selection

The selection of assets was 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 contributing divisions.

Global Banking & Markets (GBM)* Banking book:
selection by individual asset pool (corporate loans, real estate finance, and leveraged finance), Global Restructuring Group work-out unit counterparties/assets and high risk counterparties/assets. Additional counterparties/assets were selected through an individual risk review of the total portfolio.

Trading book:

selection by individual assets (monolines, derivatives, mortgage trading).

UK Corporate* Commercial & Corporate real estate:
all defaulted assets in the work-out/restructuring unit or in high risk bands.
Corporate:
all defaulted assets in the work-out/restructuring unit. Corporate banking clients in high risk sectors or with high concentration risk.

Business Banking:

portfolios in the work out/restructuring unit or in high risk bands.

UK Retail* Mortgages:
assets with a higher loan-to-value (LTV) and in higher risk segments (e.g. LTV >97% on general book, LTV >85% on buy-to-let book), and those assets in arrears (at 31 December 2008).

Loans and overdrafts:

higher risk customers based on internal bandings, and those assets in arrears (at 31 December 2008).

Ulster Bank* (Corporate & Retail) Mortgages:
assets with a greater than 85% LTV, broker mortgages and interest only with a higher probability of default.

Retail:

portfolios of accounts in default, >1 month arrears, <2 years old and a higher probability of default.

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

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Appendix 3 The Asset Protection Scheme

3. Covered assets

3.1 Roll forward to 31 December 2009

The table below details the movement in covered assets in the year.

| | £bn |
|---|--------|
| Covered assets at 31 December 2008 - at accession to the Scheme | 282.0 |
| Disposals | (3.0) |
| Non-contractual early repayments | (8.9) |
| Amortisations | (9.4) |
| Maturities | (16.7) |
| Rollovers and covered amount cap adjustments | (1.7) |
| Effect of foreign currency movements | (11.8) |
| Covered assets at 31 December 2009 | 230.5 |

Note:

- (1) The covered amount at 31 December 2009 above includes approximately £2.1 billion of assets in the derivatives and structured finance asset classes which, for technical reasons, do not currently satisfy, or are anticipated at some stage not to satisfy, the eligibility requirements of the Scheme. HMT and the Group continue to negotiate in good faith whether (and, if so, to what extent) coverage should extend to these assets. Also, the Group and HMT are in discussion over the HMT classifications of some structured credit assets and this may result in adjustments to amounts for some asset classes; however underlying risks will be unchanged.

Key point

- The majority of the reduction (68%) in the covered assets reflects repayments by customers.
- Additionally the Group took advantage of market conditions and executed a number of loan sales.

Appendix 3 The Asset Protection Scheme

3. Covered assets (continued)

3.2 Credit impairments and write downs

The table below analyses the cumulative credit impairment losses and adjustments to par value (including AFS reserves) relating to covered assets:

| | 2009 | 2008 |
|--------------------------|---------------|--------|
| | £m | £m |
| Loans and advances | 14,240 | 7,705 |
| Debt securities | 7,816 | 7,942 |
| Derivatives | 6,834 | 6,575 |
| | 28,890 | 22,222 |
| By division: | | |
| UK Retail | 2,431 | 1,492 |
| UK Corporate | 1,007 | 285 |
| Global Banking & Markets | 1,628 | 1,640 |
| Ulster Bank | 486 | 234 |
| Non-Core | 23,338 | 18,571 |
| | 28,890 | 22,222 |

Note:

- (1) Total available-for-sale reserves on debt securities of £1,113 million at 31 December 2009 (£1,315 million as at 31 December 2008 was previously included in undrawn commitments and other adjustments).

Key point

- Of the increase in cumulative losses of £6,668 million, the largest was loan impairments in Non-Core.

Appendix 3 The Asset Protection Scheme

3. Covered assets (continued)

3.3 First loss utilisation

The triggered amount is equivalent to the aggregate outstanding principal amount on the trigger date excluding interest, fees, premium or any other non-principal sum that is accrued or payable, except where it was capitalised on or before 31 December 2008. At trigger date, in economic terms, there is an exchange of assets, with the Group receiving a two year interest bearing government receivable in exchange for the asset.

APS recoveries include any return of value on a triggered asset, although these are only recognised for Scheme reporting purposes when they are realised in cash. The net triggered amount at any point in time, therefore, only takes into account cash recoveries to date. The capturing of triggered amounts has required extensive new processes and controls to be put in place. These continue to be work in progress. Additionally, as with any bespoke and highly complex legal agreement there are various areas of interpretation which still need to be clarified and agreed between the Group and the Asset Protection Agency ('APA'), some of which could have a material impact on the triggered amount identified to date. Also as part of the APS terms and conditions it was agreed to re-characterise certain assets and their closely related hedges under the scheme and the Group continues to negotiate with APA in good faith to finalise this.

The Scheme Rules are designed to allow for data correction over the life of the scheme, and the Group has a grace period during 2010 to implement processes to capture triggers and restate quarterly claims statements to HMT retrospectively.

The table below summarises the total triggered amount and related cash recoveries by division at 31 December 2009.

| | Triggered amount | Cash recoveries to date | Net triggered amount |
|--------------------------|-----------------------------|------------------------------------|-------------------------------------|
| | £m | £m | £m |
| UK Retail | 3,340 | 129 | 3,211 |
| UK Corporate | 3,570 | 604 | 2,966 |
| Global Banking & Markets | 1,748 | 108 | 1,640 |
| Ulster Bank | 704 | 47 | 657 |
| Non-Core | 18,905 | 777 | 18,128 |
| | 28,267 | 1,665 | |

26,602

Note:

- (1) The triggered amount on a covered asset is calculated when an asset is triggered (due to bankruptcy, failure to pay after a grace period, and restructuring with an impairment) and is the lower of the covered amount and the outstanding amount for each covered asset. Given the grace period for triggering assets, the Group expects additional assets to trigger based on the current risk rating and level of impairments on covered assets.

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Appendix 3 The Asset Protection Scheme

3. Covered assets
(continued)

3.3 First loss utilisation
(continued)

Key points

- APS recoveries include almost any return of value on a triggered asset but are only recognised when they are realised in cash, hence there will be a time lag for the realisation of recoveries.
- The Group expects recoveries on triggered amounts to be approximately 45% over the life of the relevant assets.
- On this basis, expected loss on triggered assets at 31 December 2009 is approximately £15 billion (25%) of the £60 billion first loss threshold under the APS.
- In case the net triggered amount exceeds a specified threshold level for each covered asset class, HMT retains step-in rights as defined in the Scheme rules.

3.4 Risk weighted assets

Risk-weighted assets were as follows:

2009 2008

| | £m | £m |
|--------------------------|--------------|-------|
| APS | 127.6 | 158.7 |
| Non-APS | 438.2 | 419.1 |
| Group before APS benefit | 565.8 | 577.8 |

| Risk-weighted assets by division: | 31 December 2009 | | |
|-----------------------------------|------------------|---------------|--------------|
| | APS £m | Non APS £m | Total £m |
| UK Retail | 16.3 | 35.0 | 51.3 |
| UK Corporate | 31.0 | 59.2 | 90.2 |
| Global Banking & Markets | 19.9 | 103.8 | 123.7 |
| Ulster | 8.9 | 21.0 | 29.9 |
| Non-Core | 51.5 | 119.8 | 171.3 |
| Other divisions | n/a | 99.4 | 99.4 |
| Group before APS benefit | 127.6 | 438.2 | 565.8 |

Key points

- Over the year RWAs covered by APS declined overall due to the restructuring of certain exposures,, including monoline related assets, and decrease in covered amount partly off-set by credit downgrade and procyclicality,

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Appendix 3 The Asset Protection Scheme

3. Covered assets
(continued)

3.5 Divisional analysis

The following table analyses covered assets by the asset classes defined by the Scheme conditions and by division:

| UK Retail £m | UK Corporate £m | Global Banking & Markets £m | Ulster Bank £m | Non-Core £m | Covered amount £m |
|--------------------|-----------------------|--------------------------------------|----------------------|----------------|-------------------------|
|--------------------|-----------------------|--------------------------------------|----------------------|----------------|-------------------------|

2009

| | | | | | | |
|--------------------------------|--------|--------|--------|--------|---------|---------|
| Residential mortgages | 9,646 | - | 113 | 2,512 | 1,934 | 14,205 |
| Consumer finance | 11,596 | 24,818 | - | 5,538 | 11,309 | 53,261 |
| Commercial real estate finance | - | 9,143 | - | 1,073 | 21,921 | 32,137 |
| Leveraged finance | - | 4,899 | 621 | 291 | 17,465 | 23,276 |
| Lease finance | - | 449 | - | - | 1,080 | 1,529 |
| Project finance | - | - | 255 | - | 1,562 | 1,817 |
| | - | - | 4,114 | - | | |
| Structured finance | | | | | 11,061 | 15,175 |
| Loans | - | 9,918 | 25,815 | 2,237 | 16,972 | 54,942 |
| Bonds | - | - | 153 | - | 545 | 698 |
| Derivatives | - | - | 12,946 | 218 | 20,326 | 33,490 |
| | 21,242 | 49,227 | 44,017 | 11,869 | 104,175 | 230,530 |

2008

| | | | | | | |
|--------------------------------|--------|--------|--------|--------|---------|---------|
| Residential mortgages | 10,280 | - | 128 | 2,837 | 2,182 | 15,427 |
| Consumer finance | 11,609 | 25,031 | - | 5,776 | 12,127 | 54,543 |
| Commercial real estate finance | - | 12,436 | - | 1,268 | 26,146 | 39,850 |
| Leveraged finance | - | 4,978 | 993 | 329 | 21,434 | 27,734 |
| Lease finance | - | 594 | - | - | 1,844 | 2,438 |
| Project finance | - | - | 425 | - | 1,818 | 2,243 |
| Structured finance | - | - | 6,897 | - | 12,294 | 19,191 |
| Loans | - | 9,097 | 45,610 | 2,663 | 22,607 | 79,977 |
| Bonds | - | - | 455 | - | 1,108 | 1,563 |
| Derivatives | - | - | 16,349 | 229 | 22,415 | 38,993 |
| | 21,889 | 52,136 | 70,857 | 13,102 | 123,975 | 281,959 |

Movements

| | | | | | | |
|--------------------------------|-------|---------|----------|---------|----------|----------|
| Residential mortgages | (634) | - | (15) | (325) | (248) | (1,222) |
| Consumer finance | (13) | (213) | - | (238) | (818) | (1,282) |
| Commercial real estate finance | - | (3,293) | - | (195) | (4,225) | (7,713) |
| Leveraged finance | - | (79) | (372) | (38) | (3,969) | (4,458) |
| Lease finance | - | (145) | - | - | (764) | (909) |
| Project finance | - | - | (170) | - | (256) | (426) |
| Structured finance | - | - | (2,783) | - | (1,233) | (4,016) |
| Loans | - | 821 | (19,795) | (426) | (5,635) | (25,035) |
| Bonds | - | - | (302) | - | (563) | (865) |
| Derivatives | - | - | (3,403) | (11) | (2,089) | (5,503) |
| | (647) | (2,909) | (26,840) | (1,233) | (19,800) | (51,429) |

Notes:

(1) Per the Scheme rules, the definition of consumer finance includes personal loans, as well as business and commercial loans to SMEs

(2)

UK Corporate leveraged finance does not include lending to sponsors but, reflects certain loans to corporate customers per Scheme rules.

- (3) The net increase in UK Corporate loans reflects transfers of shipping assets from GBM.
 (4) There have been some minor divisional refinements to 31 December 2008 data, primarily between Core businesses and Non-Core division.

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Appendix 3 The Asset Protection Scheme

3. Covered assets (continued)

3.6 Asset classes

The following tables detail the balances by asset classes, as defined by the Scheme, with underlying product categories, at 31 December 2009 and 31 December 2008.

| | Carrying value (2) £m (a) | Provisions and adjustments to par value (3) £m (b) | Par value (4) £m (a)+(b)=(c) | Undrawn commitments and other adjustments (5) £m (d) | Covered Amount £m (c)+(d)=(e) |
|------------------------------------|------------------------------------|--|------------------------------------|---|--|
| 2009 | | | | | |
| Residential mortgages | 14,092 | 253 | 14,345 | (140) | 14,205 |
| Consumer finance | 38,101 | 4,574 | 42,675 | 10,586 | 53,261 |
| - personal loans | 7,986 | 2,610 | 10,596 | 2,613 | 13,209 |
| - business and commercial loans | 30,115 | 1,964 | 32,079 | 7,973 | 40,052 |
| Commercial real estate finance | 28,777 | 1,656 | 30,433 | 1,704 | 32,137 |
| Leveraged finance | 16,045 | 4,425 | 20,470 | 2,806 | 23,276 |
| Lease finance | 1,229 | 232 | 1,461 | 68 | 1,529 |
| Project finance | 1,601 | 44 | 1,645 | 172 | 1,817 |
| Structured finance | 6,884 | 7,677 | 14,561 | 614 | 15,175 |
| - structured loans | 625 | 17 | 642 | 29 | 671 |
| - RMBS | 1,251 | 1,657 | 2,908 | 55 | 2,963 |
| - CMBS | 1,281 | 466 | 1,747 | (6) | 1,741 |
| - CDOs & CLOs | 1,568 | 4,641 | 6,209 | 119 | 6,328 |
| - other ABS | 2,159 | 896 | 3,055 | 417 | 3,472 |
| Loans | 34,375 | 3,039 | 37,414 | 17,528 | 54,942 |

| | | | | | |
|--------------------------|---------|--------|---------|--------|---------|
| Bonds (6) | 545 | 156 | 701 | (3) | 698 |
| Derivatives | 12,510 | 6,834 | 19,344 | 14,146 | 33,490 |
| - monoline insurers | 2,607 | 6,335 | 8,942 | 10,852 | 19,794 |
| - other counterparties | 9,903 | 499 | 10,402 | 3,294 | 13,696 |
| | 154,159 | 28,890 | 183,049 | 47,481 | 230,530 |
| Further analysed: | | | | | |
| Loans and advances | 134,845 | 14,240 | 149,085 | 32,753 | 181,838 |
| Debt securities | 6,804 | 7,816 | 14,620 | 582 | 15,202 |
| Derivatives | 12,510 | 6,834 | 19,344 | 14,146 | 33,490 |
| | 154,159 | 28,890 | 183,049 | 47,481 | 230,530 |
| By division: | | | | | |
| UK Retail | 16,599 | 2,431 | 19,030 | 2,212 | 21,242 |
| UK Corporate | 37,710 | 1,007 | 38,717 | 10,510 | 49,227 |
| Global Banking & Markets | 26,141 | 1,628 | 27,769 | 16,248 | 44,017 |
| Ulster Bank | 10,152 | 486 | 10,638 | 1,231 | 11,869 |
| Non-Core | 63,557 | 23,338 | 86,895 | 17,280 | 104,175 |
| | 154,159 | 28,890 | 183,049 | 47,481 | 230,530 |

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Appendix 3 The Asset Protection Scheme

3. Covered assets (continued)

3.6 Asset classes (continued)

| | Carrying value (2) £m | Provisions and adjustments to par value (3) £m | Par value (4) £m | Undrawn Commitments and other adjustments (5) £m | Covered amount £m |
|-----------------------|-----------------------------|---|---------------------|--|-------------------------|
| 2008 | (a) | (b) | (a)+(b)=(c) | (d) | (c)+(d)=(e) |
| Residential mortgages | 15,283 | 144 | 15,427 | - | 15,427 |
| Consumer finance | 45,691 | 2,346 | 48,037 | 6,506 | 54,543 |

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| | | | | | |
|---------------------------------|---------|--------|---------|--------|---------|
| - personal loans | 10,267 | 1,687 | 11,954 | 1,440 | 13,394 |
| - business and commercial loans | 35,424 | 659 | 36,083 | 5,066 | 41,149 |
| Commercial real estate finance | 32,131 | 847 | 32,978 | 6,872 | 39,850 |
| Leveraged finance | 19,792 | 2,875 | 22,667 | 5,067 | 27,734 |
| Lease finance | 2,012 | 138 | 2,150 | 288 | 2,438 |
| Project finance | 1,761 | 58 | 1,819 | 424 | 2,243 |
| Structured finance | 10,370 | 8,012 | 18,382 | 809 | 19,191 |
| - structured loans | 2,761 | 155 | 2,916 | 597 | 3,513 |
| - RMBS | 1,232 | 1,547 | 2,779 | - | 2,779 |
| - CMBS | 1,481 | 371 | 1,852 | - | 1,852 |
| - CDOs & CLOs | 2,390 | 5,168 | 7,558 | 212 | 7,770 |
| - other ABS | 2,506 | 771 | 3,277 | - | 3,277 |
| Loans | 50,563 | 1,142 | 51,705 | 28,272 | 79,977 |
| Bonds (6) | 1,467 | 85 | 1,552 | 11 | 1,563 |
| Derivatives | 21,093 | 6,575 | 27,668 | 11,325 | 38,993 |
| - monoline insurers | 5,620 | 5,892 | 11,512 | 10,758 | 22,270 |
| - other counterparties | 15,473 | 683 | 16,156 | 567 | 16,723 |
| | 200,163 | 22,222 | 222,385 | 59,574 | 281,959 |
| Further analysed: | | | | | |
| Loans and advances | 169,994 | 7,705 | 177,699 | 48,026 | 225,725 |
| Debt securities | 9,076 | 7942 | 17,018 | 223 | 17,241 |
| Derivatives | 21,093 | 6,575 | 27,668 | 11,325 | 38,993 |
| | 200,163 | 22,222 | 222,385 | 59,574 | 281,959 |
| By division: | | | | | |
| UK Retail | 18,982 | 1,492 | 20,474 | 1,415 | 21,889 |
| UK Corporate | 39,608 | 285 | 39,893 | 12,243 | 52,136 |
| Global Banking & Markets | 47,230 | 1,640 | 48,870 | 21,987 | 70,857 |
| Ulster Bank | 11,705 | 234 | 11,939 | 1,163 | 13,102 |
| Non-Core | 82,638 | 18,571 | 101,209 | 22,766 | 123,975 |
| | 200,163 | 22,222 | 222,385 | 59,574 | 281,959 |

Appendix 3 The Asset Protection Scheme

3. Covered assets (continued)

3.6 Asset classes (continued)

Notes:

- (1) The balances at 31 December 2008 and 31 December 2009 within specific asset classes reflect the Group's application of the asset class definitions in the Scheme rules, particularly in relation to consumer finance, commercial real estate finance and loans.
- (2) Carrying value represents the amounts recorded on the balance sheet and includes assets classified as loans and receivables (LAR), fair valued through profit or loss (FVTPL) and available-for-sale (AFS).
- (3) Provisions and adjustments to par value comprises:
 - impairments on LAR and AFS debt securities;
 - credit valuation adjustments relating to derivatives;
 - adjustment to par value on other FVTPL assets;
 - add-back of write-offs of £6,079 million, as these are covered by the Scheme rules; and
 - available-for-sale reserves on debt securities of £1,113 million (2008 - £1,315 million).
- (4) Undrawn commitments and other adjustments include:
 - undrawn commitments and other contingent liabilities;
 - potential future exposures and other adjustments to covered amount relating to derivative contracts; and
 - adjustments to covered amount in accordance with the Scheme rules (restriction of cover for rollovers (loans and commercial real estate), maintenance of covered amount as at 31 December 2008 for two years (consumer finance).
- (5) Comprises non asset-backed securities.

Appendix 3 The Asset Protection Scheme

3. Covered assets

(continued)

3.7 Sector analysis

The tables below analyse covered assets by sector and division; and by sector and HMT asset class at 31 December 2009 and 31 December 2008.

| | 2009 | | | | | | 2008 £m |
|------------------------|-----------------|-----------------------|-----------|----------------------|----------------|-------------------------|------------|
| | UK Retail £m | UK Corporate £m | GBM £m | Ulster Bank £m | Non-Core £m | Covered amount £m | |
| Financial institutions | - | 1,427 | 11,303 | 35 | 35,985 | 48,750 | 64,027 |
| Manufacturing | - | 1,673 | 6,849 | 230 | 8,127 | 16,879 | 20,053 |
| Natural resources | - | 629 | 2,530 | 45 | 2,117 | 5,321 | 8,122 |
| Property | - | 9,990 | 8,349 | 1,550 | 27,931 | 47,820 | 60,217 |
| Retail and leisure | - | 4,292 | 4,608 | 964 | 4,305 | 14,169 | 17,975 |
| Services | - | 1,885 | 1,159 | 324 | 2,689 | 6,057 | 8,484 |
| TMT | - | 608 | 3,985 | 263 | 5,852 | 10,708 | 14,535 |
| Transport | - | 3,962 | 5,118 | 116 | 3,579 | 12,775 | 15,726 |
| Personal and SME | 21,242 | 24,761 | 116 | 8,342 | 13,590 | 68,051 | 72,820 |
| | 21,242 | 49,227 | 44,017 | 11,869 | 104,175 | 230,530 | 281,959 |

| | Covered assets by HMT asset class | | | | | | | | | | |
|------------------------|-----------------------------------|---------------------|---------------------------|----------------------|------------------|--------------------|-----------------------|-------|-------|------------|----|
| | Residential mortgage | Consumer finance | Commercial real estate | Leveraged finance | Lease finance | Project finance | Structured finance | Loan | Bonds | Derivative | am |
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 2009 | | | | | | | | | | | |
| Financial institutions | - | - | 818 | 1,620 | 18 | - | 13,769 | 9,741 | 337 | 22,447 | 48 |
| Manufacturing | - | - | - | 5,906 | 120 | 6 | 6 | 9,782 | 48 | 1,011 | 16 |
| Natural resources | - | - | - | 1,260 | 41 | 1,065 | 9 | 2,458 | 46 | 442 | 5 |
| Property | - | - | 30,636 | 1,810 | 564 | 298 | 486 | 9,058 | 53 | 4,915 | 47 |
| Retail and leisure | - | - | 616 | 3,510 | 40 | 142 | 369 | 7,819 | 74 | 1,599 | 14 |
| Services | - | - | 29 | 3,213 | 320 | 104 | 191 | 1,572 | 6 | 622 | 6 |
| TMT | - | - | - | 5,490 | 9 | - | 3 | 3,908 | 11 | 1,287 | 10 |

| | | | | | | | | | | | |
|------------------------|--------|--------|--------|--------|-------|-------|--------|--------|-------|--------|-----|
| Transport | - | - | 35 | 465 | 273 | 202 | 342 | 10,171 | 123 | 1,164 | 12 |
| Personal and SME | 14,205 | 53,261 | 3 | 2 | 144 | - | - | 433 | - | 3 | 68 |
| | 14,205 | 53,261 | 32,137 | 23,276 | 1,529 | 1,817 | 15,175 | 54,942 | 698 | 33,490 | 230 |
| 2008 | | | | | | | | | | | |
| Financial Institutions | - | - | 638 | 4,196 | 28 | 138 | 17,288 | 15,478 | 514 | 25,747 | 64 |
| Manufacturing | - | - | - | 4,895 | 196 | 14 | 7 | 13,233 | 60 | 1,648 | 20 |
| Natural resources | - | - | - | 1,484 | 60 | 1,261 | 11 | 4,699 | 53 | 554 | 8 |
| Property | - | - | 38,467 | 2,188 | 876 | 388 | 550 | 12,289 | 128 | 5,331 | 60 |
| Retail and leisure | - | - | 679 | 4,067 | 63 | 151 | 443 | 10,417 | 165 | 1,990 | 17 |
| Services | - | - | 31 | 3,773 | 556 | 66 | 519 | 2,832 | 13 | 694 | 8 |
| TMT | - | - | - | 6,591 | 13 | - | 3 | 5,918 | 406 | 1,604 | 14 |
| Transport | - | - | 35 | 537 | 369 | 225 | 370 | 12,619 | 149 | 1,422 | 15 |
| Personal and SME | 15,427 | 54,543 | - | 3 | 277 | - | - | 2,492 | 75 | 3 | 72 |
| | 15,427 | 54,543 | 39,850 | 27,734 | 2,438 | 2,243 | 19,191 | 79,977 | 1,563 | 38,993 | 281 |

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Appendix 3 Asset Protection Scheme

3. Covered assets (continued)

3.8 Geographical breakdown

The table below provides a geographical breakdown of covered assets, based on the country of domicile or incorporation of the obligor, and by HM Treasury asset class.

| | Residential mortgage | Consumer finance | Commercial real estate | Leveraged finance | Lease finance | Project finance | Structured finance | Loan | Bonds | Derivative | Covered amount |
|----------------|----------------------|------------------|------------------------|-------------------|---------------|-----------------|--------------------|--------|-------|------------|----------------|
| | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m | £m |
| 2009 | | | | | | | | | | | |
| United Kingdom | 10,102 | 46,027 | 15,285 | 8,406 | 997 | 167 | 2,433 | 15,879 | 53 | 8,379 | 107,72 |
| Western Europe | 3,971 | 6,814 | 12,080 | 9,448 | 485 | 904 | 2,963 | 21,273 | 105 | 2,369 | 60,41 |

| | | | | | | | | | | | |
|----------------|---------------|---------------|---------------|---------------|--------------|--------------|---------------|---------------|--------------|---------------|----------------|
| North America | 118 | 46 | 1,702 | 4,039 | 2 | 228 | 3,406 | 8,019 | 25 | 17,325 | 34,911 |
| Latin America | 1 | 282 | 2,042 | 476 | 17 | 40 | 5,628 | 2,593 | 7 | 4,068 | 15,151 |
| Other | 13 | 92 | 1,028 | 907 | 28 | 478 | 745 | 7,178 | 508 | 1,349 | 12,321 |
| | 14,205 | 53,261 | 32,137 | 23,276 | 1,529 | 1,817 | 15,175 | 54,942 | 698 | 33,490 | 230,530 |
| 2008 | | | | | | | | | | | |
| United Kingdom | 10,799 | 46,459 | 20,127 | 9,617 | 1,537 | 264 | 2,778 | 21,050 | 115 | 10,074 | 122,821 |
| Western Europe | 4,468 | 7,654 | 13,848 | 11,685 | 845 | 1,004 | 4,226 | 31,461 | 370 | 3,231 | 78,791 |
| North America | 139 | 46 | 2,381 | 4,880 | 4 | 261 | 4,187 | 12,493 | 499 | 19,567 | 44,451 |
| Latin America | 1 | 287 | 2,201 | 601 | 19 | 45 | 6,550 | 4,365 | 18 | 4,486 | 18,571 |
| Other | 20 | 97 | 1,293 | 951 | 33 | 669 | 1,450 | 10,608 | 561 | 1,635 | 17,311 |
| | 15,427 | 54,543 | 39,850 | 27,734 | 2,438 | 2,243 | 19,191 | 79,977 | 1,563 | 38,993 | 281,959 |

3.9 Currency breakdown

| | 2009 £m | 2008 £m |
|-------|----------------|----------------|
| GBP | 107,731 | 121,440 |
| Euro | 56,586 | 72,989 |
| USD | 58,489 | 77,298 |
| AUD | 3,276 | 3,981 |
| JPY | 1,725 | 2,157 |
| Other | 2,723 | 4,094 |
| | 230,530 | 281,959 |

This analysis by currency does not reflect any hedges that the Group may have in place.

3. Covered assets
(continued)

3.10 Risk elements in lending and potential problem loans

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

| | 2009 | | 2008 | |
|----------------------|---------------|---------------|-------------|-----------|
| | Group £m | APS £m | Group £m | APS £m |
| Non-performing loans | 31,811 | 22,335 | 17,082 | 12,679 |
| Other REIL | 3,178 | 2,092 | 1,709 | 1,498 |
| Total REIL | 34,989 | 24,427 | 18,791 | 14,177 |
| PPL | 924 | 580 | 226 | 187 |
| REIL and PPL | 35,913 | 25,007 | 19,017 | 14,364 |
| Core | 12,361 | 7,170 | | |
| Non-Core | 23,552 | 17,837 | | |
| REIL and PPL | 35,913 | 25,007 | | |

Key point

- Approximately 70% of the Group and 76% of Non-Core REIL and PPL loans are covered by the scheme.

3.11 Credit quality of loans

The table below analyses 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 | 2009 | | 2008 | |
|--------------------|------------------------|------------|--------------------------------|-------|--------------------------------|
| | | Group | % relating to assets in scheme | Group | % relating to assets in scheme |
| AQ1 | 0% - 0.034% | 95 | 2% | 127 | 3% |
| AQ2 | 0.034% - 0.048% | 12 | 9% | 26 | 16% |
| AQ3 | 0.048% - 0.095% | 29 | 7% | 38 | 17% |
| AQ4 | 0.095% - 0.381% | 97 | 12% | 150 | 15% |
| AQ5 | 0.381% - 1.076% | 130 | 24% | 148 | 28% |

| | | | | | |
|-------|----------------|------------|------------|-----|-----|
| | 1.076% - | | | | |
| AQ6 | 2.153% | 95 | 28% | 103 | 36% |
| | 2.153% - | | | | |
| AQ7 | 6.089% | 55 | 37% | 46 | 52% |
| | 6.089% - | | | | |
| AQ8 | 17.222% | 23 | 44% | 26 | 46% |
| AQ9 | 17.222% - 100% | 15 | 66% | 12 | 69% |
| AQ10 | 100% | 38 | 76% | 18 | 72% |
| Other | | | | | |
| (1) | | 41 | 5% | 41 | 8% |
| | | 630 | 23% | 735 | 24% |

Note:

(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.

Reverse repurchase agreements, carrying value relating to net derivative positions and debt securities are excluded from both Group numbers and APS covered assets above.

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