

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
November 05, 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 November 5, 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  X

Form 40-F  \_\_\_

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

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

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

Yes  \_\_\_

No  X

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

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

## Divisional performance

The operating profit/(loss) of each division before fair value of own debt, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, Asset Protection Scheme credit default swap – fair value changes and write-down of goodwill and other intangible assets is shown below.

|   | Quarter ended                 |                       |                               | Nine months ended             |                               |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|   | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| Operating profit/(loss) before impairment       |                               |                       |                               |                               |                               |
| losses by division                              |                               |                       |                               |                               |                               |
| UK Retail                                       | 649                           | 576                   | 468                           | 1,752                         | 1,329                         |
| UK Corporate                                    | 580                           | 588                   | 566                           | 1,672                         | 1,522                         |
| Wealth  | 75                            | 88                    | 120                           | 229                           | 354                           |
| Global Transaction Services                     | 312                           | 282                   | 275                           | 827                           | 784                           |
| Ulster Bank                                     | 110                           | 104                   | 59                            | 295                           | 208                           |
| US Retail & Commercial                          | 198                           | 273                   | 137                           | 654                           | 455                           |
| Retail & Commercial                             | 1,924                         | 1,911                 | 1,625                         | 5,429                         | 4,652                         |
| Global Banking & Markets                        | 549                           | 914                   | 913                           | 2,993                         | 5,503                         |
| RBS Insurance                                   | (33)                          | (203)                 | 13                            | (286)                         | 236                           |
| Central items                                   | 74                            | 49                    | 284                           | 461                           | 553                           |
| Core divisions before fair value of own debt    | 2,514                         | 2,671                 | 2,835                         | 8,597                         | 10,944                        |
| Non-Core  | 165                           | 66                    | (598)                         | 376                           | (4,611)                       |
| Group operating profit before impairment        |                               |                       |                               |                               |                               |
| losses and fair value of own debt               | 2,679                         | 2,737                 | 2,237                         | 8,973                         | 6,333                         |
| Fair value of own debt                          |                               |                       |                               |                               |                               |
| Global Banking & Markets                        | (598)                         | 331                   | (320)                         | (299)                         | (155)                         |
| Central items                                   | (260)                         | 288                   | (163)                         | (109)                         | (257)                         |
| Group operating profit before impairment losses | 1,821                         | 3,356                 | 1,754                         | 8,565                         | 5,921                         |

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|                               |       |       |       |       |        |
|-------------------------------|-------|-------|-------|-------|--------|
| Impairment losses by division |       |       |       |       |        |
| UK Retail                     | 251   | 300   | 404   | 938   | 1,228  |
| UK Corporate                  | 158   | 198   | 187   | 542   | 737    |
| Wealth                        | 1     | 7     | 1     | 12    | 23     |
| Global Transaction Services   | 3     | 3     | 22    | 6     | 35     |
| Ulster Bank                   | 286   | 281   | 144   | 785   | 301    |
| US Retail & Commercial        | 125   | 144   | 180   | 412   | 549    |
| <br>                          |       |       |       |       |        |
| Retail & Commercial           | 824   | 933   | 938   | 2,695 | 2,873  |
| Global Banking & Markets      | (40)  | 164   | 272   | 156   | 510    |
| RBS Insurance                 | -     | -     | 2     | -     | 8      |
| Central items                 | (2)   | -     | 1     | (1)   | (1)    |
| <br>                          |       |       |       |       |        |
| Core                          | 782   | 1,097 | 1,213 | 2,850 | 3,390  |
| Non-Core                      | 1,171 | 1,390 | 2,066 | 4,265 | 7,410  |
| <br>                          |       |       |       |       |        |
| Group impairment losses       | 1,953 | 2,487 | 3,279 | 7,115 | 10,800 |

RBS Group – Q3 2010 Results

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## Divisional performance (continued)

## Key points

- Operating profit before impairment losses, and fair value of own debt, was £2,679 million, down 2% compared with the second quarter of 2010. Pre-impairment profit improved in RBS Insurance on lower claims, which partially offset weaker performance in GBM. Retail & Commercial improved modestly, as did Non-Core.
- Retail & Commercial pre-impairment operating profit improved by 17% to £5,429 million for the nine months ended 30 September 2010, but this was more than offset by weaker GBM and RBS Insurance performance given challenging environments. Non-Core improved significantly to a pre-impairment profit of £376 million.
- For Q3 relative to Q2, Core impairments were down 29% to £782 million, with improvements in all divisions except Ulster Bank where credit losses remained at elevated levels.
- For the nine months ended 30 September 2010, Non-Core reported substantially lower impairments, down 42%, with Core impairments down 16%. Group impairments fell 34% overall.

|  | Quarter ended                 |                       |                               | Nine months ended             |                               |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|  | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| Operating profit/(loss) by division                            |                               |                       |                               |                               |                               |
| UK Retail  | 398                           | 276                   | 64                            | 814                           | 101                           |
| UK Corporate   | 422                           | 390                   | 379                           | 1,130                         | 785                           |
| Wealth   | 74                            | 81                    | 119                           | 217                           | 331                           |
| Global Transaction Services                                    | 309                           | 279                   | 253                           | 821                           | 749                           |
| Ulster Bank  | (176)                         | (177)                 | (85)                          | (490)                         | (93)                          |
| US Retail & Commercial   | 73                            | 129                   | (43)                          | 242                           | (94)                          |
| Retail & Commercial  | 1,100                         | 978                   | 687                           | 2,734                         | 1,779                         |
| Global Banking & Markets                                       | 589                           | 750                   | 641                           | 2,837                         | 4,993                         |
| RBS Insurance  | (33)                          | (203)                 | 11                            | (286)                         | 228                           |
| Central items  | 76                            | 49                    | 283                           | 462                           | 554                           |
| Core   | 1,732                         | 1,574                 | 1,622                         | 5,747                         | 7,554                         |
| Non-Core   | (1,006)                       | (1,324)               | (2,664)                       | (3,889)                       | (12,021)                      |
| Group operating profit/(loss) before<br>fair value of own debt | 726                           | 250                   | (1,042)                       | 1,858                         | (4,467)                       |
| Fair value of own debt   | (858)                         | 619                   | (483)                         | (408)                         | (412)                         |
| Group operating (loss)/profit                                  | (132)                         | 869                   | (1,525)                       | 1,450                         | (4,879)                       |

Quarter ended

Nine months ended

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|                                 | 30<br>September<br>2010<br>% | 30 June<br>2010<br>% | 30<br>September<br>2009<br>% | 30<br>September<br>2010<br>% | 30<br>September<br>2009<br>% |
|---------------------------------|------------------------------|----------------------|------------------------------|------------------------------|------------------------------|
| Net interest margin by division |                              |                      |                              |                              |                              |
| UK Retail                       | 4.02                         | 3.88                 | 3.47                         | 3.85                         | 3.54                         |
| UK Corporate                    | 2.58                         | 2.50                 | 2.38                         | 2.49                         | 2.14                         |
| Wealth                          | 3.44                         | 3.36                 | 4.34                         | 3.39                         | 4.54                         |
| Global Transaction Services     | 6.72                         | 6.47                 | 9.63                         | 6.96                         | 9.03                         |
| Ulster Bank                     | 1.90                         | 1.92                 | 1.74                         | 1.86                         | 1.88                         |
| US Retail & Commercial          | 2.92                         | 2.78                 | 2.37                         | 2.79                         | 2.34                         |
| Retail & Commercial             | 3.23                         | 3.11                 | 2.91                         | 3.10                         | 2.84                         |
| Global Banking & Markets        | 1.14                         | 1.01                 | 1.08                         | 1.08                         | 1.52                         |
| Non-Core                        | 1.05                         | 1.22                 | 0.55                         | 1.18                         | 0.54                         |
| Group net interest margin       | 2.05                         | 2.03                 | 1.75                         | 2.00                         | 1.74                         |

Divisional performance (continued)

|                                    | 30<br>September<br>2010<br>£bn | 30 June<br>2010<br>£bn | Change | 31 December<br>2009<br>£bn | Change |
|------------------------------------|--------------------------------|------------------------|--------|----------------------------|--------|
| Risk-weighted assets by division   |                                |                        |        |                            |        |
| UK Retail                          | 49.3                           | 49.1                   | -      | 51.3                       | (4%)   |
| UK Corporate                       | 84.7                           | 87.6                   | (3%)   | 90.2                       | (6%)   |
| Wealth                             | 12.1                           | 12.0                   | 1%     | 11.2                       | 8%     |
| Global Transaction Services        | 18.6                           | 19.4                   | (4%)   | 19.1                       | (3%)   |
| Ulster Bank                        | 32.6                           | 30.5                   | 7%     | 29.9                       | 9%     |
| US Retail & Commercial             | 64.1                           | 65.5                   | (2%)   | 59.7                       | 7%     |
| Retail & Commercial                | 261.4                          | 264.1                  | (1%)   | 261.4                      | -      |
| Global Banking & Markets           | 143.7                          | 141.3                  | 2%     | 123.7                      | 16%    |
| Other                              | 19.9                           | 16.9                   | 18%    | 9.4                        | 112%   |
| Core                               | 425.0                          | 422.3                  | 1%     | 394.5                      | 8%     |
| Non-Core                           | 166.9                          | 175.0                  | (5%)   | 171.3                      | (3%)   |
|                                    | 591.9                          | 597.3                  | (1%)   | 565.8                      | 5%     |
| Benefit of Asset Protection Scheme | (116.9)                        | (123.4)                | (5%)   | (127.6)                    | (8%)   |
| Total                              | 475.0                          | 473.9                  | -      | 438.2                      | 8%     |

|   | 30<br>September<br>2010 | 30 June<br>2010 | 31<br>December<br>2009 |
|---|-------------------------|-----------------|------------------------|
| Employee numbers in continuing operations<br>(full time equivalents rounded to the nearest hundred) |                         |                 |                        |

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|                                |         |         |         |
|--------------------------------|---------|---------|---------|
| UK Retail                      | 24,400  | 24,000  | 25,500  |
| UK Corporate                   | 13,000  | 12,600  | 12,300  |
| Wealth                         | 5,100   | 5,000   | 4,600   |
| Global Transaction Services    | 3,700   | 3,600   | 3,500   |
| Ulster Bank                    | 4,500   | 4,300   | 4,500   |
| US Retail & Commercial         | 15,700  | 15,700  | 15,500  |
| Retail & Commercial            | 66,400  | 65,200  | 65,900  |
| Global Banking & Markets       | 19,500  | 19,200  | 17,900  |
| RBS Insurance                  | 14,400  | 14,500  | 13,900  |
| Group Centre                   | 4,600   | 4,700   | 4,200   |
| Core                           | 104,900 | 103,600 | 101,900 |
| Non-Core                       | 10,000  | 11,300  | 15,100  |
|                                | 114,900 | 114,900 | 117,000 |
| Business Services              | 41,300  | 41,800  | 43,100  |
| Integration                    | 300     | 300     | 500     |
| RFS Holdings minority interest | -       | -       | 300     |
| Group total                    | 156,500 | 157,000 | 160,900 |

RBS Group – Q3 2010 Results

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## UK Retail

|   | Quarter ended                 |                       |                               | Nine months ended             |                               |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|   | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| <b>Income statement</b>                                   |                               |                       |                               |                               |                               |
| Net interest income                                       | 1,056                         | 1,001                 | 848                           | 2,990                         | 2,513                         |
| Net fees and commissions                                  | 262                           | 263                   | 303                           | 784                           | 961                           |
| Other non-interest income (net<br>of insurance<br>claims) | 64                            | 56                    | 69                            | 176                           | 191                           |
| Non-interest income                                       | 326                           | 319                   | 372                           | 960                           | 1,152                         |
| Total income  | 1,382                         | 1,320                 | 1,220                         | 3,950                         | 3,665                         |
| <b>Direct expenses</b>                                    |                               |                       |                               |                               |                               |
| - staff   | (197)                         | (203)                 | (206)                         | (598)                         | (634)                         |
| - other   | (134)                         | (140)                 | (129)                         | (406)                         | (407)                         |
| Indirect expenses   | (402)                         | (401)                 | (417)                         | (1,194)                       | (1,295)                       |
|   | (733)                         | (744)                 | (752)                         | (2,198)                       | (2,336)                       |
| Operating profit before<br>impairment losses              | 649                           | 576                   | 468                           | 1,752                         | 1,329                         |
| Impairment losses   | (251)                         | (300)                 | (404)                         | (938)                         | (1,228)                       |
| Operating profit  | 398                           | 276                   | 64                            | 814                           | 101                           |
| <b>Analysis of income by product</b>                      |                               |                       |                               |                               |                               |
| Personal advances   | 248                           | 236                   | 303                           | 718                           | 919                           |
| Personal deposits   | 277                           | 277                   | 319                           | 831                           | 1,070                         |
| Mortgages   | 527                           | 478                   | 319                           | 1,427                         | 799                           |
| Bancassurance   | 60                            | 58                    | 69                            | 177                           | 190                           |
| Cards   | 243                           | 239                   | 225                           | 711                           | 641                           |
| Other   | 27                            | 32                    | (15)                          | 86                            | 46                            |
| Total income  | 1,382                         | 1,320                 | 1,220                         | 3,950                         | 3,665                         |

Analysis of impairments by  
sector

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|                         |     |     |     |     |       |
|-------------------------|-----|-----|-----|-----|-------|
| Mortgages               | 55  | 44  | 26  | 147 | 89    |
| Personal                | 150 | 168 | 247 | 551 | 741   |
| Cards                   | 46  | 88  | 131 | 240 | 398   |
| Total impairment losses | 251 | 300 | 404 | 938 | 1,228 |

Loan impairment charge as %  
of gross  
customer loans and advances  
(excluding  
reverse repurchase  
agreements) by  
sector

|           |      |      |      |      |      |
|-----------|------|------|------|------|------|
| Mortgages | 0.2% | 0.2% | 0.1% | 0.2% | 0.1% |
| Personal  | 4.8% | 5.3% | 6.8% | 5.9% | 6.8% |
| Cards     | 3.0% | 5.9% | 8.6% | 5.2% | 8.7% |
|           | 0.9% | 1.1% | 1.6% | 1.2% | 1.6% |

RBS Group – Q3 2010 Results

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## UK Retail (continued)

## Key metrics

|                                | Quarter ended           |                 |                         | Nine months ended       |                         |
|--------------------------------|-------------------------|-----------------|-------------------------|-------------------------|-------------------------|
|                                | 30<br>September<br>2010 | 30 June<br>2010 | 30<br>September<br>2009 | 30<br>September<br>2010 | 30<br>September<br>2009 |
| Performance ratios             |                         |                 |                         |                         |                         |
| Return on equity (1)           | 23.2%                   | 16.1%           | 3.8%                    | 15.8%                   | 2.0%                    |
| Net interest margin            | 4.02%                   | 3.88%           | 3.47%                   | 3.85%                   | 3.54%                   |
| Cost:income ratio              | 51%                     | 57%             | 57%                     | 55%                     | 62%                     |
| Adjusted cost:income ratio (2) | 53%                     | 56%             | 62%                     | 56%                     | 64%                     |

|  | 30                       | 30 June<br>2010 | Change | 31                      | Change |
|--|--------------------------|-----------------|--------|-------------------------|--------|
|  | September<br>2010<br>£bn |                 |        | December<br>2009<br>£bn |        |
| Capital and balance sheet                    |                          |                 |        |                         |        |
| Loans and advances to customers (gross)      |                          |                 |        |                         |        |
| - mortgages                                  | 89.1                     | 86.9            | 3%     | 83.2                    | 7%     |
| - personal                                   | 12.4                     | 12.8            | (3%)   | 13.6                    | (9%)   |
| - cards                                      | 6.1                      | 6.0             | 2%     | 6.2                     | (2%)   |
| Customer deposits (excluding bancassurance)  | 91.4                     | 90.0            | 2%     | 87.2                    | 5%     |
| Assets under management (excluding deposits) | 5.4                      | 5.4             | -      | 5.3                     | 2%     |
| Risk elements in lending                     | 5.0                      | 4.8             | 4%     | 4.6                     | 9%     |
| Loan:deposit ratio (excluding repos)         | 115%                     | 114%            | 100bp  | 115%                    | -      |
| Risk-weighted assets                         | 49.3                     | 49.1            | -      | 51.3                    | (4%)   |

## Notes:

- (1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).
- (2) Adjusted cost:income ratio is based on total income after netting insurance claims, and operating expenses.

## Key points

Q3 2010 compared with Q2 2010

UK Retail delivered a strong operating performance in Q3 2010, with income up, costs down and impairments continuing to improve. Operating profit was up 44% from the previous quarter at £398 million.

The NatWest and RBS Customer Charters aim to deliver those elements that customers have said are most important to them, and has been well received by both customers and staff. The division is reaping continuing benefits from investment in process improvements and automation resulting in gains in both service quality and cost efficiency.

RBS Group – Q3 2010 Results

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UK Retail (continued)

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Key points (continued)

Q3 2010 compared with Q2 2010 (continued)

- UK Retail continues to achieve growth in secured lending, while building customer deposits.
  - o Mortgage balances increased 3% on Q2 2010, with strong retention rates among existing customers and gross new lending up 4% on Q2 2010. Market share of new mortgage lending remained at 12% in the quarter, still well above the Group's 7% share of stock. While the Group offers a broad range of products across a variety of Loan-to-value (LTV) bandings, the average LTV of new business decreased from 69% in Q2 2010 to 64% in Q3 2010.
  - o Unsecured lending fell 2% in the quarter, in line with current risk appetite and the Group's continued focus on lower risk secured lending.
  - o Deposits grew by £1.4 billion or 2% in Q3 2010 despite a still challenging market place.
  - o The loan to deposit ratio at 30 September 2010 was 115%, broadly in line with the prior quarter.
- Net interest income increased by 5%, with net interest margin continuing to recover from the low levels recorded in 2009 to 4.02% in the quarter. Asset margins continued to widen, mainly reflecting the increasing proportion of customers on standard variable rate mortgages. Liability margins, however, fell further compared with Q2 2010, with strong competition in fixed term bonds and bonus savings accounts, compounded by a continuing reduction in yield on current account hedges.
- Non-interest income increased by 2%, with a modest improvement across the majority of products despite the still-challenging economic climate.
- Expenses declined by 1% in the quarter, with continuing benefit of process re-engineering and technology investment. Headcount in Q3 2010 increased 2% partly as a result of extensions to opening hours, in line with the Customer Charters. The adjusted cost:income ratio improved by 300 basis points to 53%.
- Impairment losses declined by 16% in Q3 2010. Impairments are expected to continue gradually improving, subject to economic conditions remaining stable.
  - o Mortgage impairment losses were £55 million on a total book of £89 billion. The quarter-on-quarter increase of £11 million broadly relates to more conservative assumptions on recoveries.
  - o The unsecured portfolio charge fell 23% to £196 million, on a book of £19 billion, with lower default volumes and improved collections performance.
- Risk-weighted assets increased marginally in the quarter with growth in mortgage loans and a retiring credit cards securitisation largely offset by lower unsecured

lending balances and improving portfolio credit metrics.

RBS Group – Q3 2010 Results

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UK Retail (continued)

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Key points (continued)

Q3 2010 compared with Q3 2009

- Operating profit increased by £334 million, with income up 13%, costs down 3% and impairments 38% lower than in Q3 2009. Return on equity in the first nine months of 2010 was 15.8%, compared with 2.0% in the same period of 2009.
- Net interest income was 25% higher than Q3 2009, with strong mortgage and deposit balance growth and recovering asset margins across all products, which together more than offset the decline in liability margins.
- Non-interest income decreased 12% on prior year, principally reflecting the change to the structure of overdraft charges, which took effect from Q4 2009.
- Deposit balances were up 7% on Q3 2009. Savings balances grew by 9%, outperforming the market total deposit growth of 2.4%, which remains intensely competitive. Personal current account balances were up 2% in the same period.
- Mortgage balances at 30 September 2010 were up 11%. UK Retail considers mortgages to be a core customer product requirement and continues to support lending for both new and existing customers.
- Costs were 3% lower than in Q3 2009, driven by process re-engineering efficiencies within the branch network and operational centres. The adjusted cost:income ratio improved from 62% to 53%.
- Impairment losses dropped by 38% on Q3 2009 primarily reflecting lower arrears volumes on the unsecured portfolio.

## UK Corporate

|  | Quarter ended                 |                       |                               | Nine months ended             |                               |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|  | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| <b>Income statement</b>                      |                               |                       |                               |                               |                               |
| Net interest income                          | 662                           | 647                   | 607                           | 1,919                         | 1,666                         |
| Net fees and commissions                     | 244                           | 233                   | 223                           | 701                           | 636                           |
| Other non-interest income                    | 80                            | 107                   | 106                           | 292                           | 332                           |
| Non-interest income                          | 324                           | 340                   | 329                           | 993                           | 968                           |
| Total income                                 | 986                           | 987                   | 936                           | 2,912                         | 2,634                         |
| <b>Direct expenses</b>                       |                               |                       |                               |                               |                               |
| - staff                                      | (186)                         | (189)                 | (174)                         | (580)                         | (541)                         |
| - other                                      | (81)                          | (82)                  | (71)                          | (266)                         | (191)                         |
| Indirect expenses                            | (139)                         | (128)                 | (125)                         | (394)                         | (380)                         |
|  | (406)                         | (399)                 | (370)                         | (1,240)                       | (1,112)                       |
| Operating profit before<br>impairment losses | 580                           | 588                   | 566                           | 1,672                         | 1,522                         |
| Impairment losses                            | (158)                         | (198)                 | (187)                         | (542)                         | (737)                         |
| Operating profit                             | 422                           | 390                   | 379                           | 1,130                         | 785                           |
| <b>Analysis of income by business</b>        |                               |                       |                               |                               |                               |
| Corporate and commercial<br>lending          | 651                           | 660                   | 546                           | 1,941                         | 1,542                         |
| Asset and invoice finance                    | 163                           | 154                   | 129                           | 451                           | 361                           |
| Corporate deposits                           | 183                           | 185                   | 241                           | 544                           | 795                           |
| Other  | (11)                          | (12)                  | 20                            | (24)                          | (64)                          |
| Total income                                 | 986                           | 987                   | 936                           | 2,912                         | 2,634                         |
| <b>Analysis of impairments by<br/>sector</b> |                               |                       |                               |                               |                               |
| Banks and financial institutions             | 15                            | (9)                   | 4                             | 8                             | 9                             |
| Hotels and restaurants                       | 6                             | 12                    | 7                             | 34                            | 58                            |
| Housebuilding and construction               | 62                            | 8                     | 58                            | 84                            | 119                           |

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|   |     |     |     |     |     |
|---|-----|-----|-----|-----|-----|
| Manufacturing   | 2   | 2   | 2   | 10  | 23  |
| Other   | 19  | 83  | 31  | 139 | 138 |
| Private sector education, health,<br>social work,<br>recreational and community<br>services | 1   | -   | (4) | 9   | 36  |
| Property  | 34  | 61  | 69  | 161 | 229 |
| Wholesale and retail trade,<br>repairs  | 14  | 28  | 16  | 60  | 53  |
| Asset and invoice finance   | 5   | 13  | 4   | 37  | 72  |
| Total impairment losses   | 158 | 198 | 187 | 542 | 737 |

RBS Group – Q3 2010 Results

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## UK Corporate (continued)

|  | Quarter ended           |                 |                         | Nine months ended       |                         |
|--|-------------------------|-----------------|-------------------------|-------------------------|-------------------------|
|  | 30<br>September<br>2010 | 30 June<br>2010 | 30<br>September<br>2009 | 30<br>September<br>2010 | 30<br>September<br>2009 |
| Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector |                         |                 |                         |                         |                         |
| Banks and financial institutions   | 1.0%                    | (0.6%)          | 0.3%                    | 0.2%                    | 0.2%                    |
| Hotels and restaurants   | 0.3%                    | 0.7%            | 0.4%                    | 0.7%                    | 1.1%                    |
| Housebuilding and construction   | 5.5%                    | 0.7%            | 5.0%                    | 2.5%                    | 3.4%                    |
| Manufacturing  | 0.2%                    | 0.1%            | 0.1%                    | 0.3%                    | 0.5%                    |
| Other  | 0.2%                    | 1.0%            | 0.4%                    | 0.6%                    | 0.6%                    |
| Private sector education, health, social work, recreational and community services                                   | -                       | -               | (0.2%)                  | 0.1%                    | 0.7%                    |
| Property   | 0.5%                    | 0.8%            | 0.8%                    | 0.7%                    | 0.9%                    |
| Wholesale and retail trade, repairs  | 0.5%                    | 1.1%            | 0.6%                    | 0.8%                    | 0.7%                    |
| Asset and invoice finance  | 0.2%                    | 0.6%            | 0.2%                    | 0.5%                    | 1.1%                    |
|  | 0.6%                    | 0.7%            | 0.7%                    | 0.6%                    | 0.9%                    |

## Key metrics

|                      | Quarter ended           |                 |                         | Nine months ended       |                         |
|----------------------|-------------------------|-----------------|-------------------------|-------------------------|-------------------------|
|                      | 30<br>September<br>2010 | 30 June<br>2010 | 30<br>September<br>2009 | 30<br>September<br>2010 | 30<br>September<br>2009 |
| Performance ratios   |                         |                 |                         |                         |                         |
| Return on equity (1) | 16.0%                   | 14.3%           | 13.5%                   | 14.3%                   | 9.3%                    |
| Net interest margin  | 2.58%                   | 2.50%           | 2.38%                   | 2.49%                   | 2.14%                   |
| Cost:income ratio    | 41%                     | 40%             | 40%                     | 43%                     | 42%                     |

|                           | 30                       | 30 June     | Change | 31                      | Change |
|---------------------------|--------------------------|-------------|--------|-------------------------|--------|
|                           | September<br>2010<br>£bn | 2010<br>£bn |        | December<br>2009<br>£bn |        |
| Capital and balance sheet |                          |             |        |                         |        |
| Total third party assets  | 116.6                    | 118.4       | (2%)   | 114.9                   | 1%     |



|  |      |      |         |      |           |
|--|------|------|---------|------|-----------|
| Loans and advances to customers (gross)  |      |      |         |      |           |
| - banks and financial institutions   | 6.0  | 6.5  | (8%)    | 6.3  | (5%)      |
| - hotels and restaurants   | 6.9  | 7.0  | (1%)    | 6.7  | 3%        |
| - housebuilding and construction   | 4.5  | 4.6  | (2%)    | 4.3  | 5%        |
| - manufacturing  | 5.3  | 5.5  | (4%)    | 5.9  | (10%)     |
| - other  | 31.9 | 32.6 | (2%)    | 29.9 | 7%        |
| - private sector education, health, social work, recreational and community services | 9.0  | 9.1  | (1%)    | 6.5  | 38%       |
| - property   | 30.0 | 30.3 | (1%)    | 33.0 | (9%)      |
| - wholesale and retail trade, repairs  | 10.2 | 10.4 | (2%)    | 10.2 | -         |
| - asset and invoice finance  | 9.7  | 9.2  | 5%      | 8.8  | 10%       |
| Customer deposits  | 98.1 | 95.4 | 3%      | 87.8 | 12%       |
| Risk elements in lending   | 3.3  | 2.9  | 14%     | 2.3  | 43%       |
| Loan:deposit ratio (excluding repos)   | 114% | 119% | (500bp) | 126% | (1,200bp) |
| Risk-weighted assets   | 84.7 | 87.6 | (3%)    | 90.2 | (6%)      |

## Note:

- (1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).

UK Corporate (continued)

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Key points

Q3 2010 compared with Q2 2010

- Operating profit increased by 8% to £422 million, driven by improved credit performance.
- Net interest income rose by 2%. Deposit balances grew by £2.7 billion with new product launches and other deposit-gathering initiatives continuing to deliver in an intensely competitive market. Loans and advances to customers were marginally down from the previous quarter, with above-target levels of gross new lending offset by customer deleveraging. Net interest margin increased by 8 basis points, driven by a recovery in asset margins from the depressed levels recorded in 2008 and 2009, whilst deposit margins remain under pressure.
- Non-interest income declined 5%, with reduced sales of financial market products.
- Total costs rose 2%, driven by investment in strategic initiatives.
- Impairments were £40 million lower; reflecting an improved flow into collectively assessed balances.
- Risk-weighted assets decreased by 3% reflecting lower nominal assets and improved risk metrics.

Q3 2010 compared with Q3 2009

- Operating profit was up £43 million or 11%, reflecting good income growth and lower impairments partially offset by higher costs.
- Net interest income increased by 9%, reflecting good growth in deposit volumes, together with a recovery in asset margins. Deposit balances grew by £11.4 billion compared with 30 September 2009 and the loan:deposit ratio improved to 114%, compared with 130% a year earlier. Net interest margin improved by 20 basis points, reflecting the progressive repricing of the loan portfolio and a better funding cost environment than in Q3 2009.
- Non-interest income was 2% (£5 million) lower, the result of reduced sales of financial market products and services.
- Total expenses increased by 10%, driven primarily by investment in strategic initiatives.
- Impairments were £29 million lower compared with Q3 2009, which included a charge for potential losses in the portfolio not yet specifically identified and lower specific provisions.

- Whilst loans and advances stayed broadly in line, risk-weighted assets decreased by £6.3 billion, or 7% primarily reflecting improvements in risk metrics.

RBS Group – Q3 2010 Results

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## Wealth

|  | Quarter ended                 |                       |                               | Nine months ended             |                               |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|  | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| <b>Income statement</b>                      |                               |                       |                               |                               |                               |
| Net interest income                          | 156                           | 150                   | 168                           | 449                           | 502                           |
| Net fees and commissions                     | 90                            | 97                    | 92                            | 282                           | 272                           |
| Other non-interest income                    | 18                            | 19                    | 19                            | 54                            | 61                            |
| Non-interest income                          | 108                           | 116                   | 111                           | 336                           | 333                           |
| Total income                                 | 264                           | 266                   | 279                           | 785                           | 835                           |
| <b>Direct expenses</b>                       |                               |                       |                               |                               |                               |
| - staff                                      | (95)                          | (92)                  | (82)                          | (286)                         | (250)                         |
| - other                                      | (39)                          | (39)                  | (41)                          | (113)                         | (119)                         |
| Indirect expenses                            | (55)                          | (47)                  | (36)                          | (157)                         | (112)                         |
|  | (189)                         | (178)                 | (159)                         | (556)                         | (481)                         |
| Operating profit before<br>impairment losses | 75                            | 88                    | 120                           | 229                           | 354                           |
| Impairment losses                            | (1)                           | (7)                   | (1)                           | (12)                          | (23)                          |
| Operating profit                             | 74                            | 81                    | 119                           | 217                           | 331                           |
| <b>Analysis of income</b>                    |                               |                       |                               |                               |                               |
| Private banking                              | 217                           | 216                   | 232                           | 637                           | 693                           |
| Investments                                  | 47                            | 50                    | 47                            | 148                           | 142                           |
| Total income                                 | 264                           | 266                   | 279                           | 785                           | 835                           |
| <b>Key metrics</b>                           |                               |                       |                               |                               |                               |
|  | Quarter ended                 |                       |                               | Nine months ended             |                               |
|  | 30<br>September<br>2010       | 30 June<br>2010       | 30<br>September<br>2009       | 30<br>September<br>2010       | 30<br>September<br>2009       |
| <b>Performance ratios</b>                    |                               |                       |                               |                               |                               |
| Net interest margin                          | 3.44%                         | 3.36%                 | 4.34%                         | 3.39%                         | 4.54%                         |
| Cost:income ratio                            | 72%                           | 67%                   | 57%                           | 71%                           | 58%                           |

|  | 30<br>September<br>2010<br>£bn | 30 June<br>2010<br>£bn | Change | 31<br>December<br>2009<br>£bn | Change |
|--|--------------------------------|------------------------|--------|-------------------------------|--------|
| Capital and balance sheet                          |                                |                        |        |                               |        |
| Loans and advances to<br>customers (gross)         |                                |                        |        |                               |        |
| - mortgages  | 7.5                            | 6.9                    | 9%     | 6.5                           | 15%    |
| - personal   | 6.5                            | 6.4                    | 2%     | 4.9                           | 33%    |
| - other  | 1.5                            | 1.6                    | (6%)   | 2.3                           | (35%)  |
| Customer deposits                                  | 34.8                           | 36.2                   | (4%)   | 35.7                          | (3%)   |
| Assets under management<br>(excluding<br>deposits) | 31.1                           | 30.2                   | 3%     | 30.7                          | 1%     |
| Risk elements in lending                           | 0.2                            | 0.2                    | -      | 0.2                           | -      |
| Loan:deposit ratio (excluding<br>repos)            | 44%                            | 41%                    | 300bp  | 38%                           | 600bp  |
| Risk-weighted assets                               | 12.1                           | 12.0                   | 1%     | 11.2                          | 8%     |

## Wealth (continued)

## Key points

## Q3 2010 compared with Q2 2010

- Operating profit fell 9% to £74 million in the third quarter, with weaker investment fee income and higher business investment costs only partially mitigated by a fall in impairment losses.
- Total income fell 1% in the quarter. Lower average assets under management and reduced levels of trading fees led to a 7% fall in non-interest income. This was offset by a 4% increase in net interest income.
- Loans and advances continued to grow strongly, increasing 4% in the quarter, primarily driven by mortgage lending which rose by £0.6 billion. Credit metrics remain satisfactory and were comparable with previous quarters.
- Net interest margin improved 8 basis points reflecting strong lending performance. However the competitive nature of pricing within the deposit market continues, leading to a 4% reduction in balances.
- Assets under management grew 3% in positive market conditions, reversing the falls seen in Q2 2010. The international businesses continue to feel the impact of client losses following the departures of a number of senior private bankers earlier in the year.

- Total expenses increased 6% primarily driven by investment in strategic initiatives, combined with continued front office staff investment and temporary resource to support the implementation of the new banking platform.

Q3 2010 compared with Q3 2009

- Operating profit fell 38% with lower income and an increase in expenses.
- Income declined by 5% primarily due to lower net interest income which fell £12 million, 7%.
- Lending continued to be made available to meet client demand, with balances increasing 16% over Q3 2009. Mortgage balances in particular saw strong growth, increasing 23%.
- Client deposits decreased 4% through the impact of client losses in the International businesses. Pricing competition to retain and attract balances put pressure on net interest margin which narrowed by 90 basis points.
- Assets under management fell 2% (5% at constant exchange rates) due to client attrition in the International businesses.
- Total expenses rose 19%, in part reflecting additional headcount in expanding the UK and International franchises.

RBS Group – Q3 2010 Results

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## Global Transaction Services

|  | Quarter ended                 |                       |                               | Nine months ended             |                               |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|  | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| <b>Income statement</b>                              |                               |                       |                               |                               |                               |
| Net interest income                                  | 257                           | 237                   | 234                           | 711                           | 679                           |
| Non-interest income                                  | 411                           | 411                   | 388                           | 1,212                         | 1,171                         |
| <b>Total income</b>                                  | <b>668</b>                    | <b>648</b>            | <b>622</b>                    | <b>1,923</b>                  | <b>1,850</b>                  |
| <b>Direct expenses</b>                               |                               |                       |                               |                               |                               |
| - staff  | (100)                         | (102)                 | (87)                          | (306)                         | (269)                         |
| - other  | (38)                          | (37)                  | (37)                          | (108)                         | (110)                         |
| <b>Indirect expenses</b>                             | <b>(218)</b>                  | <b>(227)</b>          | <b>(223)</b>                  | <b>(682)</b>                  | <b>(687)</b>                  |
|  | <b>(356)</b>                  | <b>(366)</b>          | <b>(347)</b>                  | <b>(1,096)</b>                | <b>(1,066)</b>                |
| <b>Operating profit before<br/>impairment losses</b> | <b>312</b>                    | <b>282</b>            | <b>275</b>                    | <b>827</b>                    | <b>784</b>                    |
| <b>Impairment losses</b>                             | <b>(3)</b>                    | <b>(3)</b>            | <b>(22)</b>                   | <b>(6)</b>                    | <b>(35)</b>                   |
| <b>Operating profit</b>                              | <b>309</b>                    | <b>279</b>            | <b>253</b>                    | <b>821</b>                    | <b>749</b>                    |
| <b>Analysis of income by product</b>                 |                               |                       |                               |                               |                               |
| Domestic cash management                             | 216                           | 201                   | 202                           | 611                           | 608                           |
| International cash management                        | 200                           | 193                   | 183                           | 578                           | 531                           |
| Trade finance  | 81                            | 76                    | 71                            | 228                           | 223                           |
| Merchant acquiring                                   | 123                           | 133                   | 127                           | 371                           | 377                           |
| Commercial cards                                     | 48                            | 45                    | 39                            | 135                           | 111                           |
| <b>Total income</b>                                  | <b>668</b>                    | <b>648</b>            | <b>622</b>                    | <b>1,923</b>                  | <b>1,850</b>                  |
| <b>Key metrics</b>                                   |                               |                       |                               |                               |                               |
|  | Quarter ended                 |                       |                               | Nine months ended             |                               |
|  | 30<br>September<br>2010       | 30 June<br>2010       | 30<br>September<br>2009       | 30<br>September<br>2010       | 30<br>September<br>2009       |
| <b>Performance ratios</b>                            |                               |                       |                               |                               |                               |
| Net interest margin                                  | 6.72%                         | 6.47%                 | 9.63%                         | 6.96%                         | 9.03%                         |
| Cost:income ratio                                    | 53%                           | 56%                   | 56%                           | 57%                           | 58%                           |

|   | 30<br>September<br>2010<br>£bn | 30 June<br>2010<br>£bn | Change   | 31<br>December<br>2009<br>£bn | Change |
|---|--------------------------------|------------------------|----------|-------------------------------|--------|
| Capital and balance sheet               |                                |                        |          |                               |        |
| Total third party assets                | 24.2                           | 25.7                   | (6%)     | 18.4                          | 32%    |
| Loans and advances                      | 14.4                           | 15.6                   | (8%)     | 12.7                          | 13%    |
| Customer deposits                       | 65.4                           | 62.7                   | 4%       | 61.8                          | 6%     |
| Risk elements in lending                | 0.2                            | 0.2                    | -        | 0.2                           | -      |
| Loan:deposit ratio (excluding<br>repos) | 22%                            | 25%                    | (300bps) | 21%                           | 100bps |
| Risk-weighted assets                    | 18.6                           | 19.4                   | (4%)     | 19.1                          | (3%)   |

RBS Group – Q3 2010 Results

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Global Transaction Services (continued)

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Key points

Q3 2010 compared with Q2 2010

- Operating profit increased 11%, driven by increased deposit volumes and lower expenses.
- Income increased 3%, or 4% at constant foreign exchange rates, reflecting increased earnings on the division's deposit surplus and improving commercial card transaction volumes, partially offset by seasonality impacts in Merchant Acquiring.
- Expenses fell by 3%, or 1% on a constant foreign exchange basis, mainly reflecting lower operations costs in indirect expenses.
- Customer deposits increased by 4% to £65.4 billion, driven by growth in both non-interest-bearing balances in the Domestic business and interest-bearing balances in the International cash management business. The loan to deposit ratio improved by 300 basis points to 22% from 25% in the previous quarter.
- The sale of the Global Merchant Services business is on track for completion during the fourth quarter. In Q3 2010, Global Merchant Services reported income of £128 million and expenses of £76 million, generating an operating profit of £52 million.

Q3 2010 compared with Q3 2009

- Operating profit increased 22%, or 18% at constant foreign exchange rates, with income up 7% and expenses up 3%.
- Income rose to £668 million, reflecting higher domestic and international average deposit balances, increased foreign exchange transaction fees and improving commercial card transaction volumes.
- Expenses rose 3%, largely reflecting continued investment in front office and support infrastructure.
- Third party assets increased by £3 billion as yen clearing activities were brought in-house.
- Customer deposit balances increased by 12% with growth in the international and UK domestic cash management businesses. Net interest margin declined by 291 basis points largely driven by the impact of new yen clearing activities and associated low interest cash balances, as well as deposit and trade finance margin compression. The loan to deposit ratio improved by 300 basis points and the funding surplus increased by £6.9 billion.

RBS Group – Q3 2010 Results

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## Ulster Bank

|  | Quarter ended                 |                       |                               | Nine months ended             |                               |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|  | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| <b>Income statement</b>                      |                               |                       |                               |                               |                               |
| Net interest income                          | 192                           | 194                   | 176                           | 574                           | 586                           |
| Net fees and commissions                     | 38                            | 43                    | 45                            | 116                           | 130                           |
| Other non-interest income                    | 14                            | 10                    | 10                            | 42                            | 33                            |
| Non-interest income                          | 52                            | 53                    | 55                            | 158                           | 163                           |
| Total income                                 | 244                           | 247                   | 231                           | 732                           | 749                           |
| <b>Direct expenses</b>                       |                               |                       |                               |                               |                               |
| - staff                                      | (54)                          | (60)                  | (79)                          | (180)                         | (249)                         |
| - other                                      | (18)                          | (20)                  | (22)                          | (57)                          | (73)                          |
| Indirect expenses                            | (62)                          | (63)                  | (71)                          | (200)                         | (219)                         |
|  | (134)                         | (143)                 | (172)                         | (437)                         | (541)                         |
| Operating profit before<br>impairment losses | 110                           | 104                   | 59                            | 295                           | 208                           |
| Impairment losses                            | (286)                         | (281)                 | (144)                         | (785)                         | (301)                         |
| Operating loss                               | (176)                         | (177)                 | (85)                          | (490)                         | (93)                          |
| <b>Analysis of income by business</b>        |                               |                       |                               |                               |                               |
| Corporate                                    | 120                           | 134                   | 134                           | 399                           | 434                           |
| Retail                                       | 124                           | 105                   | 104                           | 341                           | 298                           |
| Other  | -                             | 8                     | (7)                           | (8)                           | 17                            |
| Total income                                 | 244                           | 247                   | 231                           | 732                           | 749                           |
| <b>Analysis of impairments by<br/>sector</b> |                               |                       |                               |                               |                               |
| Mortgages                                    | 69                            | 33                    | 30                            | 135                           | 54                            |
| Corporate                                    |                               |                       |                               |                               |                               |
| - property                                   | 107                           | 117                   | (2)                           | 306                           | 73                            |
| - other corporate                            | 100                           | 118                   | 89                            | 309                           | 120                           |
| Other lending                                | 10                            | 13                    | 27                            | 35                            | 54                            |

|  |      |      |        |      |      |
|--|------|------|--------|------|------|
| Total impairment losses  | 286  | 281  | 144    | 785  | 301  |
| Loan impairment charge as %<br>of gross<br>customer loans and advances<br>(excluding<br>reverse repurchase<br>agreements) by<br>sector |      |      |        |      |      |
| Mortgages  | 1.3% | 0.9% | 0.7%   | 0.8% | 0.4% |
| Corporate  |      |      |        |      |      |
| - property   | 8.1% | 4.9% | (0.1%) | 7.7% | 1.0% |
| - other corporate  | 4.3% | 4.8% | 3.0%   | 4.4% | 1.3% |
| Other lending  | 2.4% | 2.7% | 5.4%   | 2.7% | 3.6% |
|  | 3.0% | 3.1% | 1.4%   | 2.8% | 1.0% |

RBS Group – Q3 2010 Results

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## Ulster Bank (continued)

## Key metrics

|                      | Quarter ended           |                 |                         | Nine months ended       |                         |
|----------------------|-------------------------|-----------------|-------------------------|-------------------------|-------------------------|
|                      | 30<br>September<br>2010 | 30 June<br>2010 | 30<br>September<br>2009 | 30<br>September<br>2010 | 30<br>September<br>2009 |
| Performance ratios   |                         |                 |                         |                         |                         |
| Return on equity (1) | (20.9%)                 | (21.7%)         | (11.3%)                 | (19.4%)                 | (4.1%)                  |
| Net interest margin  | 1.90%                   | 1.92%           | 1.74%                   | 1.86%                   | 1.88%                   |
| Cost:income ratio    | 55%                     | 58%             | 74%                     | 60%                     | 72%                     |

|   | 30                       | 30 June<br>2010 | Change | 31                      | Change    |
|---|--------------------------|-----------------|--------|-------------------------|-----------|
|   | September<br>2010<br>£bn |                 |        | December<br>2009<br>£bn |           |
| Capital and balance sheet               |                          |                 |        |                         |           |
| Loans and advances to customers (gross) |                          |                 |        |                         |           |
| - mortgages                             | 21.4                     | 14.9            | 44%    | 16.2                    | 32%       |
| - corporate                             |                          |                 |        |                         |           |
| - property                              | 5.3                      | 9.5             | (44%)  | 10.1                    | (48%)     |
| - other corporate                       | 9.4                      | 9.9             | (5%)   | 11.0                    | (15%)     |
| - other lending                         | 1.7                      | 1.9             | (11%)  | 2.4                     | (29%)     |
| Customer deposits                       | 23.4                     | 22.7            | 3%     | 21.9                    | 7%        |
| Risk elements in lending                |                          |                 |        |                         |           |
| - mortgages                             | 1.4                      | 0.7             | 100%   | 0.6                     | 133%      |
| - corporate                             |                          |                 |        |                         |           |
| - property                              | 0.6                      | 1.3             | (54%)  | 0.7                     | (14%)     |
| - other corporate                       | 1.0                      | 1.3             | (23%)  | 0.8                     | 25%       |
| - other lending                         | 0.2                      | 0.2             | -      | 0.2                     | -         |
| Loan:deposit ratio (excluding repos)    | 156%                     | 154%            | 200bp  | 177%                    | (2,100bp) |
| Risk-weighted assets                    | 32.6                     | 30.5            | 7%     | 29.9                    | 9%        |

## Note:

- (1) Return on equity is based on divisional operating profit/(loss) after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).

## Key points

## Q3 2010 compared with Q2 2010

- Operating loss for the quarter of £176 million was in line with the previous quarter.
- Operating profit before impairment losses increased by 4% in constant currency

terms reflecting improved performance in the quarter on both income and expenses.

- As part of its strategic plan update, the bank has taken the decision to cease early stage development property lending. Accordingly on 1 July 2010 the division transferred a portfolio of development property assets to the Non-Core division. In addition, reflecting its continued commitment to the retail mortgage sector, a portfolio of retail mortgage assets to be managed as part of the core business was transferred back.
- Net interest income rose 2% in the quarter on a constant currency basis, with higher asset and liability balances but reduced net interest margin, reflecting an increased level of liquid assets held.
- Total expenses decreased by 1% on a constant currency basis, driven by the continuing impact on direct costs (down 5% at constant exchange rates) of savings initiated through its restructuring programme and ongoing operational efficiencies.

RBS Group – Q3 2010 Results

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Ulster Bank (continued)

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Key points (continued)

Q3 2010 compared with Q2 2010 (continued)

- Customer deposit balances remained broadly flat in constant currency terms during the period.
- Impairment losses remain severe, reflecting the continuing deterioration in credit metrics across the Irish economy. Asset default levels and loss rates in both the retail and corporate portfolios continue to remain elevated which is expected to continue into Q4 before beginning to stabilise.
- In September, Ulster Bank launched its Helpful Banking programme which outlines a set of commitments to personal and business customers and clearly articulates how the bank intends to deliver on what matters most to them. Private Banking in the Republic of Ireland was also launched in September, delivering an island-wide proposition to meet the day-to-day banking needs of high net worth customers.

Q3 2010 compared with Q3 2009

- Operating loss increased significantly compared with Q3 2009 as a result of higher impairment losses, partially mitigated by strong management action to improve income generation and to reduce costs.
- Net interest income increased by 15% in constant currency terms, with improved asset pricing more than offsetting a decrease in liability margins.
- Loans to customers decreased by 3% over the period on a constant currency basis, while deposit balances increased by 16%, reflecting the business's focus on growing the customer deposit base.
- Non-interest income declined by 4% in constant currency terms, largely reflecting changes to the structure of overdraft charges which took effect from Q4 2009.
- The focus on the management of the cost base across the business coupled with the impact of the Group-wide restructuring programme has resulted in a reduction in total expenses of 18% from the prior year on a constant currency basis.
- Impairment losses increased sharply reflecting the deterioration in the economic environment in the Republic of Ireland.





## US Retail &amp; Commercial (£ Sterling)

|  | Quarter ended                 |                       |                               | Nine months ended             |                               |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|  | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| <b>Income statement</b>                      |                               |                       |                               |                               |                               |
| Net interest income                          | 480                           | 502                   | 410                           | 1,450                         | 1,352                         |
| Net fees and commissions                     | 180                           | 203                   | 159                           | 560                           | 566                           |
| Other non-interest income                    | 91                            | 72                    | 65                            | 238                           | 162                           |
| Non-interest income                          | 271                           | 275                   | 224                           | 798                           | 728                           |
| Total income                                 | 751                           | 777                   | 634                           | 2,248                         | 2,080                         |
| <b>Direct expenses</b>                       |                               |                       |                               |                               |                               |
| - staff                                      | (214)                         | (151)                 | (174)                         | (580)                         | (576)                         |
| - other                                      | (148)                         | (163)                 | (132)                         | (445)                         | (463)                         |
| Indirect expenses                            | (191)                         | (190)                 | (191)                         | (569)                         | (586)                         |
|  | (553)                         | (504)                 | (497)                         | (1,594)                       | (1,625)                       |
| Operating profit before<br>impairment losses | 198                           | 273                   | 137                           | 654                           | 455                           |
| Impairment losses                            | (125)                         | (144)                 | (180)                         | (412)                         | (549)                         |
| Operating profit/(loss)                      | 73                            | 129                   | (43)                          | 242                           | (94)                          |
| Average exchange rate – US\$/£               | 1.551                         | 1.492                 | 1.640                         | 1.534                         | 1.543                         |
| <b>Analysis of income by product</b>         |                               |                       |                               |                               |                               |
| Mortgages and home equity                    | 142                           | 124                   | 112                           | 381                           | 384                           |
| Personal lending and cards                   | 127                           | 122                   | 116                           | 363                           | 336                           |
| Retail deposits                              | 223                           | 248                   | 200                           | 697                           | 633                           |
| Commercial lending                           | 145                           | 152                   | 127                           | 439                           | 408                           |
| Commercial deposits                          | 78                            | 86                    | 97                            | 245                           | 290                           |
| Other  | 36                            | 45                    | (18)                          | 123                           | 29                            |
| Total income                                 | 751                           | 777                   | 634                           | 2,248                         | 2,080                         |
| <b>Analysis of impairments by<br/>sector</b> |                               |                       |                               |                               |                               |
| Residential mortgages                        | 14                            | 22                    | 29                            | 55                            | 64                            |

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|                                |            |            |            |            |            |
|--------------------------------|------------|------------|------------|------------|------------|
| Home equity                    | 56         | 38         | 82         | 100        | 154        |
| Corporate and commercial       | 23         | 76         | 65         | 148        | 234        |
| Other consumer                 | 28         | 7          | 4          | 91         | 97         |
| Securities impairment losses   | 4          | 1          | -          | 18         | -          |
| <b>Total impairment losses</b> | <b>125</b> | <b>144</b> | <b>180</b> | <b>412</b> | <b>549</b> |
| Loan impairment charge as %    |            |            |            |            |            |
| of gross                       |            |            |            |            |            |
| customer loans and advances    |            |            |            |            |            |
| (excluding                     |            |            |            |            |            |
| reverse repurchase             |            |            |            |            |            |
| agreements) by                 |            |            |            |            |            |
| sector                         |            |            |            |            |            |
| Residential mortgages          | 0.9%       | 1.3%       | 1.7%       | 1.2%       | 1.2%       |
| Home equity                    | 1.5%       | 0.9%       | 2.1%       | 0.9%       | 1.3%       |
| Corporate and commercial       | 0.5%       | 1.5%       | 1.3%       | 1.0%       | 1.5%       |
| Other consumer                 | 1.6%       | 0.3%       | 0.2%       | 1.8%       | 1.6%       |
|                                | 1.0%       | 1.1%       | 1.4%       | 1.1%       | 1.4%       |

RBS Group – Q3 2010 Results

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## US Retail &amp; Commercial (£ Sterling) (continued)

## Key metrics

|                      | Quarter ended           |                 |                         | Nine months ended       |                         |
|----------------------|-------------------------|-----------------|-------------------------|-------------------------|-------------------------|
|                      | 30<br>September<br>2010 | 30 June<br>2010 | 30<br>September<br>2009 | 30<br>September<br>2010 | 30<br>September<br>2009 |
| Performance ratios   |                         |                 |                         |                         |                         |
| Return on equity (1) | 3.7%                    | 6.4%            | (2.2%)                  | 4.1%                    | (1.6%)                  |
| Net interest margin  | 2.92%                   | 2.78%           | 2.37%                   | 2.79%                   | 2.34%                   |
| Cost:income ratio    | 74%                     | 65%             | 78%                     | 71%                     | 78%                     |

|  | 30                       | 30 June     | Change  | 31                      | Change  |
|--|--------------------------|-------------|---------|-------------------------|---------|
|  | September<br>2010<br>£bn | 2010<br>£bn |         | December<br>2009<br>£bn |         |
| Capital and balance sheet                  |                          |             |         |                         |         |
| Total third party assets                   | 72.4                     | 78.2        | (7%)    | 75.4                    | (4%)    |
| Loans and advances to<br>customers (gross) |                          |             |         |                         |         |
| - residential mortgages                    | 6.2                      | 6.6         | (6%)    | 6.5                     | (5%)    |
| - home equity                              | 15.3                     | 16.3        | (6%)    | 15.4                    | (1%)    |
| - corporate and commercial                 | 19.8                     | 20.7        | (4%)    | 19.5                    | 2%      |
| - other consumer                           | 6.8                      | 8.0         | (15%)   | 7.5                     | (9%)    |
| Customer deposits (excluding<br>repos)     | 60.5                     | 62.3        | (3%)    | 60.1                    | 1%      |
| Risk elements in lending                   |                          |             |         |                         |         |
| - retail                                   | 0.4                      | 0.4         | -       | 0.4                     | -       |
| - commercial                               | 0.4                      | 0.5         | (20%)   | 0.2                     | 100%    |
| Loan:deposit ratio (excluding<br>repos)    | 78%                      | 81%         | (300bp) | 80%                     | (200bp) |
| Risk-weighted assets                       | 64.1                     | 65.5        | (2%)    | 59.7                    | 7%      |
| Spot exchange rate – US\$/£                | 1.570                    | 1.498       |         | 1.622                   |         |

## Note:

- (1) Return on equity is based on divisional operating profit/(loss) after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).

## Key points

- Sterling strengthened relative to the US dollar during the third quarter, with the average exchange rate increasing by 4% compared with Q2 2010.

- Performance is described in full in the US dollar-based financial statements set out on pages 40 and 41.

RBS Group – Q3 2010 Results

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## US Retail &amp; Commercial (US Dollar)

|  | Quarter ended                  |                        |                                | Nine months ended              |                                |
|--|--------------------------------|------------------------|--------------------------------|--------------------------------|--------------------------------|
|  | 30<br>September<br>2010<br>\$m | 30 June<br>2010<br>\$m | 30<br>September<br>2009<br>\$m | 30<br>September<br>2010<br>\$m | 30<br>September<br>2009<br>\$m |
| <b>Income statement</b>                      |                                |                        |                                |                                |                                |
| Net interest income                          | 745                            | 748                    | 680                            | 2,223                          | 2,087                          |
| Net fees and commissions                     | 280                            | 303                    | 266                            | 859                            | 874                            |
| Other non-interest income                    | 139                            | 110                    | 104                            | 365                            | 248                            |
| Non-interest income                          | 419                            | 413                    | 370                            | 1,224                          | 1,122                          |
| Total income                                 | 1,164                          | 1,161                  | 1,050                          | 3,447                          | 3,209                          |
| <b>Direct expenses</b>                       |                                |                        |                                |                                |                                |
| - staff                                      | (332)                          | (223)                  | (289)                          | (890)                          | (889)                          |
| - other                                      | (230)                          | (246)                  | (219)                          | (683)                          | (714)                          |
| Indirect expenses                            | (296)                          | (283)                  | (313)                          | (872)                          | (902)                          |
|  | (858)                          | (752)                  | (821)                          | (2,445)                        | (2,505)                        |
| Operating profit before<br>impairment losses | 306                            | 409                    | 229                            | 1,002                          | 704                            |
| Impairment losses                            | (193)                          | (214)                  | (296)                          | (631)                          | (847)                          |
| Operating profit/(loss)                      | 113                            | 195                    | (67)                           | 371                            | (143)                          |
| <b>Analysis of income by product</b>         |                                |                        |                                |                                |                                |
| Mortgages and home equity                    | 220                            | 185                    | 186                            | 585                            | 593                            |
| Personal lending and cards                   | 196                            | 182                    | 190                            | 556                            | 518                            |
| Retail deposits                              | 345                            | 372                    | 329                            | 1,068                          | 976                            |
| Commercial lending                           | 225                            | 226                    | 210                            | 673                            | 629                            |
| Commercial deposits                          | 122                            | 128                    | 160                            | 376                            | 448                            |
| Other  | 56                             | 68                     | (25)                           | 189                            | 45                             |
| Total income                                 | 1,164                          | 1,161                  | 1,050                          | 3,447                          | 3,209                          |
| <b>Analysis of impairments by<br/>sector</b> |                                |                        |                                |                                |                                |
| Residential mortgages                        | 22                             | 33                     | 47                             | 85                             | 99                             |
| Home equity                                  | 88                             | 56                     | 131                            | 154                            | 238                            |
| Corporate and commercial                     | 35                             | 113                    | 107                            | 225                            | 360                            |

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|  |      |      |      |      |      |
|--|------|------|------|------|------|
| Other consumer   | 42   | 10   | 11   | 139  | 150  |
| Securities impairment losses   | 6    | 2    | -    | 28   | -    |
| Total impairment losses  | 193  | 214  | 296  | 631  | 847  |
| Loan impairment charge as %<br>of gross<br>customer loans and advances<br>(excluding<br>reverse repurchase<br>agreements) by<br>sector |      |      |      |      |      |
| Residential mortgages  | 0.9% | 1.3% | 1.7% | 1.2% | 1.2% |
| Home equity  | 1.5% | 0.9% | 2.0% | 0.9% | 1.2% |
| Corporate and commercial   | 0.5% | 1.5% | 1.3% | 1.0% | 1.5% |
| Other consumer   | 1.6% | 0.3% | 0.3% | 1.7% | 1.6% |
|  | 1.0% | 1.1% | 1.5% | 1.1% | 1.4% |

RBS Group – Q3 2010 Results

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## US Retail &amp; Commercial (US Dollar) (continued)

## Key metrics

|                      | Quarter ended           |                 |                         | Nine months ended       |                         |
|----------------------|-------------------------|-----------------|-------------------------|-------------------------|-------------------------|
|                      | 30<br>September<br>2010 | 30 June<br>2010 | 30<br>September<br>2009 | 30<br>September<br>2010 | 30<br>September<br>2009 |
| Performance ratios   |                         |                 |                         |                         |                         |
| Return on equity (1) | 3.6%                    | 6.5%            | (2.2%)                  | 4.0%                    | (1.5%)                  |
| Net interest margin  | 2.92%                   | 2.78%           | 2.37%                   | 2.79%                   | 2.34%                   |
| Cost:income ratio    | 74%                     | 65%             | 78%                     | 71%                     | 78%                     |

|   | 30<br>September<br>2010 | 30 June<br>2010 | Change  | 31<br>December<br>2009 | Change  |
|---|-------------------------|-----------------|---------|------------------------|---------|
|   | \$bn                    | \$bn            |         | \$bn                   |         |
| Capital and balance sheet               |                         |                 |         |                        |         |
| Total third party assets                | 113.7                   | 117.2           | (3%)    | 122.3                  | (7%)    |
| Loans and advances to customers (gross) |                         |                 |         |                        |         |
| - residential mortgages                 | 9.7                     | 9.9             | (2%)    | 10.6                   | (8%)    |
| - home equity                           | 24.0                    | 24.4            | (2%)    | 25.0                   | (4%)    |
| - corporate and commercial              | 31.1                    | 30.9            | 1%      | 31.6                   | (2%)    |
| - other consumer                        | 10.7                    | 12.0            | (11%)   | 12.1                   | (12%)   |
| Customer deposits (excluding repos)     | 95.1                    | 93.3            | 2%      | 97.4                   | (2%)    |
| Risk elements in lending                |                         |                 |         |                        |         |
| - retail                                | 0.7                     | 0.6             | 17%     | 0.6                    | 17%     |
| - commercial                            | 0.6                     | 0.7             | (14%)   | 0.4                    | 50%     |
| Loan:deposit ratio (excluding repos)    | 78%                     | 81%             | (300bp) | 80%                    | (200bp) |
| Risk-weighted assets                    | 100.7                   | 98.1            | 3%      | 96.9                   | 4%      |

## Note:

- (1) Return on equity is based on divisional operating profit/(loss) after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).

## Key points

## Q3 2010 compared with Q2 2010

- US Retail & Commercial delivered a profit for the third consecutive quarter, posting an operating profit of \$113 million. Excluding a \$113 million credit related to changes to the defined benefit pension plan in Q2 2010, operating profit was up 38% from the previous quarter. Economic conditions in core regions remain subdued, with lingering high unemployment, a soft housing market and reduced

consumer activity.

- Net interest income was in line with the previous quarter. Loans and advances declined 2% principally due to the sale of a student loan portfolio (\$1.1 billion) and reduced housing related loans. Customer deposits, however, increased 2% overall, with demand deposit account balances up 9%.
- Net interest margin increased by 14 basis points to 2.92%, with a continued trend of balance migration from lower margin term and time accounts to higher margin checking accounts, as well as a positive impact from a balance sheet restructuring carried out during the quarter.
- The loan to deposit ratio continued to trend lower, dropping by 300 basis points to 78% during the quarter.

RBS Group – Q3 2010 Results

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US Retail & Commercial (US Dollar) (continued)

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Key points (continued)

Q3 2010 compared with Q2 2010 (continued)

- Non-interest income was up 1% reflecting strong mortgage income (up \$35 million on the second quarter), offset by lower deposit fees as a result of Regulation E legislative changes introduced in the quarter. The current annual impact of Regulation E is estimated at between \$125-150 million. Mitigating action to implement changes to account and transaction fee schedules is currently under review. In addition, gains of \$330 million were recognised on the sale of available-for-sale securities as part of a balance sheet restructuring exercise which were largely offset by losses crystallised on the termination of swaps hedging fixed-rate funding.
- Regulation E prohibits financial institutions from charging consumers fees for paying automated teller machine (ATM) and one-off debit card transactions which would result in overdraft, unless a consumer consents, or opts in, to the overdraft service for those types of transactions.
- Total expenses were 1% lower, excluding the pension credit booked in Q2 2010.
- Impairment losses fell 10%, reflecting a gradual improvement in the underlying credit environment. Loan impairments decreased as a proportion of loans and advances, falling 10 basis points from the second quarter and continuing a downward trend from their peak in Q3 2009.
- Following significant loan reserve building in 2009, provisions for loan losses held steady at \$1.2 billion, reflecting a cautious near-term view of the credit environment.

Q3 2010 compared with Q3 2009

- Operating profit increased to \$113 million from an operating loss of \$67 million.
- Net interest income rose 10%, with net interest margin increasing by 55 basis points to 2.92%, offsetting a reduction in loan and deposit balances. The margin improvement was primarily due to changes in deposit mix and new deposit pricing strategies, as well as a positive impact from a balance sheet restructuring carried out during the quarter.
- Customer deposits were down 4%, reflecting the impact of a changed pricing strategy on low margin term and time products, but strong growth was achieved in checking balances. Over 52,500 consumer checking accounts were added over the year, and more than 12,500 small business checking accounts were added. Consumer checking balances grew by 8% and small business balances by 11%.
-

Non-interest income was up 13%, driven by higher mortgage and debit card income and higher gains on the sale of securities.

- Total expenses rose 5% reflecting impairment of mortgage servicing rights (\$23 million), changes in the phasing of staff compensation and higher medical costs.

RBS Group – Q3 2010 Results

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## Global Banking &amp; Markets

|   | Quarter ended                 |                       |                               | Nine months ended             |                               |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|   | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| <b>Income statement</b>   |                               |                       |                               |                               |                               |
| Net interest income from banking activities                                 | 317                           | 335                   | 447                           | 1,031                         | 1,919                         |
| Net fees and commissions receivable   | 411                           | 314                   | 340                           | 1,070                         | 1,049                         |
| Income from trading activities  | 830                           | 1,232                 | 1,348                         | 4,089                         | 6,396                         |
| Other operating income (net of related funding costs)                       | (4)                           | 66                    | (70)                          | 135                           | (269)                         |
| Non-interest income   | 1,237                         | 1,612                 | 1,618                         | 5,294                         | 7,176                         |
| Total income  | 1,554                         | 1,947                 | 2,065                         | 6,325                         | 9,095                         |
| <b>Direct expenses</b>  |                               |                       |                               |                               |                               |
| - staff   | (621)                         | (631)                 | (716)                         | (2,139)                       | (2,268)                       |
| - other   | (166)                         | (200)                 | (184)                         | (550)                         | (587)                         |
| Indirect expenses   | (218)                         | (202)                 | (252)                         | (643)                         | (737)                         |
|   | (1,005)                       | (1,033)               | (1,152)                       | (3,332)                       | (3,592)                       |
| <b>Operating profit before impairment losses and fair value of own debt</b> |                               |                       |                               |                               |                               |
| Operating profit before impairment losses and fair value of own debt        | 549                           | 914                   | 913                           | 2,993                         | 5,503                         |
| Impairment losses   | 40                            | (164)                 | (272)                         | (156)                         | (510)                         |
| <b>Operating profit before fair value of own debt</b>                       |                               |                       |                               |                               |                               |
| Operating profit before fair value of own debt                              | 589                           | 750                   | 641                           | 2,837                         | 4,993                         |
| Fair value of own debt  | (598)                         | 331                   | (320)                         | (299)                         | (155)                         |
| Operating (loss)/profit   | (9)                           | 1,081                 | 321                           | 2,538                         | 4,838                         |
| <b>Analysis of income by product</b>  |                               |                       |                               |                               |                               |
| Rates – money markets   | 38                            | 4                     | 287                           | 130                           | 1,606                         |
| Rates – flow  | 402                           | 471                   | 694                           | 1,572                         | 2,527                         |

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|                                      |       |       |       |       |       |
|--------------------------------------|-------|-------|-------|-------|-------|
| Currencies & commodities             | 218   | 179   | 147   | 692   | 1,102 |
| Equities                             | 198   | 238   | 282   | 750   | 1,017 |
| Credit and mortgage markets          | 349   | 474   | 475   | 1,782 | 2,023 |
| Portfolio management and origination | 349   | 581   | 180   | 1,399 | 820   |
| Total income                         | 1,554 | 1,947 | 2,065 | 6,325 | 9,095 |

Analysis of impairments by sector

|                                  |      |      |     |      |     |
|----------------------------------|------|------|-----|------|-----|
| Manufacturing and infrastructure | (34) | (12) | 33  | (53) | 72  |
| Property and construction        | -    | 56   | -   | 64   | 50  |
| Banks and financial institutions | (3)  | 110  | 237 | 123  | 280 |
| Other                            | (3)  | 10   | 2   | 22   | 108 |
| Total impairment losses          | (40) | 164  | 272 | 156  | 510 |

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)

|        |      |      |      |      |
|--------|------|------|------|------|
| (0.2%) | 0.7% | 0.6% | 0.2% | 0.5% |
|--------|------|------|------|------|

RBS Group – Q3 2010 Results

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## Global Banking &amp; Markets (continued)

## Key metrics

|                        | Quarter ended           |                 |                         | Nine months ended       |                         |
|------------------------|-------------------------|-----------------|-------------------------|-------------------------|-------------------------|
|                        | 30<br>September<br>2010 | 30 June<br>2010 | 30<br>September<br>2009 | 30<br>September<br>2010 | 30<br>September<br>2009 |
| Performance ratios     |                         |                 |                         |                         |                         |
| Return on equity (1)   | 11.3%                   | 13.8%           | 14.2%                   | 18.0%                   | 36.9%                   |
| Net interest margin    | 1.14%                   | 1.01%           | 1.08%                   | 1.08%                   | 1.52%                   |
| Cost:income ratio      | 65%                     | 53%             | 56%                     | 53%                     | 39%                     |
| Compensation ratio (2) | 40%                     | 32%             | 35%                     | 34%                     | 25%                     |

|   | 30                       | 30 June<br>2010 | Change  | 31                      | Change  |
|---|--------------------------|-----------------|---------|-------------------------|---------|
|   | September<br>2010<br>£bn |                 |         | December<br>2009<br>£bn |         |
| Capital and balance sheet                                       |                          |                 |         |                         |         |
| Loans and advances to customers                                 | 87.9                     | 88.8            | (1%)    | 90.9                    | (3%)    |
| Loans and advances to banks                                     | 44.8                     | 40.1            | 12%     | 36.9                    | 21%     |
| Reverse repos   | 92.3                     | 85.6            | 8%      | 73.3                    | 26%     |
| Securities  | 118.8                    | 109.8           | 8%      | 106.0                   | 12%     |
| Cash and eligible bills   | 42.0                     | 41.2            | 2%      | 74.0                    | (43%)   |
| Other   | 34.9                     | 34.5            | 1%      | 31.1                    | 12%     |
| Total third party assets (excluding derivatives mark-to-market) | 420.7                    | 400.0           | 5%      | 412.2                   | 2%      |
| Net derivative assets (after netting)                           | 41.1                     | 52.1            | (21%)   | 68.0                    | (40%)   |
| Customer deposits (excluding repos)                             | 40.9                     | 45.6            | (10%)   | 46.9                    | (13%)   |
| Risk elements in lending  | 1.6                      | 1.8             | (11%)   | 1.8                     | (11%)   |
| Loan:deposit ratio (excluding repos)                            | 215%                     | 195%            | 2,000bp | 194%                    | 2,100bp |
| Risk-weighted assets  | 143.7                    | 141.3           | 2%      | 123.7                   | 16%     |

## Notes:

- (1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 10% of divisional risk-weighted assets, adjusted for capital deductions).
- (2) Compensation ratio is based on staff costs as a percentage of total income, excluding the fair value of own debt.

Key points

Q3 2010 compared with Q2 2010

- Operating profit, excluding fair value of own debt, fell 21% to £589 million, with reduced revenue partially offset by a net recovery on impairments and a small reduction in costs.
- Excluding fair value of own debt, revenue fell 20%. Adjusting for the impact of the tightening in the Group's credit spreads on derivative liabilities the decline was 13%. Trading volumes were weak as investors remained risk averse amidst uncertainty in the global economy. Volatility also subsided as concerns about European sovereign debt default decreased during the quarter. In spite of this environment, GBM continued to focus on serving its customers, remaining a top three bookrunner for IG Corporates in EMEA DCM.
- Movements in fair value of own debt reduced revenue by £598 million in the quarter. This reflects the narrowing of the Group's credit spreads, driven by the announcements of the European bank stress tests in July and the Basel Committee recommendations on capital and liquidity.

RBS Group – Q3 2010 Results

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Global Banking & Markets (continued)

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Key points (continued)

Q3 2010 compared with Q2 2010 (continued)

- Rates flow and Credit and mortgage markets products suffered from subdued client flow, but Currencies revenues recovered somewhat. Portfolio revenue fell back after a spike in market derivative values in Q2 2010.
- Total costs fell by 3% compared with Q2 2010. Excluding fair value of own debt, the cost:income ratio for the nine months to September 2010 was 53%, below the 55% strategic plan target. The year-to-date compensation ratio of 34%, excluding fair value of own debt, remains within the expected range of 32-35%.
- Impairments for the quarter were negligible, with no significant single name defaults, low levels of underlying impairment and several modest recoveries, resulting in a credit of £40 million.
- Third party assets increased by £21 billion during Q3 2010, to £421 billion, within the normal range of £400 billion to £450 billion, reflecting increased customer demand for securities and a pick up in repo trading activity towards the end of the period.
- Risk-weighted assets increased by 2% over the period reflecting effective management of underlying risk which mitigated the impact of changes in the regulatory treatment of some assets.
- Adjusting for the fair value of own debt, return on equity for the quarter was 11.3% and 18.0% for the nine months to September 2010, ahead of the strategic plan target of 15% despite tough market conditions during Q2 and Q3 2010.

Q3 2010 compared with Q3 2009

- Operating profit declined by 8%, excluding movements in fair value of own debt, reflecting lower revenue that was partially offset by lower costs and impairments.
- Excluding the movement in fair value of own debt, revenue fell 25%. Rates, money markets and flow revenue fell, reflecting reduced volatility and client activity. However, revenue from currencies improved, driven by a significantly better performance in emerging markets.
- Credit and mortgage market revenue declined as mortgage trading income fell from the buoyant trading conditions experienced in Q3 2009. Reduced revenue in Equities reflected lower ECM volumes in the EMEA region. Portfolio management revenue improved as a result of lower costs of balance sheet management and lower losses on market derivative values.
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Third party assets over the period declined by £38 billion, an 8% year-on-year reduction. This was a result of active balance sheet management.

RBS Group – Q3 2010 Results

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## RBS Insurance

|                                       | Quarter ended                 |                       |                               | Nine months ended             |                               |
|---------------------------------------|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|                                       | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| <b>Income statement</b>               |                               |                       |                               |                               |                               |
| Earned premiums                       | 1,111                         | 1,118                 | 1,145                         | 3,359                         | 3,370                         |
| Reinsurers' share                     | (36)                          | (38)                  | (43)                          | (108)                         | (128)                         |
| Net premium income                    | 1,075                         | 1,080                 | 1,102                         | 3,251                         | 3,242                         |
| Fees and commissions                  | (96)                          | (91)                  | (95)                          | (276)                         | (282)                         |
| Instalment income                     | 37                            | 35                    | 37                            | 107                           | 104                           |
| Other income                          | -                             | 7                     | 6                             | 13                            | 19                            |
| <b>Total income</b>                   | <b>1,016</b>                  | <b>1,031</b>          | <b>1,050</b>                  | <b>3,095</b>                  | <b>3,083</b>                  |
| Net claims                            | (949)                         | (1,132)               | (928)                         | (3,055)                       | (2,479)                       |
| Underwriting profit/(loss)            | 67                            | (101)                 | 122                           | 40                            | 604                           |
| Staff expenses                        | (68)                          | (66)                  | (67)                          | (197)                         | (206)                         |
| Other expenses                        | (41)                          | (48)                  | (47)                          | (136)                         | (168)                         |
| <b>Total direct expenses</b>          | <b>(109)</b>                  | <b>(114)</b>          | <b>(114)</b>                  | <b>(333)</b>                  | <b>(374)</b>                  |
| Indirect expenses                     | (66)                          | (62)                  | (64)                          | (193)                         | (195)                         |
|                                       | (175)                         | (176)                 | (178)                         | (526)                         | (569)                         |
| Technical result                      | (108)                         | (277)                 | (56)                          | (486)                         | 35                            |
| Impairment losses                     | -                             | -                     | (2)                           | -                             | (8)                           |
| Investment income                     | 75                            | 74                    | 69                            | 200                           | 201                           |
| <b>Operating (loss)/profit</b>        | <b>(33)</b>                   | <b>(203)</b>          | <b>11</b>                     | <b>(286)</b>                  | <b>228</b>                    |
| <b>Analysis of income by product</b>  |                               |                       |                               |                               |                               |
| Personal lines motor excluding broker |                               |                       |                               |                               |                               |
| - Own brands                          | 442                           | 442                   | 462                           | 1,330                         | 1,322                         |
| - Partnerships                        | 64                            | 67                    | 76                            | 199                           | 226                           |
| Personal lines home excluding broker  |                               |                       |                               |                               |                               |
| - Own brands                          | 119                           | 118                   | 112                           | 354                           | 326                           |
| - Partnerships                        | 91                            | 94                    | 95                            | 282                           | 278                           |
| Personal lines other excluding broker |                               |                       |                               |                               |                               |

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|   |       |       |       |       |       |
|---|-------|-------|-------|-------|-------|
| - Own brands                              | 47    | 46    | 48    | 143   | 139   |
| - Partnerships                            | 42    | 51    | 50    | 145   | 158   |
| Other                                     |       |       |       |       |       |
| - Commercial and international            | 155   | 150   | 141   | 459   | 435   |
| - Other (including personal lines broker) | 56    | 63    | 66    | 183   | 199   |
| Total income                              | 1,016 | 1,031 | 1,050 | 3,095 | 3,083 |

RBS Group – Q3 2010 Results

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## RBS Insurance (continued)

## Key metrics

|   | Quarter ended           |                    | Nine months ended       |                         |                         |
|---|-------------------------|--------------------|-------------------------|-------------------------|-------------------------|
|   | 30<br>September<br>2010 | 30<br>June<br>2010 | 30<br>September<br>2009 | 30<br>September<br>2010 | 30<br>September<br>2009 |
| In-force policies (thousands)             |                         |                    |                         |                         |                         |
| Personal lines motor excluding broker     |                         |                    |                         |                         |                         |
| - Own brands                              | 4,276                   | 4,424              | 4,798                   | 4,276                   | 4,798                   |
| - Partnerships                            | 698                     | 755                | 874                     | 698                     | 874                     |
| Personal lines home excluding broker      |                         |                    |                         |                         |                         |
| - Own brands                              | 1,765                   | 1,772              | 1,671                   | 1,765                   | 1,671                   |
| - Partnerships                            | 1,859                   | 1,875              | 1,947                   | 1,859                   | 1,947                   |
| Personal lines other excluding broker     |                         |                    |                         |                         |                         |
| - Own brands                              | 2,069                   | 2,194              | 2,250                   | 2,069                   | 2,250                   |
| - Partnerships                            | 7,201                   | 7,186              | 7,518                   | 7,201                   | 7,518                   |
| Other                                     |                         |                    |                         |                         |                         |
| - Commercial and international            | 1,373                   | 1,322              | 1,213                   | 1,373                   | 1,213                   |
| - Other (including personal lines broker) | 911                     | 1,046              | 1,053                   | 911                     | 1,053                   |
| Total in-force policies (1)               | 20,152                  | 20,574             | 21,324                  | 20,152                  | 21,324                  |
| Gross written premium (£m)                | 1,128                   | 1,092              | 1,186                   | 3,310                   | 3,456                   |
| Performance ratios                        |                         |                    |                         |                         |                         |
| Return on equity (2)                      | (3.5%)                  | (21.8%)            | 1.2%                    | (10.2%)                 | 8.5%                    |
| Cost:income ratio (3)                     | 16%                     | 16%                | 16%                     | 16%                     | 17%                     |
| Loss ratio (4)                            | 88.6%                   | 106.3%             | 84.0%                   | 94.7%                   | 75.9%                   |
| Combined operating ratio (5)              | 110.2%                  | 128.7%             | 104.7%                  | 116.9%                  | 98.4%                   |
| Balance sheet                             |                         |                    |                         |                         |                         |
| General insurance reserves – total (£m)   | 7,552                   | 7,326              | 6,839                   | 7,552                   | 6,839                   |

## Notes:

(1) Total in-force policies include travel and creditor policies sold through RBS Group. These comprise travel policies included in bank accounts e.g. Royalties Gold Account, and creditor policies sold with bank products including mortgage, loan & card repayment payment protection.

(2)

Return on equity is based on divisional operating profit/(loss) after tax, divided by divisional notional equity (based on regulatory capital).

- (3) Cost:income ratio is based on total income, including investment income and total expenses.
- (4) Loss ratio is based on net claims divided by net premium income for the UK businesses.
- (5) Combined operating ratio is the expenses (including fees & commissions) divided by gross written premium income, added to the loss ratio, for the UK businesses.

#### Key points

##### Q3 2010 compared with Q2 2010

Performance improved on Q2 2010 due to lower additions to bodily injury reserves in the quarter. Tighter underwriting criteria are now in effect and pricing and claims management initiatives for bodily injury have started to deliver; further improvements still need to be fully embedded to restore the business to sustainable profitability.

RBS Insurance recently announced plans to rationalise its operational sites. This together with further actions to drive down expenses will deliver a more robust and cost-competitive platform for the business.

As planned, total in-force policies have declined. A reduction in motor policies following significant re-pricing as well as the Group's exit from less profitable partnership and broker business, has been partly offset by growth in Commercial and International policies.

#### RBS Group – Q3 2010 Results

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RBS Insurance (continued)

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Key points (continued)

Q3 2010 compared with Q2 2010 (continued)

Total income declined slightly to £1,016 million. Although motor pricing has increased, premium income has fallen as a result of exiting the higher risk, higher premium motor business.

Net claims were 16% lower than Q2 2010, during which additional reserves totalling £320 million were established in respect of bodily injury. For Q3 2010 an additional £100 million has been added to bodily injury claims reserves, largely relating to periodic payment orders following an industry-wide review during the quarter. In response to this claims experience, motor pricing has been further increased from the second quarter and significant progress continues to be made in removing higher risk business from the overall motor book by targeted rating actions.

Expenses were flat in the quarter, with higher staff expenses offset by lower marketing costs and levies. In advance of the main phase of planned role reductions, additional headcount has been required to deliver the business transformation programme.

Q3 2010 compared with Q3 2009

- Total in-force policies declined by 5%, reflecting the change in mix of the policy book, with motor own-brand policies down 11% but own-brand home policies up 6%. The partnership and broker segment declined by 11%, in line with business strategy.
  - Total income declined by 3% as a result of a reduction in in-force policies, including the removal of higher risk, higher premium motor business, partially offset by increased pricing.
- Our market leading home business has continued to make solid progress with an increase in year to date total income of 5%.
- Net claims were 2% higher, principally driven by the deterioration in the observed severity of bodily injury claims.
  - Expenses were down 2%, driven by lower levies and marketing costs.
  - The combined operating ratio, including indirect costs, was 110.2% compared with 104.7% in Q3 2009, owing to the impact of increased reserving for bodily injury claims partially mitigated by expense ratio improvement. Excluding increased bodily injury reserving relating to prior years, the combined operating ratio was 100.2%.

RBS Group – Q3 2010 Results

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## Central items

|   | Quarter ended                 |                       |                               | Nine months ended             |                               |
|---|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|   | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| Central items not allocated before fair |                               |                       |                               |                               |                               |
| value of own debt                       | 76                            | 49                    | 283                           | 462                           | 554                           |
| Fair value of own debt                  | (260)                         | 288                   | (163)                         | (109)                         | (257)                         |
| Central items not allocated             | (184)                         | 337                   | 120                           | 353                           | 297                           |

## Key points

- Funding and operating costs have been allocated to operating divisions, based on direct service usage, the requirement for market funding and other appropriate drivers where services span more than one division.
- Residual unallocated items relate to volatile corporate items that do not naturally reside within a division.

## Q3 2010 compared with Q2 2010

- Movements in the fair value of own debt represented a net debit of £260 million in the quarter. The Group's credit spreads narrowed over the quarter, resulting in an increase in the carrying value of own debt.
- Central items not allocated, which are primarily volatile Group Treasury items, amounted to a net credit of £76 million, an increase of £27 million on Q2 2010. In Q3 2010 RBS N.V. realised a gain of £216 million on the sale of AFS securities. This was largely offset by negative movements relating to IFRS volatility.

## Q3 2010 compared with Q3 2009

- Movements in the fair value of own debt in both periods reflect a marked narrowing in the Group's credit spreads.
- Central items not allocated during the quarter declined by £207 million relative to Q3 2009. This movement is attributable to unallocated volatile Group Treasury items.

RBS Group – Q3 2010 Results

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## Non-Core

|   | Quarter ended                 |                          |                               | Nine months ended             |                               |
|---|-------------------------------|--------------------------|-------------------------------|-------------------------------|-------------------------------|
|   | 30<br>September<br>2010<br>£m | 30<br>June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| <b>Income statement</b>   |                               |                          |                               |                               |                               |
| Net interest income   | 438                           | 534                      | 287                           | 1,540                         | 956                           |
| Net fees and commissions  | 43                            | 158                      | 130                           | 305                           | 381                           |
| Income from trading activities  | 219                           | 33                       | (579)                         | 121                           | (4,380)                       |
| Insurance net premium income  | 180                           | 173                      | 173                           | 521                           | 613                           |
| Other operating income  |                               |                          |                               |                               |                               |
| - rental income   | 166                           | 181                      | 179                           | 534                           | 512                           |
| - other   | (158)                         | (206)                    | (136)                         | (326)                         | (491)                         |
| Non-interest income   | 450                           | 339                      | (233)                         | 1,155                         | (3,365)                       |
| Total income  | 888                           | 873                      | 54                            | 2,695                         | (2,409)                       |
| <b>Direct expenses</b>  |                               |                          |                               |                               |                               |
| - staff   | (172)                         | (202)                    | (150)                         | (626)                         | (604)                         |
| - other   | (277)                         | (269)                    | (244)                         | (828)                         | (747)                         |
| Indirect expenses   | (130)                         | (121)                    | (132)                         | (373)                         | (411)                         |
|   | (579)                         | (592)                    | (526)                         | (1,827)                       | (1,762)                       |
| <b>Operating profit/(loss) before other operating charges and impairment losses</b> |                               |                          |                               |                               |                               |
| Insurance net claims  | (144)                         | (215)                    | (126)                         | (492)                         | (440)                         |
| Impairment losses   | (1,171)                       | (1,390)                  | (2,066)                       | (4,265)                       | (7,410)                       |
| Operating loss  | (1,006)                       | (1,324)                  | (2,664)                       | (3,889)                       | (12,021)                      |
| <b>Analysis of income by business</b>   |                               |                          |                               |                               |                               |
| Banking & portfolio   | 131                           | 239                      | (271)                         | 641                           | (1,375)                       |
| International businesses & portfolios   | 330                           | 606                      | 537                           | 1,568                         | 1,769                         |
| Markets   | 427                           | 28                       | (212)                         | 486                           | (2,803)                       |
| Total income  | 888                           | 873                      | 54                            | 2,695                         | (2,409)                       |
| <b>Key metrics</b>  |                               |                          |                               |                               |                               |
|   | Quarter ended                 |                          |                               | Nine months ended             |                               |

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|                            | 30<br>September<br>2010 | 30 June<br>2010 | 30<br>September<br>2009 | 30<br>September<br>2010 | 30<br>September<br>2009 |
|----------------------------|-------------------------|-----------------|-------------------------|-------------------------|-------------------------|
| Performance ratios         |                         |                 |                         |                         |                         |
| Net interest margin        | 1.05%                   | 1.22%           | 0.55%                   | 1.18%                   | 0.54%                   |
| Cost:income ratio          | 65%                     | 68%             | 974%                    | 68%                     | (73%)                   |
| Adjusted cost:income ratio | 78%                     | 90%             | (731%)                  | 83%                     | (62%)                   |

RBS Group – Q3 2010 Results

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## Non-Core (continued)

|  | 30        |         |        | 31       |        |
|--|-----------|---------|--------|----------|--------|
|  | September | 30 June |        | December |        |
|  | 2010      | 2010    | Change | 2009     | Change |
|  | £bn       | £bn     |        | £bn      |        |
| Capital and balance sheet (1)                        |           |         |        |          |        |
| Total third party assets (including derivatives) (2) | 175.2     | 193.3   | (9%)   | 220.9    | (21%)  |
| Loans and advances to customers (gross)              | 119.5     | 126.4   | (5%)   | 149.5    | (20%)  |
| Customer deposits                                    | 7.3       | 7.4     | (1%)   | 12.6     | (42%)  |
| Risk elements in lending                             | 23.9      | 22.0    | 9%     | 22.9     | 4%     |
| Risk-weighted assets (3)                             | 166.9     | 175.0   | (5%)   | 171.3    | (3%)   |

## Notes:

- (1) Includes disposal groups.
- (2) Derivatives were £21.0 billion at 30 September 2010 (30 June 2010 – £19.4 billion; 31 December – £19.9 billion).
- (3) Includes Sempra: 30 September 2010 Third party assets (TPAs) £8.3 billion, RWAs £5.9 billion; (30 June 2010 TPAs £12.7 billion, RWAs £9.7 billion; 31 December 2009 TPAs £14.2 billion, RWAs £10.2 billion).

|                                       | Quarter ended |       |           | Nine months ended |           |
|---------------------------------------|---------------|-------|-----------|-------------------|-----------|
|                                       | 30            | 30    | 30        | 30                | 30        |
|                                       | September     | June  | September | September         | September |
|                                       | 2010          | 2010  | 2009      | 2010              | 2009      |
|                                       | £m            | £m    | £m        | £m                | £m        |
| Income/(loss) from trading activities |               |       |           |                   |           |
| Monoline exposures                    | 191           | (139) | (37)      | 52                | (1,708)   |
| Credit derivative product companies   | (15)          | (55)  | (277)     | (101)             | (846)     |
| Asset backed products (1)             | 160           | 97    | 148       | 202               | (393)     |
| Other credit exotics                  | (2)           | 47    | (38)      | 56                | (574)     |
| Equities                              | (15)          | (6)   | (13)      | (28)              | (38)      |
| Banking book hedges                   | (123)         | 147   | (386)     | (12)              | (1,382)   |
| Other (2)                             | 23            | (58)  | 24        | (48)              | 561       |
|                                       | 219           | 33    | (579)     | 121               | (4,380)   |
| Impairment losses                     |               |       |           |                   |           |
| Banking & portfolio                   | 204           | 256   | 1,347     | 1,157             | 3,320     |
|                                       | 980           | 1,124 | 1,234     | 3,055             | 3,592     |

|  |        |       |          |       |       |
|--|--------|-------|----------|-------|-------|
| International businesses & portfolios  |        |       |          |       |       |
| Markets  | (13)   | 10    | (515)    | 53    | 498   |
| Total impairment   | 1,171  | 1,390 | 2,066    | 4,265 | 7,410 |
| Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) (3) |        |       |          |       |       |
| Banking & portfolio  | 1.3%   | 1.8%  | 6.0%     | 2.4%  | 4.8%  |
| International businesses & portfolios  | 6.9%   | 7.4%  | 6.9%     | 7.2%  | 6.7%  |
| Markets  | (0.5%) | 3.6%  | (126.8%) | 8.8%  | 5.7%  |
|  | 3.9%   | 4.4%  | 5.4%     | 4.7%  | 5.7%  |

RBS Group – Q3 2010 Results

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## Non-Core (continued)

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|                                       | 30<br>September<br>2010<br>£bn | 30 June<br>2010<br>£bn | 31<br>December<br>2009<br>£bn |
|---------------------------------------|--------------------------------|------------------------|-------------------------------|
| Gross customer loans and advances     |                                |                        |                               |
| Banking & portfolio                   | 64.4                           | 67.8                   | 82.0                          |
| International businesses & portfolios | 54.8                           | 58.2                   | 65.6                          |
| Markets                               | 0.3                            | 0.4                    | 1.9                           |
|                                       | 119.5                          | 126.4                  | 149.5                         |
| Risk-weighted assets                  |                                |                        |                               |
| Banking & portfolio                   | 54.0                           | 55.1                   | 58.2                          |
| International businesses & portfolios | 40.6                           | 40.4                   | 43.8                          |
| Markets                               | 72.3                           | 79.5                   | 69.3                          |
|                                       | 166.9                          | 175.0                  | 171.3                         |

## Notes:

- (1) Asset-backed products include super senior asset-backed structures and other asset-backed products.
- (2) Includes profits in Sempra of £78 million (30 June 2010 – £125 million; 31 December 2009 – £161 million).
- (3) Includes disposal groups.

## Non-Core (continued)

## Third party assets (excluding derivatives)

## Quarter ended 30 September 2010

|                                   | 30 June<br>2010<br>£bn | Run-off<br>£bn | Disposals/<br>restructuring<br>£bn | Drawings/<br>roll overs<br>£bn | Impairments<br>£bn | FX<br>£bn | 30<br>September<br>2010<br>£bn |
|-----------------------------------|------------------------|----------------|------------------------------------|--------------------------------|--------------------|-----------|--------------------------------|
| Commercial real estate            | 44.1                   | 2.9            | (0.3)                              | (0.2)                          | (1.2)              | 1.2       | 46.5                           |
| Corporate                         | 70.4                   | (2.8)          | (2.4)                              | 0.6                            | 0.1                | 0.2       | 66.1                           |
| SME                               | 4.7                    | (0.8)          | -                                  | -                              | -                  | -         | 3.9                            |
| Retail                            | 16.8                   | (6.2)          | -                                  | -                              | (0.1)              | (0.2)     | 10.3                           |
| Other                             | 3.0                    | (0.2)          | (0.3)                              | 0.1                            | -                  | -         | 2.6                            |
| Markets                           | 22.3                   | (1.4)          | (4.4)                              | 0.4                            | -                  | (0.4)     | 16.5                           |
| Total (excluding derivatives) (1) | 161.3                  | (8.5)          | (7.4)                              | 0.9                            | (1.2)              | 0.8       | 145.9                          |
| Markets – Sempra                  | 12.7                   | (0.5)          | (3.3)                              | -                              | -                  | (0.6)     | 8.3                            |
| Total (2)                         | 174.0                  | (9.0)          | (10.7)                             | 0.9                            | (1.2)              | 0.2       | 154.2                          |

## Quarter ended 30 June 2010

|                               | 31 March<br>2010<br>£bn | Run-off<br>£bn | Disposals/<br>restructuring<br>£bn | Drawings/<br>roll overs<br>£bn | Impairments<br>£bn | FX<br>£bn | 30 June<br>2010<br>£bn |
|-------------------------------|-------------------------|----------------|------------------------------------|--------------------------------|--------------------|-----------|------------------------|
| Commercial real estate        | 49.5                    | (5.3)          | (0.3)                              | 2.8                            | (1.1)              | (1.5)     | 44.1                   |
| Corporate                     | 78.8                    | (2.6)          | (4.5)                              | 0.6                            | 0.1                | (2.0)     | 70.4                   |
| SME                           | 4.0                     | 0.9            | -                                  | -                              | (0.1)              | (0.1)     | 4.7                    |
| Retail                        | 19.8                    | (0.5)          | (1.7)                              | -                              | (0.2)              | (0.6)     | 16.8                   |
| Other                         | 3.3                     | (0.2)          | (0.1)                              | -                              | -                  | -         | 3.0                    |
| Markets                       | 24.1                    | (0.6)          | (1.4)                              | 0.6                            | (0.1)              | (0.3)     | 22.3                   |
| Total (excluding derivatives) | 179.5                   | (8.3)          | (8.0)                              | 4.0                            | (1.4)              | (4.5)     | 161.3                  |
| Markets – Sempra              | 14.0                    | (1.4)          | -                                  | -                              | -                  | 0.1       | 12.7                   |
| Total                         | 193.5                   | (9.7)          | (8.0)                              | 4.0                            | (1.4)              | (4.4)     | 174.0                  |

## Nine months ended 30 September 2010

|  | 31<br>December<br>2009 | Run-off | Disposals/<br>restructuring | Drawings/<br>roll overs | Impairments | FX | 30 September<br>2010 |
|--|------------------------|---------|-----------------------------|-------------------------|-------------|----|----------------------|
|--|------------------------|---------|-----------------------------|-------------------------|-------------|----|----------------------|

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|                                   | £bn   | £bn    | £bn    | £bn | £bn   | £bn   | £bn   |
|-----------------------------------|-------|--------|--------|-----|-------|-------|-------|
| Commercial real estate            | 51.3  | (3.9)  | (0.6)  | 2.8 | (3.4) | 0.3   | 46.5  |
| Corporate                         | 82.6  | (10.0) | (8.1)  | 1.6 | (0.2) | 0.2   | 66.1  |
| SME                               | 3.9   | 0.1    | -      | -   | (0.1) | -     | 3.9   |
| Retail                            | 19.9  | (7.1)  | (1.9)  | 0.1 | (0.5) | (0.2) | 10.3  |
| Other                             | 4.7   | (2.0)  | (0.4)  | 0.3 | -     | -     | 2.6   |
| Markets                           | 24.4  | (3.2)  | (6.1)  | 1.0 | (0.1) | 0.5   | 16.5  |
| Total (excluding derivatives) (1) | 186.8 | (26.1) | (17.1) | 5.8 | (4.3) | 0.8   | 145.9 |
| Markets – Sempra                  | 14.2  | (3.1)  | (3.3)  | -   | -     | 0.5   | 8.3   |
| Total (2)                         | 201.0 | (29.2) | (20.4) | 5.8 | (4.3) | 1.3   | 154.2 |

Note:

- (1) Intra-group transfers during Q3 resulted in a net £2.2 billion reduction in TPAs. As a result of this transfer there was an increase of Commercial real estate assets totalling £5.4 billion, offset by reductions across other sectors, principally Retail.
- (2) In addition, £9.4 billion of disposals have been signed as of 30 September 2010 but are pending closing (30 June 2010 – £1.9 billion; 31 December 2009 - £3.0 billion).

RBS Group – Q3 2010 Results

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## Non-Core (continued)

|  | Quarter ended                 |                       |                               | Nine months ended             |                               |
|--|-------------------------------|-----------------------|-------------------------------|-------------------------------|-------------------------------|
|  | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 30<br>September<br>2009<br>£m | 30<br>September<br>2010<br>£m | 30<br>September<br>2009<br>£m |
| Loan impairment losses by<br>donating<br>division and sector |                               |                       |                               |                               |                               |
| UK Retail  |                               |                       |                               |                               |                               |
| Mortgages  | 1                             | -                     | 1                             | 4                             | 4                             |
| Personal   | 4                             | -                     | 11                            | 6                             | 42                            |
| Total UK Retail  | 5                             | -                     | 12                            | 10                            | 46                            |
| UK Corporate   |                               |                       |                               |                               |                               |
| Manufacturing and<br>infrastructure                          | 5                             | 21                    | 14                            | 21                            | 46                            |
| Property and construction                                    | 130                           | 150                   | 162                           | 334                           | 488                           |
| Transport  | 26                            | (3)                   | 5                             | 23                            | 8                             |
| Banks and financials   | (8)                           | 2                     | 1                             | 18                            | 102                           |
| Lombard  | 25                            | 29                    | 27                            | 79                            | 82                            |
| Invoice finance  | (3)                           | -                     | 2                             | (3)                           | 2                             |
| Other  | (2)                           | 64                    | 33                            | 119                           | 609                           |
| Total UK Corporate   | 173                           | 263                   | 244                           | 591                           | 1,337                         |
| Ulster Bank  |                               |                       |                               |                               |                               |
| Mortgages  | (1)                           | 23                    | 7                             | 42                            | 26                            |
| Commercial investment and<br>development                     | 201                           | 147                   | 20                            | 458                           | 47                            |
| Residential investment and<br>development                    | 394                           | 384                   | 406                           | 1,129                         | 749                           |
| Other  | 82                            | 137                   | 148                           | 270                           | 184                           |
| Other EMEA   | 13                            | 13                    | 27                            | 46                            | 86                            |
| Total Ulster Bank  | 689                           | 704                   | 608                           | 1,945                         | 1,092                         |
| US Retail & Commercial                                       |                               |                       |                               |                               |                               |
| Auto and consumer  | (2)                           | 32                    | 49                            | 45                            | 109                           |
| Cards  | 2                             | 4                     | 33                            | 20                            | 104                           |
| SBO/home equity  | 57                            | 67                    | 69                            | 226                           | 367                           |
| Residential mortgages  | 3                             | (10)                  | 20                            | 5                             | 41                            |
| Commercial real estate                                       | 49                            | 42                    | 85                            | 154                           | 173                           |



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|                                  |       |       |       |       |       |
|----------------------------------|-------|-------|-------|-------|-------|
| Commercial and other             | 7     | 6     | 39    | 15    | 75    |
| Total US Retail & Commercial     | 116   | 141   | 295   | 465   | 869   |
| Global Banking & Markets         |       |       |       |       |       |
| Manufacturing and infrastructure | (53)  | (281) | 309   | (305) | 1,320 |
| Property and construction        | 147   | 501   | 141   | 1,120 | 730   |
| Transport                        | 8     | -     | 5     | 9     | 173   |
| Telecoms, media and technology   | 32    | 11    | 23    | 32    | 543   |
| Banks and financials             | 5     | 11    | 270   | 177   | 523   |
| Other                            | 52    | 24    | 84    | 177   | 529   |
| Total Global Banking & Markets   | 191   | 266   | 832   | 1,210 | 3,818 |
| Other                            |       |       |       |       |       |
| Wealth                           | 7     | 16    | 50    | 51    | 213   |
| Global Transaction Services      | (10)  | -     | 25    | (7)   | 35    |
| Central items                    | -     | -     | -     | -     | -     |
| Total Other                      | (3)   | 16    | 75    | 44    | 248   |
| Total impairment losses          | 1,171 | 1,390 | 2,066 | 4,265 | 7,410 |

RBS Group – Q3 2010 Results

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## Non-Core (continued)

|   | 30<br>September<br>2010<br>£bn | 30 June<br>2010<br>£bn | 31<br>December<br>2009<br>£bn |
|---|--------------------------------|------------------------|-------------------------------|
| Gross loans and advances to customers (excluding reverse repurchase agreements) by donating division and sector |                                |                        |                               |
| UK Retail   |                                |                        |                               |
| Mortgages   | 1.7                            | 1.8                    | 1.9                           |
| Personal  | 0.5                            | 0.5                    | 0.7                           |
| Total UK Retail   | 2.2                            | 2.3                    | 2.6                           |
| UK Corporate  |                                |                        |                               |
| Manufacturing and infrastructure  | 0.3                            | 0.4                    | 0.3                           |
| Property and construction   | 12.1                           | 12.9                   | 14.1                          |
| Lombard   | 1.9                            | 2.4                    | 2.9                           |
| Invoice finance   | -                              | -                      | 0.4                           |
| Other   | 14.2                           | 14.7                   | 17.2                          |
| Total UK Corporate  | 28.5                           | 30.4                   | 34.9                          |
| Ulster Bank   |                                |                        |                               |
| Mortgages   | -                              | 5.6                    | 6.0                           |
| Commercial investment and development   | 6.7                            | 4.1                    | 3.0                           |
| Residential investment and development  | 6.0                            | 3.8                    | 5.6                           |
| Other   | 2.0                            | 1.3                    | 1.1                           |
| Other EMEA  | 0.8                            | 0.9                    | 1.0                           |
| Total Ulster Bank   | 15.5                           | 15.7                   | 16.7                          |
| US Retail & Commercial  |                                |                        |                               |
| Auto and consumer   | 2.7                            | 3.0                    | 3.2                           |
| Cards   | 0.1                            | 0.2                    | 0.5                           |
| SBO/home equity   | 3.3                            | 3.6                    | 3.7                           |
| Residential mortgages   | 0.8                            | 0.9                    | 0.8                           |
| Commercial real estate  | 1.7                            | 1.9                    | 1.9                           |
| Commercial and other  | 0.6                            | 0.7                    | 0.9                           |
| Total US Retail & Commercial  | 9.2                            | 10.3                   | 11.0                          |
| Global Banking & Markets  |                                |                        |                               |
| Manufacturing and infrastructure  | 10.6                           | 13.4                   | 17.5                          |

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|   |           |           |           |
|---|-----------|-----------|-----------|
| Property and construction   | 22.9      | 21.6      | 25.7      |
| Transport   | 5.6       | 5.3       | 5.8       |
| Telecoms, media and technology  | 1.1       | 2.0       | 3.2       |
| Banks and financials  | 13.8      | 15.7      | 16.0      |
| Other   | 10.5      | 9.4       | 13.5      |
| <br>Total Global Banking & Markets  | <br>64.5  | <br>67.4  | <br>81.7  |
| <br>Other   |           |           |           |
| Wealth  | 0.7       | 0.9       | 2.6       |
| Global Transaction Services   | 0.5       | 0.6       | 0.8       |
| RBS Insurance   | 0.2       | 0.2       | 0.2       |
| Central items   | (2.1)     | (2.1)     | (3.2)     |
| <br>Total Other   | <br>(0.7) | <br>(0.4) | <br>0.4   |
| <br>Gross loans and advances to customers (excluding<br>reverse repurchase<br>agreements) | <br>119.2 | <br>125.7 | <br>147.3 |

RBS Group – Q3 2010 Results

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Non-Core (continued)

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Key points

Q3 2010 compared with Q2 2010

- Good progress was made in Non-Core's asset reduction programme, with third party assets (excluding derivatives) declining by £20 billion to £154 billion. This was due to the division's disposal programme (£11 billion), including the disposal of £4 billion of assets in the markets business, and portfolio run-off (£9 billion).
- RWAs decreased £8 billion from £175 billion to £167 billion. The largest drivers of the change were the partial disposal of Sempra JV business and other sales across the Non-Core division offset by intra-group transfers, and regulatory model changes.
- Non-Core operating loss was £1,006 million in the third quarter, compared with £1,324 million in Q2 2010, primarily due to improved results from trading activities and lower impairments.
- Income from trading activities totalled £219 million, compared with £33 million in the second quarter. This reflects disposal gains on super senior assets as well as valuation gains in relation to monolines as spreads tightened. These were offset by losses incurred across CDS portfolios also due to tightening spreads. Sempra Commodities reported revenues £43 million lower than the second quarter following the disposal of its metals, oil and European energy business lines to J.P. Morgan in July.
- Net interest income fell by £96 million, principally reflecting a reduction of 5% in the loan book. Other operating income totalled £8 million in Q3 2010 compared with a loss of £25 million in Q2 2010. Rental income of £166 million fell by £15 million compared to the second quarter due to run-off. Disposal losses in Q3 2010 totalled £304 million, balanced by some revaluations of equity positions totalling £146 million.
- Expenses declined by 2%, reflecting a number of business disposals.
- Impairment losses continued to trend down to £1,171 million. Underlying impairments continued to slow, and the division experienced a number of write-backs in its leveraged lending business, though at a lower level than Q2 2010.

Q3 2010 compared with Q3 2009

- Over the 12 months to 30 September 2010, third party assets (excluding derivatives) decreased by £48 billion, 24%, as a result of the division's disposal strategy, managed portfolio run-off and impairments.
- Operating losses decreased substantially from the £2,664 million loss recorded in Q3 2009, with significant improvements in both trading income and impairments.

- Impairments were £895 million lower than in Q3 2009. This reflected the steadily improving environment over the period. However, charges as a result of the continued decline in the UK and Irish commercial property sectors remain high.
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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: 5 November 2010

THE ROYAL BANK OF  
SCOTLAND GROUP plc  
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill  
Title: Deputy Secretary