ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
November 09, 2012
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of
the Securities Exchange Act of 1934

09 November 2012

The Royal Bank of Scotland Group plc

Gogarburn
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Scotland
United Kingdom

(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-

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-184147 and 333-184147-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

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Forward-looking statements

Certain sections in this document contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘believes’, ‘should’, ‘intend’, ‘plan’, ‘could’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘obje ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on such expressions.

In particular, this document includes forward-looking statements relating, but not limited to: the Group’s restructuring plans, divestments, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk weighted assets (RWAs), return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; discretionary coupon and dividend payments; certain ring-fencing proposals; sustainability targets; the Group’s future financial performance; the level and extent of future impairments and write-downs, including sovereign debt impairments; and the Group’s potential exposures to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the ability to implement strategic plans on a timely basis, or at all, including the disposal of certain Non-Core assets and of certain assets and businesses required as part of the State Aid restructuring plan; organisational restructuring, including any adverse consequences of a failure to transfer, or a further delay in transferring, certain business assets and liabilities from RBS N.V. to RBS; the ability to access sufficient sources of liquidity and funding when required; deteriorations in borrower and counterparty credit quality; litigation, government and regulatory investigations including investigations relating to the setting of LIBOR and other interest rates; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the United States; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; ineffective management of capital or changes to capital adequacy or liquidity requirements; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group’s operations) in the United Kingdom, the United States and other countries in which the Group operates or a change in United Kingdom Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the implementation of recommendations made by the Independent Commission on Banking (ICB) and their potential implications; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; insurance claims; reputational risk; the ability to access the contingent capital arrangements with HM Treasury; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group’s activities as a result of HM Treasury’s investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

The forward-looking statements contained in this document speak only as of the date of this announcement, and the Group does not undertake to update any forward-looking statement to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

The information, statements and opinions contained in this document do not constitute a public offer under any applicable legislation or an offer to sell or solicitation of any offer to buy any securities or financial instruments or any advice or recommendation with respect to such securities or other financial instruments.

Presentation of information

The company publishes its financial statements in pounds sterling ('£' or 'sterling'). The abbreviations '£m' and '£bn' represent millions and thousands of millions of pounds sterling, respectively, and references to 'pence' represent pence in the United Kingdom ('UK'). Reference to 'dollars' or '$' are to United States of America ('US') dollars. The abbreviations '$m' and '$bn' represent millions and thousands of millions of dollars, respectively, and references to 'cents' represent cents in the US. The abbreviation '€' represents the 'euro', the European single currency, and the abbreviations '€m' and '€bn' represent millions and thousands of millions of euros, respectively.

Non-GAAP financial information

The directors manage the Group's performance by class of business, before certain reconciling items, as is presented in the segmental analysis in appendix 1 (the "managed basis"). Discussion of the Group's performance focuses on the managed basis as the Group believes that such measures allow a more meaningful analysis of the Group's financial condition and the results of its operations. These measures are non-GAAP financial measures. A body of generally accepted accounting principles such as IFRS is commonly referred to as 'GAAP'. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Reconciliations of these non-GAAP measures are presented throughout this document or in the segmental analysis in appendix 1. These non-GAAP financial measures are not a substitute for GAAP measures. Furthermore, RBS has divided its operations into "Core" and "Non- Core". Certain measures disclosed in this document for Core operations and used by RBS management are non- GAAP financial measures as they represent a combination of all reportable segments with the exception of Non-Core. In addition, RBS has further divided parts of the Core business into "Retail & Commercial" consisting of the UK Retail, UK Corporate, Wealth, International Banking, Ulster Bank and US Retail & Commercial divisions. This is a non GAAP financial measure. Lastly, the Basel III net stable funding ratio (see page 106) represents a non-GAAP financial measure given it is a metric that is not yet required to be disclosed by a government, governmental authority or self-regulatory organisation.

Restatements

Organisational change

In January 2012, the Group announced changes to its wholesale banking operations in light of a changed market and regulatory environment. The changes have seen the reorganisation of the Group's wholesale businesses into 'Markets' and 'International Banking' and the proposed exit and/or downsizing of selected activities. The changes will ensure the wholesale businesses continue to deliver against the Group's strategy.

The changes include an exit from cash equities, corporate broking, equity capital markets and mergers and acquisitions advisory businesses. Significant reductions in balance sheet, funding requirements and cost base in the remaining wholesale businesses will be implemented.

Revised allocation of Group Treasury costs

In the first quarter of 2012, the Group revised its allocation of funding and liquidity costs and capital for the new divisional structure as well as for a new methodology. The new methodology is designed to ensure that the allocated funding and liquidity costs more fully reflect each division's funding requirement.

Presentation of information (continued)

Restatements (continued)

Revised divisional return on equity ratios

For the purposes of divisional return on equity ratios, notional equity has been calculated as a percentage of the monthly average of divisional risk-weighted assets (RWAs), adjusted for capital deductions. Historically, notional equity was allocated at 9% of RWAs for the Retail & Commercial divisions and 10% of RWAs for Global Banking & Markets. This was revised in Q1 2012 and 10% of RWAs is now applied to both the Retail & Commercial and Markets divisions.

Fair value of own debt and derivative liabilities

The Group had previously excluded changes in the fair value of own debt (FVOD) in presenting the underlying performance of the Group on a managed basis given it is a volatile non-cash item. To better align our managed view of performance, movements in the fair value of own derivative liabilities (FVDL), previously incorporated within Markets operating performance, are now combined with movements in FVOD in a single measure, ‘Own Credit Adjustments’ (OCA). This took effect in Q1 2012 and Group and Markets operating results have been adjusted to reflect this change which does not affect profit/(loss) before and after tax.

Comparatives for all of the items discussed above were restated in Q1 2012. For further information on the restatements refer to the Form 6-K dated 1 May 2012, available on www.sec.gov

Share consolidation

Following approval at the Group’s Annual General Meeting on 30 May 2012, the sub-division and consolidation of the Group’s ordinary shares on a one-for-ten basis took effect on 6 June 2012. Consequently, disclosures for 2011 relating to or affected by numbers of ordinary shares or share price have been restated.

Comment

Stephen Hester, Group Chief Executive, commented:
The extraordinary challenges which RBS faced following the financial crisis are being worked through successfully. The five year restructuring Plan is now in its later stages with important work still to do, including an emphasis on dealing with reputational issues now that the Bank's safety and soundness has advanced so well. We passed two other important milestones in October with our exit from the APS and a very encouraging flotation of Direct Line Group and are within touching distance of matching every £1 of lending with a £1 of customer deposits.

Beneath these headlines our people have been working hard at supporting our customers and rebuilding the capabilities of the core business, the future RBS that is emerging from our work. In doing this we face the same strong economic and regulatory challenges as other banks and are having to work very hard to stand still in the face of these challenges. But underlying performance has already improved enough to be generally comparable to peers. We aspire to achieve much more; in short, to be running a really good RBS.

At the heart of any truly successful company is the DNA that clearly sets the company's purpose as to serve customers well and understands that good performance for shareholders and career prospects for staff come from achieving that purpose. The banking industry, including RBS, too often came to be seen as reversing that sequence, with short-term gain put ahead of long-term excellence for customers. Getting this balance right is not done through splashy announcements or sweeping actions. Rather it is a multi-faceted journey involving all our people, the tools and management direction they work with every day. We are unambiguously clear at RBS about the importance of making this journey. We have already made much progress, though clearly not enough, and our reputation will take time and facts to recover from past events which are still being accounted for. Nevertheless, this work is going with the grain at RBS. Our people want to serve customers well. Most of the time we succeed in doing precisely that. And we all understand the need to reject failings and keep improving for customers and for the institution's future success.

In tough economic times there is understandable debate about what economies need in order to achieve growth. In this debate we can be clear and unambiguous: RBS has the funding, capital and human resources to support our customers and meet their needs as the economy starts to grow again; and we have repaid the liquidity and credit support that was needed from government at the start of our restructuring journey. We have many challenges left, and much to improve. And the world still has uncertainties and risks of setback. The need to avoid repeating past credit mistakes and to make sustainable returns on a more conservative business model are also crucial aspects we need to balance in the face of many pressures.

So the goals that have been our abiding focus since 2009 are unchanged, though they will continue to be applied pragmatically as external realities evolve. They are founded in a solid and coherent strategy and a track record of focused implementation. Through these tools we seek:

- to serve customers well, and better
- to operate with safety and soundness for all who rely on us
- to rebuild sustainable value for all shareholders, and thereby to facilitate the sale of taxpayers' shareholding in the Bank.

Condensed consolidated income statement
for the period ended 30 September 2012

	Quarter ended			Nine months ended	
	30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	30 September 2012 £m	30 September 2011 £m
Interest receivable	4,529	4,774	5,371	14,320	16,176
Interest payable	(1,658)	(1,803)	(2,294)	(5,479)	(6,571)
Net interest income	2,871	2,971	3,077	8,841	9,605
Fees and commissions receivable	1,403	1,450	1,452	4,340	4,794
Fees and commissions payable	(341)	(314)	(304)	(945)	(887)
Income from trading activities	334	657	957	1,203	2,939
(Loss)/gain on redemption of own debt	(123)	-	1	454	256
Other operating income (excluding insurance net premium income)	(217)	394	2,384	(570)	3,917
Insurance net premium income	932	929	1,036	2,799	3,275
Non-interest income	1,988	3,116	5,526	7,281	14,294
Total income	4,859	6,087	8,603	16,122	23,899
Staff costs	(2,059)	(2,143)	(2,076)	(6,772)	(6,685)
Premises and equipment	(597)	(544)	(604)	(1,704)	(1,777)
Other administrative expenses	(1,259)	(1,156)	(962)	(3,431)	(3,635)
Depreciation and amortisation	(430)	(434)	(485)	(1,332)	(1,362)
Operating expenses	(4,345)	(4,277)	(4,127)	(13,239)	(13,459)
Profit before insurance net claims and impairment losses	514	1,810	4,476	2,883	10,440
Insurance net claims	(596)	(576)	(734)	(1,821)	(2,439)
Impairment losses	(1,176)	(1,335)	(1,738)	(3,825)	(6,791)
Operating (loss)/profit before tax	(1,258)	(101)	2,004	(2,763)	1,210
Tax charge	(30)	(290)	(791)	(459)	(1,436)
(Loss)/profit from continuing operations	(1,288)	(391)	1,213	(3,222)	(226)
Profit/(loss) from discontinued operations, net of tax	5	(4)	6	6	37

(Loss)/profit for the period	(1,283)	(395)	1,219	(3,216)	(189)
Non-controlling interests	(3)	5	7	16	(10)
Preference share dividends	(98)	(76)	-	(174)	-
(Loss)/profit attributable to ordinary and B shareholders	(1,384)	(466)	1,226	(3,374)	(199)
Basic (loss)/profit per ordinary and B share from continuing operations (1)	(12.5p)	(4.2p)	11.3p	(30.7p)	(1.9p)
Diluted (loss)/profit per ordinary and B share from continuing operations (1)	(12.5p)	(4.2p)	11.2p	(30.7p)	(1.9p)
Basic and diluted loss per ordinary and B share from discontinued operations (1)	-	-	-	-	-

Note:
(1) Data for 2011 have been adjusted for the sub-division and one-for-ten consolidation of ordinary shares.

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Highlights

Third quarter results summary
The Royal Bank of Scotland Group (RBS) reported a Group operating loss before tax of £1,258 million for the third quarter of 2012, up £1,157 million from Q2 2012 and down £3,262 million compared with Q3 2011. Operating profit on a managed basis was £1,047 million. The result reflected a steady improvement in the Core bank's operating results, combined with a further reduction in operating losses from the Non-Core division.

Core operating profit totalled £1,633 million, up 8% from Q2 2012 and 67% from Q3 2011. For the first nine months of 2012 Core operating profit totalled £4,818 million, in line with the same period of 2011, delivering a return on tangible equity of 10.0%. Core income in Q3 was flat versus Q2 at £6,408 million, with expenses down 5% at £3,427 million and impairments 3% higher at £752 million.

· Retail & Commercial (R&C) operating profits were down 10% from Q2 due to a deterioration in UK Corporate, largely reflecting lower income and a small number of single name impairments, partially offset by good performances in UK Retail and International Banking driven primarily by sound cost control. R&C return on equity in the first nine months of 2012 was 9.6%.

· Markets saw a 2% decline in revenues relative to Q2 due to continued uncertainty in the Eurozone along with subdued client activity. However, the ongoing focus on costs generated an 18% increase in operating profit to £295 million. Year to date ROE is 12.0%.

· Direct Line Group Q3 2012 operating profit of £109 million was down £26 million, 19% from Q2, as a result of increased financing costs, following successful implementation of balance sheet restructuring and lower investment returns. Year to date ROTE is 10.3%.

Non-Core operating loss decreased by £282 million versus Q2 to £586 million as favourable market conditions led to improvements in asset prices and tightening of credit spreads over the quarter. Non-Core impairment losses fell by £183 million during the quarter reflecting the non-repeat of a significant provision in the Project Finance portfolio in Q2 2012.

One-off and other items
A further provision of £400 million was recorded for Payment Protection Insurance claims, reflecting the Group's current experience. This brings the cumulative charge taken to £1.7 billion, of which £1.0 billion (c.60%) in redress had been paid by 30 September 2012. Integration and restructuring costs totalled £257 million in Q3, compared with £213 million in Q2. A loss of £123 million was recorded on the redemption of £4.4 billion of debt securities.

RBS's credit spreads continued to narrow in debt markets, with its five year credit default swap spread tightening over the quarter by 57 basis points, reflecting improved investor perceptions of the Group's strength. This resulted in a Q3 own credit charge of £1,455 million, compared with £518 million in the prior quarter. Excluding own credit adjustments of £1,455 million, Group Q3 2012 operating profit before tax was £197 million and attributable loss £268 million*.

Operating loss before tax in Q3 was £1,258 million and attributable loss was £1,384 million. Tangible net asset value per share fell by 3% to 476 pence reflecting the own credit adjustment.

* Attributable loss adjusted for post-tax effect of own credit adjustments.

Highlights (continued)

Income

Core income in Q3 2012 totalled £6,408 million, in line with Q2 2012 and up 6% from the prior year period. Core R&C net interest income was 1% lower than Q2 2012 at £2,786 million, with continuing pressure on deposit margins in the core UK Retail and Corporate franchises and in International Banking's Cash Management business. Non-interest income in R&C was down 6% at £1,414 million, partly reflecting the non-recurrence of a £47 million gain recorded in Q2 on the sale of Visa B shares as well as a decline in the fair value of a property-related investment in UK Corporate of £25 million. Markets non-interest income totalled £1,028 million, in line with Q2 and up 125% compared with Q3 2011. Realised bond gains increased by £325 million compared with Q2 as the Group re-positioned its liquidity portfolio, offset by higher unallocated volatility costs in Group Treasury of £95 million.

Efficiency

Core expenses were down 5% in the quarter to £3,427 million, with R&C reducing expenses by 3% to £2,389 million and Markets delivering a 5% reduction to £753 million. Provisions totalling £125 million recorded in Group Centre included an additional £50 million to cover customer redress arising from the technology incident that affected the Group's systems in June.

Core staff expenses were 4% lower at £1,874 million, with headcount down by 7,900 over the past 12 months to 137,000, principally in Markets and International Banking. The Core compensation ratio year-to-date was 30%, compared with 31% in the prior year, with the Markets compensation ratio 34%, compared with 41% in the prior year.

Core cost:income ratio in Q3 improved to 59% from 62% in Q2 and 66% in Q3 2011. R&C cost:income ratio was stable at 57%, with UK Retail improving to 51%.

Risk

Group impairment losses on a managed basis totalled £1,176 million in Q3 2012, down 12% from the prior quarter and 23% from Q3 2011.

Core impairments totalled £752 million, up 3% from Q2 2012 but 12% lower than Q3 2011, with UK Retail and US R&C losses stable but UK Corporate impairments up £66 million, largely reflecting a handful of single corporate cases. Non-Core impairments, mostly in real estate finance, were £183 million lower than in Q2 2012. Total Ulster Bank (Core and Non-Core) impairments were £493 million, compared with £514 million in Q2 2012.

Core annualised loan impairments represented 0.7% of loans and advances to customers, in line with Q2. Group risk elements in lending totalled £40.1 billion at 30 September 2012, compared with £39.7 billion at 30 June 2012 and £40.8 billion at 31 December 2011, with provision coverage stable at 51%.

Balance sheet

RBS maintained good momentum in the restructuring and reduction of its balance sheet, with Group funded assets down £20 billion in the quarter to £909 billion. Non-Core funded assets fell to £65 billion, a reduction of £7 billion during the quarter and an overall reduction of 75% since its establishment. Non-Core remains on target to exit approximately 85% of its original portfolio by the end of 2013.

Since the end of 2008 the Group has reduced its funded assets by £318 billion, with total assets reduced by £841 billion.

Liquidity and funding

RBS has achieved a largely deposit-funded balance sheet, with further reductions in the use of short-term wholesale funding and the maintenance of a very strong liquidity buffer. With substantial excess liquidity available to it during the quarter, the Group took advantage of improved market conditions to repurchase £4.4 billion of more expensive outstanding senior unsecured wholesale debt.

RBS's credit profile has strengthened markedly in traded markets, reflecting the significant improvement in the robustness and resilience of its balance sheet, as well as the substantial reduction in the Group's wholesale funding requirements and a more general improvement in financial market conditions. The Group's credit default swap spreads tightened by 121 basis points in the first nine months of 2012, with 57 basis points of the improvement coming in Q3. Secondary market prices for RBS bonds have tightened even further, with spreads on a benchmark five year issue coming in from c.450 basis points at the start to 2012 to c.100 basis points at the end of Q3.

The Group loan:deposit ratio strengthened further to 102%, compared with a worst point of 154% in October 2008. The Core loan:deposit ratio was 91%, with customer deposits stable at £431 billion.

The Group continued to reduce its usage of short-term wholesale funding, which fell by £13.8 billion during the quarter to £49 billion at 30 September 2012, enabling the Group to reduce the costs associated with its substantial liquid asset portfolio. Short-term wholesale funding was covered three times by the Group's liquidity buffer, which totalled £147 billion.

Capital

The Group's Core Tier 1 ratio remained strong at 11.1%, or 10.4% excluding the capital relief provided by the UK Government's Asset Protection Scheme, which the Group exited with effect from 18 October 2012. APS capital benefit, which amounted to 160 basis points at the end of 2009, had diminished in line with the reduction in the portfolio of covered assets, which had fallen from £282 billion at inception to £104 billion at the point of exit.

Risk-weighted assets (before APS relief) declined by £6.6 billion, with a substantial reduction in Non-Core offsetting the effect of regulatory uplifts in International Banking and in UK Corporate. Non-Core's RWAs fell by £11 billion to £72 billion, benefiting from lower market risk and the active reduction and restructuring of derivative exposures.

The Group's Tier 1 leverage ratio was 15.4x.

Disposals
RBS completed the successful initial public offering of Direct Line Group in October 2012, representing another important milestone in RBS's restructuring plan.

RBS Group sold 520.8 million ordinary shares in Direct Line Group, representing 34.7% of the total share capital, generating gross proceeds of £911 million. This was consistent with the previously communicated plan to divest control of Direct Line Group in stages with control ceded by the end of 2013, and complete disposal by the end of 2014, in line with the European Commission's state aid requirements. The disposals of Global Merchant Services and RBS Sempra Commodities JV businesses have already been completed.

On 12 October 2012 RBS announced that it had received notification of Santander's decision to pull out of its agreed purchase of certain of the Group's UK branch-based businesses. While the decision was disappointing, much of the work to separate this profitable and well-funded business has already been completed, and RBS has recommenced its effort to divest the business and fulfil its obligations to the European Commission.

Core UK franchise
Banks cannot serve customers well without operating from a position of balance sheet safety and soundness, and that has been a key priority for RBS in the first three and a half years of its 2009-13 restructuring plan. The Group's significant achievements in this area mean that even more attention can now be focused on those elements that will make RBS a healthy and competitive bank over the long term, rather than merely ensuring survival. These elements are based on ensuring that the bank is built, first and foremost, around serving customers well and sustainably.

This focus on serving customers better has been an integral component of the Group's restructuring plan, and some major changes have already been implemented, notwithstanding the worsening economic environment:

- The Retail Customer Charter was launched in 2010 and has been refreshed annually since then. The focus of "Helpful Banking" has remained integral, with intentionally demanding and stretching targets derived from what customers said they valued the most.

- New principles for incentives within UK Retail have been designed to promote superior customer service and ensure customer requirements explicitly drive the product sales and offerings. This is a move away from the sales-based approach of the past.

- To reach the standards of professionalism and expertise that customers expect, RBS has piloted an internal retraining and accreditation programme for relationship managers in Business & Commercial Banking.

Core UK franchise (continued)
These actions represent only a starting point, and while the changes will have increasing visibility as they bed in over the coming months and years there is a lot more still to do to persuade customers that the organisation has changed and that it puts their interests first. A few of the main areas management will be focusing on next are:

- Better performance against Customer Charter targets. Since launch, the bar has been raised on some of the Retail targets but performance has fallen short on some. The use of charters will be extended into other divisions and they will be made even more demanding.

- Widening the scope of internal training programmes for front-line staff. A programme similar to the Business & Commercial course is now running in the Wealth business and this area will continue to attract a great deal of focus.

- An overhaul of service offerings across the Group's retail, corporate and markets divisions to ensure they are explicitly customer-driven and based on the needs and priorities of the retail, corporate and institutional customers that RBS serves.

RBS has maintained its lending support to UK businesses and homebuyers through difficult economic times. RBS has supported government schemes, such as the Funding for Lending Scheme (FLS), with internal initiatives to ensure that credit remained appropriately available to its customers.

RBS's performance in the mortgage market remains strong and well in excess of its historic market share. Gross new mortgage lending totalled £11.4 billion year-to-date, with £3.7 billion in Q3 2012, holding flat from Q2. Of this, 16% was to first-time buyers and Q3 gross new lending to these customers increased by 5% on the previous quarter.

Business demand for credit has remained weak, with investment intentions constrained by uncertainty over future UK growth prospects. This led to a drop of 25% in SME loan applications in Q3, compared with Q3 2011, with activity further muted by the effect of the Olympic Games. RBS continues to approve over 90% of all SME loan and overdraft applications, with over 31,000 small businesses approved for credit during the quarter.

The overall flow of business lending remained strong, with £62.9 billion of gross new lending to UK businesses in the first nine months of 2012, of which £28.6 billion was to SME customers. In Q3 2012, gross new lending increased 3% compared with Q2, which was impacted by relationship managers efforts being diverted from lending due to the Group technology incident. Loan repayments also remained strong, with many customers continuing to focus on deleveraging. SME overdraft utilisation remained below 50% in Q3, and SMEs chose to retain strong cash balances, with Business & Commercial customer deposits increasing by £500 million during Q3.

Core UK franchise (continued)

Overall SME net drawn balances, excluding real estate, held steady quarter-on-quarter, with the strongest growth coming in asset finance, where balances have increased each quarter in 2012, up 6% year-to-date. Asset finance has proved particularly attractive to customers in current economic circumstances because of its cash flow benefits, with products such as hire purchase, asset-secured debt and leasing providing flexible and committed lines of funding tailored to each business's needs. RBS Invoice Finance has also seen good growth in its asset-based lending business, with net advances up 6%, compared with Q3 2011, to £3.2 billion.

The Funding for Lending Scheme (FLS) opened for drawings in August and RBS was quick to launch FLS-related offerings to homebuyers and businesses. RBS's own funding of UK lending is not a constraint. However, FLS does provide an opportunity to offer interest rate benefits to customers. Net figures will also give insight to the price sensitivity of lending demand at these interest rate levels relative to other business confidence issues. Over £500 million of mortgages had been offered under the scheme by the end of September 2012, and c.14% of applications received by UK Retail in September related to the new products launched under the scheme. UK Corporate reduced the price of SME loans and removed arrangement fees on these offerings. Over 4,300 customers benefited from this offer by the end of Q3 2012, with around £600 million of funds allocated. Given normal lags between approval and drawdown, these advances are not expected to feed into drawn balances until later in the year. Much of the SME lending to date is substituting for existing higher cost borrowings.

RBS has made further good progress in running down high risk and non-strategic exposures in its Non-Core division and in reducing its excessive exposures to the real estate and construction sectors. Non-Core balances are included within the scope of FLS, and FLS-eligible Non-Core exposures were reduced by £750 million during Q3. Within the Core UK Corporate division, property exposures also continued their managed and necessary decline, falling by £0.9 billion during the quarter and by £2.2 billion year-to-date. At a Group level, excluding Non-Core and commercial real estate lending, total RBS core FLS-eligible balances increased by around £300 million to 30 September 2012, while declining when these risk concentrations are included. The faster-growing Lombard and RBS Invoice Finance businesses are excluded from FLS statistics.

Regulatory investigations and reviews

The Group continues to cooperate fully with a number of regulatory investigations and reviews as described in the note on Litigation, investigations and reviews on page 90. In some of these investigations the Group believes that the likely outcome is that it will incur financial penalties or provide redress, and these may be significant.

Outlook

The external economic, market and regulatory challenges we face are likely to continue for the rest of this year and into 2013. We will continue to focus on maintaining a strong balance sheet and capital position, as well as judicious management of our expense base.

We anticipate trends in our Core Retail & Commercial businesses to be generally consistent with the third quarter, although our Markets business is likely to exhibit normal seasonal variations in Q4. The Group's net interest margin over the second half is expected to be broadly stable compared with the first half of the year.

Non-Core continues to make good progress, achieving asset reduction targets with losses in line with our expectations. We expect to further reduce assets in Q4, although the Q4 loss is likely to be higher than in Q3. The 'below the line' itemised charges are likely to remain elevated during Q4, though the own credit adjustment should be materially lower.

Having made strong progress, RBS targets most of the restructuring actions from its 2009 strategic plan to be substantially completed in the next 15-18 months, with the Group thereby positioned to be a cleaner and better performing bank in future years.

Analysis of results

Net interest income	Quarter ended 30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	Nine months ended 30 September 2012 £m	30 September 2011 £m
Net interest income	2,871	2,971	3,077	8,841	9,605
Average interest-earning assets	586,543	612,132	663,059	613,014	660,306
Net interest margin					
- Group	1.95%	1.95%	1.84%	1.93%	1.94%
- Retail & Commercial (1)	2.92%	2.94%	2.94%	2.92%	2.99%
- Non-Core	0.41%	0.24%	0.50%	0.32%	0.69%

Note:
(1) Retail & Commercial (R&C) comprises the UK Retail, UK Corporate, Wealth, International Banking, Ulster Bank and US R&C divisions.

Key points

Q3 2012 compared with Q2 2012
- Group NIM remained flat at 1.95% with continued margin pressure in Retail & Commercial more than offsetting decreases in liquidity and funding costs across the Group following further run-down of low-yielding assets.

- Retail & Commercial NIM fell by 2 basis points to 2.92% largely reflecting downward pressure on deposit margins in UK Retail and UK Corporate, and lower investment income in US Retail & Commercial.

Q3 2012 compared with Q3 2011
- Group net interest income decreased by £206 million, 7%, largely driven by a decline in interest earning assets of 12%. A 5% decline in Retail & Commercial interest earning assets and continued balance sheet run-off in Non-Core drove the reduction.

- The decline in Retail & Commercial net interest income was primarily due to a targeted decrease in loans and advances in International Banking and the impact of lower long-term interest hedge income and the high cost of deposits in UK Retail.

- Group NIM increased by 11 basis points to 1.95% driven by a decrease in liquidity and funding costs managed at the Group level and the continued run-off of low margin Non-Core balances.

Analysis of results (continued)

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Non-interest income	£m	£m	£m	£m	£m
Fees and commissions receivable	1,403	1,450	1,452	4,340	4,794
Fees and commissions payable	(341)	(314)	(304)	(945)	(887)
Net fees and commissions	1,062	1,136	1,148	3,395	3,907
Income from trading activities					
- managed basis	769	931	282	2,964	3,071
- Asset Protection Scheme	1	(2)	(60)	(44)	(697)
- own credit adjustments*	(435)	(271)	735	(1,715)	565
- RFS Holdings minority interest	(1)	(1)	-	(2)	-
	334	657	957	1,203	2,939
(Loss)/gain on redemption of own debt	(123)	-	1	454	256
Other operating (loss)/income (excluding insurance net premium income)					
- managed basis	822	469	549	2,016	2,122
- strategic disposals **	(23)	160	(49)	129	(22)
- own credit adjustments*	(1,020)	(247)	1,887	(2,714)	1,821
- integration and restructuring costs	-	-	-	-	(3)
- RFS Holdings minority interest	4	12	(3)	(1)	(1)
	(217)	394	2,384	(570)	3,917
Insurance net premium income	932	929	1,036	2,799	3,275
Total non-interest income	1,988	3,116	5,526	7,281	14,294
* Own credit adjustments impact:					

Income from trading activities	(435)	(271)	735	(1,715)	565
Other operating income	(1,020)	(247)	1,887	(2,714)	1,821
Own credit adjustments	(1,455)	(518)	2,622	(4,429)	2,386
**Strategic disposals					
(Loss)/gain on sale and provision for loss on disposal of investments in:					
- RBS Aviation Capital	-	197	-	197	-
- Global Merchant Services	-	-	-	-	47
- Other	(23)	(37)	(49)	(68)	(69)
	(23)	160	(49)	129	(22)

Key points

Q3 2012 compared with Q2 2012

· Non-interest income fell by £1,128 million, 36%, to £1,988 million driven by a £1,455 million charge in relation to own credit adjustments, given the significant tightening in the Group's credit spreads, partially offset by a decrease in Retail & Commercial.

· Retail & Commercial non-interest income fell by 6%, largely reflecting the non-recurrence of a £47 million Q2 2012 gain on the sale of Visa B shares in US Retail & Commercial and a decline in the fair value of a property-related investment in UK Corporate of £25 million.

Analysis of results (continued)

Key points (continued)

Q3 2012 compared with Q2 2012

- Income from trading activities fell by £323 million, primarily due to an increase in trading losses in Non-Core of £72 million as the business continued to de-risk its markets exposures and an increase in the own credit adjustment charge of £164 million, as the Group's credit spreads tighten further.

- Insurance net premium income remained flat, reflecting stable in-force policies in a competitive market place.

Q3 2012 compared with Q3 2011

- Non-interest income fell by 64% primarily reflecting an own credit adjustment charge of £1,455 million in Q3 2012 compared with a gain of £2,622 million in Q3 2011. On a managed basis, non-interest income was 19% higher primarily as a result of a £652 million increase in income from trading activities in Markets, reflecting a significant improvement in the credit environment. This was partially offset by a decrease in Retail & Commercial.

- Retail & Commercial non-interest income was £146 million lower, primarily reflecting negative movements on credit hedging activity within the lending portfolio in International Banking and a decline in the fair value of a property-related investment in UK Corporate. Changes in customer behaviour and sluggish transaction volumes also drove a decrease in UK Retail.

- Insurance net premium income fell by £104 million, 10%, largely driven by actions to improve the quality of the motor book resulting in lower written premiums.

Analysis of results (continued)

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Operating expenses and insurance net claims	£m	£m	£m	£m	£m
Staff costs	2,059	2,143	2,076	6,772	6,685
Premises and equipment	597	544	604	1,704	1,777
Other administrative expenses					
- managed basis	770	936	858	2,525	2,557
- Payment Protection Insurance costs	400	135	-	660	850
- other	89	85	104	246	228
	1,259	1,156	962	3,431	3,635
Depreciation and amortisation	430	434	485	1,332	1,362
Operating expenses	4,345	4,277	4,127	13,239	13,459
Insurance net claims	596	576	734	1,821	2,439
Staff costs as a % of total income	42%	35%	24%	42%	28%

Key points

Q3 2012 compared with Q2 2012

- Group operating expenses increased by 2%, largely driven by the Payment Protection Insurance (PPI) costs of £400 million compared to £135 million in Q2 2012. On a managed basis Group operating expenses fell by 6% largely driven by the continued run-down of Non-Core and lower staff expenses in Markets and International Banking. An additional charge of £50 million was taken in relation to the June technology incident, compared with a charge of £125 million in Q2 2012.

- Core cost:income ratio improved from 62% in Q2 2012 to 59%, largely due to a strict focus on cost-management in all of the Group's businesses. The Retail & Commercial cost:income ratio remained at 57%, with UK Retail improving to 51%.

- Insurance net claims increased by 3% primarily due to a smaller release of reserves compared with Q2 2012.

Q3 2012 compared with Q3 2011

- Group operating expenses were 5% higher, predominantly driven by the PPI costs of £400 million in Q3 2012. Group operating expenses on a manged basis were 5% lower, driven by a 34% decrease in Non-Core expenses as the division continued to shrink. An additional driver was the 15% fall in International Banking costs, due to planned headcount reduction and tight management of technology and discretionary costs following the restructuring of the business announced in January 2012.

· Core cost:income ratio improved by 7 percentage points to 59% from 66% in Q3 2011. This was driven by a Group-wide focus on managing expenses and an improved business performance and market environment for the Markets businesses.

Analysis of results (continued)

Impairment losses	Quarter ended 30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	Nine months ended 30 September 2012 £m	30 September 2011 £m
Loan impairment losses	1,183	1,435	1,452	3,913	5,587
Securities					
- managed basis	(7)	(100)	84	(88)	160
- Sovereign debt impairment	-	-	142	-	875
- interest rate hedge on impaired available-for-sale sovereign debt	-	-	60	-	169
	(7)	(100)	286	(88)	1,204
Group impairment losses	1,176	1,335	1,738	3,825	6,791
Loan impairment losses					
- individually assessed	661	945	823	2,351	3,942
- collectively assessed	562	534	689	1,691	2,000
- latent	(40)	(56)	(60)	(153)	(355)
Customer loans	1,183	1,423	1,452	3,889	5,587
Bank loans	-	12	-	24	-
Loan impairment losses	1,183	1,435	1,452	3,913	5,587
Core	751	719	817	2,266	2,479
Non-Core	432	716	635	1,647	3,108
Group	1,183	1,435	1,452	3,913	5,587
Customer loan impairment charge as a % of gross loans and advances (1)					
Group	1.0%	1.2%	1.1%	1.1%	1.5%
Core	0.7%	0.7%	0.8%	0.8%	0.8%
Non-Core	2.8%	4.2%	2.8%	3.6%	4.6%

Note:

(1) Customer loan impairment charge as a percentage of gross customer loans and advances excluding reverse repurchase agreements and including disposal groups.

Key points

Q3 2012 compared with Q2 2012

- Loan impairment losses were down 18%. In the Non-Core portfolio, loan impairments fell by 40%, with the non-repeat of a large provision in Project Finance in Q2 2012. This was partially offset by a 4% increase in Core loan impairments, largely reflecting a small number of significant individual cases in UK Corporate.

- Credit losses improved in International Banking, with the non-repeat of a single name impairment in Q2 2012. Lower specific impairments were also recorded in Wealth.

- Core and Non-Core Ulster Bank loan impairments improved by £21 million, 4%.

Q3 2012 compared with Q3 2011

- Loan impairment losses fell by 19%, largely driven by a significant reduction in Non-Core impairments, particularly in exposures originating in UK Corporate and Ulster Bank.

- Retail was the main driver of the 8% decrease in Core loan impairment losses, as credit metrics and book quality continued to improve. This was partly offset by the increase in UK Corporate loan impairments in Q3 2012.

Analysis of results (continued)

Capital resources and ratios	30 September 2012	30 June 2012	31 December 2011
Core Tier 1 capital	£48bn	£48bn	£46bn
Tier 1 capital	£58bn	£58bn	£57bn
Total capital	£63bn	£63bn	£61bn
Risk-weighted assets			
- gross	£481bn	£488bn	£508bn
- benefit of Asset Protection Scheme	(£48bn)	(£53bn)	(£69bn)
Risk-weighted assets	£433bn	£435bn	£439bn
Core Tier 1 ratio (1)	11.1%	11.1%	10.6%
Tier 1 ratio	13.4%	13.4%	13.0%
Total capital ratio	14.6%	14.6%	13.8%

Note:
(1) The benefit of APS in the Core Tier 1 ratio was 71 basis points at 30 September 2012 (30 June 2012 - 77 basis points; 31 December 2011 - 90 basis points).

Key points

30 September 2012 compared with 30 June 2012

· The Group's Core Tier 1 ratio remained strong at 11.1%. Gross risk-weighted assets (RWAs) fell by £7 billion reflecting a reduction in market risk coupled with balance sheet contraction.

· The impact of the Asset Protection Scheme (APS) on the Core Tier 1 ratio continued to decline from 77 basis points at 30 June 2012 to 71 basis points at 30 September 2012.

30 September 2012 compared with 31 December 2011

· The Core Tier 1 ratio increased by 50 basis points compared with 31 December 2011, driven by a 5% reduction in gross RWAs, lower regulatory capital deductions and the issuance of new shares.

· Gross RWAs fell by £27 billion, excluding the effect of the APS. Post APS RWAs decreased by £6 billion.

Analysis of results (continued)

Balance sheet	30 September 2012	30 June 2012	31 December 2011
Funded balance sheet (1)	£909bn	£929bn	£977bn
Total assets	£1,377bn	£1,415bn	£1,507bn
Loans and advances to customers (2)	£443bn	£455bn	£474bn
Customer deposits (3)	£435bn	£435bn	£437bn
Loan:deposit ratio - Core (4)	91%	92%	94%
Loan:deposit ratio - Group (4)	102%	104%	108%
Short-term wholesale funding (5)	£49bn	£62bn	£102bn
Wholesale funding (5)	£159bn	£181bn	£226bn
Liquidity portfolio	£147bn	£156bn	£155bn

Notes:
(1) Funded balance sheet represents total assets less derivatives.
(2) Excluding reverse repurchase agreements and stock borrowing, and including disposal groups.
(3) Excluding repurchase agreements and stock lending, and including disposal groups.
(4) Net of provisions, including disposal groups and excluding repurchase agreements. Excluding disposal groups, the loan:deposit ratios of Core and Group at 30 September 2012 were 91% and 103% respectively (30 June 2012 - 92% and 105% respectively; 31 December 2011 - 94% and 110% respectively).
(5) Excluding derivative collateral.

Key points

30 September 2012 compared with 30 June 2012

· The Group's funded balance sheet contracted by a further £20 billion to £909 billion, driven by a £7 billion reduction in Non-Core funded assets and lower International Banking and Ulster Bank balances.

· Loans and advances to customers fell by 3%, largely due to Non-Core run-down and targeted reductions in the International Banking portfolio. Customer deposits were flat as growth in US Retail & Commercial was offset by a marginal decline in UK Corporate.

· The Group loan:deposit ratio improved from 104% to 102%, while the Core and Retail & Commercial loan:deposit ratios improved to 91% in the quarter.

30 September 2012 compared with 31 December 2011

· Significant falls in Non-Core (£29 billion), International Banking (£12 billion) and Markets (£10 billion) were the main elements in a £68 billion decrease in the Group's funded balance sheet in the period. Non-Core's focused asset disposal programme, including the sale of RBS Aviation Capital, planned loan portfolio reductions in International Banking and initiatives to reduce balance sheet usage in

Markets drove these movements.

- Customer deposits were flat as strong deposit growth in UK Retail was offset by lower deposit balances in International Banking as a result of difficult market conditions and strong competition. Loans and advances to customers fell by 7%, largely as a result of sales and run-off in Non-Core.

- The Group loan:deposit ratio strengthened by 600 basis points from 108%, with Core and Retail & Commercial ratios improving by 300 basis points and 400 basis points, respectively.

Further analysis of the Group's liquidity and funding position is included on pages 99 to 106.

Divisional performance

The operating profit/(loss) of each division is shown below.

	Quarter ended			Nine months ended	
	30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	30 September 2012 £m	30 September 2011 £m
Operating profit/(loss) by division					
UK Retail	464	437	510	1,378	1,563
UK Corporate	368	512	429	1,372	1,518
Wealth	65	64	45	174	175
International Banking	175	167	228	439	603
Ulster Bank	(242)	(245)	(208)	(797)	(751)
US Retail & Commercial	223	229	123	554	360
Retail & Commercial	1,053	1,164	1,127	3,120	3,468
Markets	295	251	(348)	1,370	1,008
Direct Line Group	109	135	123	328	329
Central items	176	(32)	78	-	102
Core	1,633	1,518	980	4,818	4,907
Non-Core	(586)	(868)	(978)	(1,937)	(2,939)
Managed basis	1,047	650	2	2,881	1,968
Reconciling items:					
Own credit adjustments	(1,455)	(518)	2,622	(4,429)	2,386
Asset Protection Scheme	1	(2)	(60)	(44)	(697)
Payment Protection Insurance costs	(400)	(135)	-	(660)	(850)
Sovereign debt impairment	-	-	(142)	-	(875)
Interest rate hedge adjustments on impaired available-for-sale sovereign debt	-	-	(60)	-	(169)
Amortisation of purchased intangible assets	(47)	(51)	(69)	(146)	(169)
Integration and restructuring costs	(257)	(213)	(233)	(930)	(586)
(Loss)/gain on redemption of debt	(123)	-	1	454	256
Strategic disposals	(23)	160	(49)	129	(22)
Bonus tax	-	-	(5)	-	(27)
RFS Holdings minority interest	(1)	8	(3)	(18)	(5)

Statutory basis	(1,258)	(101)	2,004	(2,763)	1,210

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Divisional performance

	Quarter ended			Nine months ended	
	30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	30 September 2012 £m	30 September 2011 £m
Impairment losses/(recoveries) by division					
UK Retail	141	140	195	436	597
UK Corporate	247	181	230	604	557
Wealth	8	12	4	30	12
International Banking	12	27	14	74	112
Ulster Bank	329	323	327	1,046	1,057
US Retail & Commercial	21	28	85	68	261
Retail & Commercial	758	711	855	2,258	2,596
Markets	(6)	19	(5)	15	(19)
Central items	-	(2)	4	32	2
Core	752	728	854	2,305	2,579
Non-Core	424	607	682	1,520	3,168
Managed basis	1,176	1,335	1,536	3,825	5,747
Reconciling items:					
Sovereign debt impairment	-	-	142	-	875
Interest rate hedge adjustments on impaired available-for-sale sovereign debt	-	-	60	-	169
Statutory basis	1,176	1,335	1,738	3,825	6,791

Divisional performance (continued)

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
	%	%	%	%	%
Net interest margin by division					
UK Retail	3.53	3.57	3.94	3.57	4.02
UK Corporate	2.99	3.17	2.98	3.08	3.07
Wealth	3.88	3.69	2.96	3.74	3.18
International Banking	1.70	1.65	1.71	1.65	1.76
Ulster Bank	1.92	1.82	1.96	1.87	1.87
US Retail & Commercial	2.99	3.02	3.08	3.02	3.07
Retail & Commercial	2.92	2.94	2.94	2.92	2.99
Non-Core	0.41	0.24	0.50	0.32	0.69
Group net interest margin	1.95	1.95	1.84	1.93	1.94

	30 September 2012	30 June 2012	31 December 2011
	£bn	£bn	£bn
Total funded assets by division			
UK Retail	116.7	116.9	114.5
UK Corporate	111.8	113.7	114.2
Wealth	21.4	21.2	21.6
International Banking	58.4	61.4	69.9
Ulster Bank	30.8	33.1	34.6
US Retail & Commercial	74.2	74.3	74.9
Markets	304.4	302.4	313.9
Other (primarily Group Treasury)	125.1	132.9	139.1
Core	842.8	855.9	882.7
Non-Core	65.1	72.1	93.7
	907.9	928.0	976.4
RFS Holdings minority interest	0.8	0.8	0.8
Total	908.7	928.8	977.2

Divisional performance (continued)

	30 September 2012 £bn	30 June 2012 £bn	Change	31 December 2011 £bn	Change
Risk-weighted assets by division					
UK Retail	47.7	47.4	1%	48.4	(1%)
UK Corporate	82.1	79.4	3%	79.3	4%
Wealth	12.3	12.3	-	12.9	(5%)
International Banking	49.7	46.0	8%	43.2	15%
Ulster Bank	35.1	37.4	(6%)	36.3	(3%)
US Retail & Commercial	56.7	58.5	(3%)	59.3	(4%)
Retail & Commercial	283.6	281.0	1%	279.4	2%
Markets	108.0	107.9	-	120.3	(10%)
Other	13.9	12.7	9%	12.0	16%
Core	405.5	401.6	1%	411.7	(2%)
Non-Core	72.2	82.7	(13%)	93.3	(23%)
Group before benefit of Asset Protection Scheme	477.7	484.3	(1%)	505.0	(5%)
Benefit of Asset Protection Scheme	(48.1)	(52.9)	(9%)	(69.1)	(30%)
Group before RFS Holdings minority interest	429.6	431.4	-	435.9	(1%)
RFS Holdings minority interest	3.3	3.3	-	3.1	6%
Group	432.9	434.7	-	439.0	(1%)

Employee numbers by division (full time equivalents in continuing operations rounded to the nearest hundred)	30 September 2012	30 June 2012	31 December 2011
UK Retail	27,100	27,500	27,700
UK Corporate	13,100	13,100	13,600
Wealth	5,400	5,600	5,700
International Banking	4,600	4,800	5,400
Ulster Bank	4,700	4,500	4,200
US Retail & Commercial	14,600	14,500	15,400

Retail & Commercial	69,500	70,000	72,000
Markets	11,900	12,500	13,900
Direct Line Group	14,700	15,100	14,900
Group Centre	6,800	6,900	6,200
Core	102,900	104,500	107,000
Non-Core	3,300	3,800	4,700
	106,200	108,300	111,700
Business Services	33,300	33,500	34,000
Integration and restructuring	800	1,000	1,100
Group	140,300	142,800	146,800

UK Retail

	Quarter ended			Nine months ended	
	30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	30 September 2012 £m	30 September 2011 £m
Income statement					
Net interest income	990	988	1,086	2,979	3,270
Net fees and commissions	231	214	259	682	824
Other non-interest income	21	28	33	78	105
Non-interest income	252	242	292	760	929
Total income	1,242	1,230	1,378	3,739	4,199
Direct expenses					
- staff	(196)	(210)	(206)	(613)	(639)
- other	(94)	(110)	(102)	(283)	(321)
Indirect expenses	(347)	(333)	(365)	(1,029)	(1,079)
	(637)	(653)	(673)	(1,925)	(2,039)
Profit before impairment losses	605	577	705	1,814	2,160
Impairment losses	(141)	(140)	(195)	(436)	(597)
Operating profit	464	437	510	1,378	1,563
Analysis of income by product					
Personal advances	230	222	260	688	813
Personal deposits	158	168	236	511	747
Mortgages	598	596	576	1,757	1,700
Cards	218	212	231	649	712
Other	38	32	75	134	227
Total income	1,242	1,230	1,378	3,739	4,199
Analysis of impairments by sector					
Mortgages	29	24	34	87	150
Personal	77	84	120	243	321
Cards	35	32	41	106	126

Total impairment losses	141	140	195	436	597
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	0.1%	0.1%	0.1%	0.1%	0.2%
Personal	3.5%	3.7%	4.7%	3.6%	4.2%
Cards	2.5%	2.3%	2.9%	2.5%	3.0%
Total	0.5%	0.5%	0.7%	0.5%	0.7%

UK Retail (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Performance ratios					
Return on equity (1)	23.8%	22.5%	25.0%	23.5%	25.1%
Net interest margin	3.53%	3.57%	3.94%	3.57%	4.02%
Cost:income ratio	51%	53%	49%	51%	49%

	30 September 2012 £bn	30 June 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross) (2)					
- mortgages	98.4	98.1	-	95.0	4%
- personal	8.9	9.2	(3%)	10.1	(12%)
- cards	5.6	5.7	(2%)	5.7	(2%)
	112.9	113.0	-	110.8	2%
Customer deposits (2)	105.9	106.5	(1%)	101.9	4%
Assets under management (excluding deposits)	6.1	5.8	5%	5.5	11%
Risk elements in lending (2)	4.6	4.6	-	4.6	-
Loan:deposit ratio (excluding repos)	104%	104%	-	106%	(200bp)
Risk-weighted assets	47.7	47.4	1%	48.4	(1%)

Notes:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).
(2) Includes disposal groups: gross loans and advances to customers £7.6 billion (30 June 2012 - £7.5 billion; 31 December 2011 - £7.3 billion), risk elements in lending £0.5 billion (30 June 2012 and 31 December 2011 - £0.5 billion) and customer deposits £8.5 billion (30 June 2012 - £8.6 billion; 31 December 2011 - £8.8 billion).

Key points
UK Retail operating profit increased £27 million or 6%, despite the prevailing weak macroeconomic environment. A strong performance on costs, which fell by £16 million in the quarter, continues to drive long-term benefits.

In Q3 2012, UK Retail welcomed a new chief executive, Ross McEwan, who has reiterated the need to make it 'simple and easy' for customers to bank with us, including ensuring staff have more time to spend with customers. One example of this is the simplification of UK Retail's savings offerings during the quarter, with the number of instant access savings accounts reduced from eleven to one simple product, and total savings products available falling to eight, making it easier for customers to identify the product they need.

The division has also continued to introduce and refresh innovative solutions to provide customers with access to the services and assistance they require as easily as possible. For example, the enhanced functionality of Webchat on the RBS and NatWest online banking platforms allows customers access to a customer advisor, in real-time and direct from their computer, who can answer queries and action basic account services, 24 hours a day.

UK Retail (continued)

Key points (continued)

As an early supporter of the Bank of England's Funding for Lending (FLS) scheme, which banks could draw from since August 2012, UK Retail has successfully launched new mortgages with lower rates, specifically aimed at cutting the cost for first time buyers and reducing rental prices on buy-to-let properties. By the end of September, these mortgages represented c.14% of UK Retail's total mortgage applications in the month and continue on a positive trend.

Q3 2012 compared with Q2 2012

· Operating profit of £464 million is up 6%, despite economic pressures and continued changes in consumer behaviours, largely driven by a 2% reduction in total costs.

· The loan to deposit ratio remained stable at 104%.

Customer deposits have fallen marginally, with a successful instant access savings campaign more than offset by a large bond maturity in the quarter. Mortgage balances continued to grow in Q3 2012, although the market remained subdued.

· Income growth remains challenging in the current weak economic, and low interest rate, environment.

Net interest margin declined by 4 basis points as improved asset pricing only partially offset the impact of lower rates on current account hedges. Non-interest income increased by £10 million in the quarter, partly reflecting a seasonal increase in transaction volumes. However, persistent changes in customer behaviour continue to put downward pressure on fee income.

· Costs have fallen by 2% primarily due to lower headcount and an ongoing continued simplification of processes across the business.

· Impairment losses were broadly flat in Q3 2012, reflecting the continued impact of tightened risk appetite.

· Risk-weighted assets were broadly flat as credit quality remained stable.

Q3 2012 compared with Q3 2011

· Operating profit fell by £46 million as a decrease in income of 10% more than offset decreases in costs and impairments.

· Strong deposit growth drove an improvement in the loan to deposit ratio from 109% to 104%.

· Net interest income was £96 million lower than Q3 2011, reflecting lower unsecured balances and continued pressure on current account margins partly offset by strong mortgage growth. These combined pressures drove a 41 basis points decline in net interest margin.

· Non-interest income fell by £40 million, 14%, reflecting lower transactional and overdraft fees, as continued weakness in the economy drives cautious customer behaviour.

- Costs were 5% lower due to ongoing efficiency savings in discretionary and staff costs.

- Tightened risk appetite, a shift in asset mix towards mortgage assets, and lower default rates drove a 28% decrease in impairment losses.

UK Corporate

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
	£m	£m	£m	£m	£m
Income statement					
Net interest income	729	772	753	2,257	2,334
Net fees and commissions	334	346	353	1,016	1,034
Other non-interest income	75	93	100	277	318
Non-interest income	409	439	453	1,293	1,352
Total income	1,138	1,211	1,206	3,550	3,686
Direct expenses					
- staff	(224)	(232)	(221)	(701)	(691)
- other	(91)	(89)	(102)	(265)	(291)
Indirect expenses	(208)	(197)	(224)	(608)	(629)
	(523)	(518)	(547)	(1,574)	(1,611)
Profit before impairment losses	615	693	659	1,976	2,075
Impairment losses	(247)	(181)	(230)	(604)	(557)
Operating profit	368	512	429	1,372	1,518
Analysis of income by business					
Corporate and commercial lending	613	664	641	1,964	2,020
Asset and invoice finance	176	171	176	509	491
Corporate deposits	141	174	175	481	523
Other	208	202	214	596	652
Total income	1,138	1,211	1,206	3,550	3,686
Analysis of impairments by sector					
Financial institutions	8	2	6	12	22
Hotels and restaurants	6	8	22	29	43
Housebuilding and construction	14	79	29	118	76
Manufacturing	20	19	9	39	21
	(8)	21	20	35	32

Private sector education, health, social work, recreational and community services					
Property	117	34	82	181	151
Wholesale and retail trade, repairs	16	16	24	65	56
Asset and invoice finance	10	11	-	30	24
Other	64	(9)	38	95	132
Total impairment losses	247	181	230	604	557

UK Corporate (continued)

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Financial institutions	0.6%	0.1%	0.4%	0.3%	0.5%
Hotels and restaurants	0.4%	0.5%	1.4%	0.7%	0.9%
Housebuilding and construction	1.6%	9.0%	2.9%	4.5%	2.5%
Manufacturing	1.7%	1.6%	0.8%	1.1%	0.6%
Private sector education, health, social work, recreational and community services	(0.4%)	0.9%	0.9%	0.5%	0.5%
Property	1.8%	0.5%	1.1%	0.9%	0.7%
Wholesale and retail trade, repairs	0.7%	0.7%	1.0%	1.0%	0.8%
Asset and invoice finance	0.4%	0.4%	-	0.4%	0.3%
Other	0.7%	(0.1%)	0.4%	0.4%	0.5%
Total	0.9%	0.7%	0.8%	0.7%	0.7%

Key metrics

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Performance ratios					
Return on equity (1)	11.9%	16.8%	13.7%	15.0%	15.8%
Net interest margin	2.99%	3.17%	2.98%	3.08%	3.07%
Cost:income ratio	46%	43%	45%	44%	44%

	30 September 2012 £bn	30 June 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Total third party assets	111.8	113.7	(2%)	114.2	(2%)
Loans and advances to customers (gross) (2)					

- financial institutions	5.1	6.1	(16%)	5.8	(12%)
- hotels and restaurants	5.9	6.1	(3%)	6.1	(3%)
- housebuilding and construction	3.5	3.5	-	3.9	(10%)
- manufacturing	4.7	4.9	(4%)	4.7	-
- private sector education, health, social work, recreational and community services	8.8	8.9	(1%)	8.7	1%
- property	26.0	26.9	(3%)	28.2	(8%)
- wholesale and retail trade, repairs	8.9	8.9	-	8.7	2%
- asset and invoice finance	10.9	10.7	2%	10.4	5%
- other	34.5	34.1	1%	34.2	1%
	108.3	110.1	(2%)	110.7	(2%)
Customer deposits (2)	126.8	127.5	(1%)	126.3	-
Risk elements in lending (2)	5.5	4.9	12%	5.0	10%
Loan:deposit ratio (excluding repos)	84%	85%	(100bp)	86%	(200bp)
Risk-weighted assets	82.1	79.4	3%	79.3	4%

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax, divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).

(2) Includes disposal groups: loans and advances to customers £11.7 billion (30 June 2012 - £11.9 billion; 31 December 2011 - £12.2 billion), risk elements in lending £0.9 billion (30 June 2012 - £0.9 billion; 31 December 2011 - £1.0 billion) and customer deposits £12.9 billion (30 June 2012 - £13.1 billion; 31 December 2011- £13.0 billion).

UK Corporate (continued)

Key points

UK Corporate faced a challenging market environment in Q3 2012, with margin pressures, competition for deposits and a small number of single name impairments. The division continued its commitment to supporting the UK economy.

Through the Funding for Lending Scheme (FLS), which launched in Q3 2012, UK Corporate had, by 30 September 2012, supported over 4,300 SMEs with £597 million of allocated funds. Over the full lifetime of the scheme, UK Corporate's SME customers are expected to save £100 million through reduced interest rates and the removal of arrangement fees. Corporate and Institutional Banking is using the FLS to provide targeted support to mid-sized manufacturers where, in some cases, it is reducing interest rates by more than 1%.

Q3 2012 compared with Q2 2012

- Operating profit decreased by £144 million, 28%, predominantly due to lower income and increased impairments.

- Net interest income decreased by 6% due to an 18 basis point fall in the net interest margin. This was driven by the non-repeat of income deferral revisions in Q2 2012, deposit margin compression reflecting tightening Libor spreads and increased competition. Loans and advances to customers fell by 2% as a result of the repayment of a small number of specific large corporate loans at the end of the quarter, with SME lending broadly flat. Deposits fell marginally and the loan to deposit ratio was 84%.

- Non-interest income decreased 7% primarily due to a decline in the fair value of a property-related investment of £25 million.

- Impairments increased 36%, £66 million, primarily driven by a small number of significant individual corporate cases.

- Risk-weighted assets increased 3% mainly as a result of regulatory changes to capital models, primarily a slotting approach in the real estate portfolio.

Q3 2012 compared with Q3 2011

- Operating profit fell by £61 million, 14%, largely reflecting lower income (down £68 million) and increased impairments (up £17 million), partially offset by a £24 million decrease in costs.

- Net interest income decreased by 3%, primarily driven by deposit margin compression. A 4% fall in lending volumes was broadly offset by improved asset margins.

- Non-interest income declined by 10%, mainly due to lower Markets revenue share income as volumes remained subdued, as well as the decline in the fair value of a property-related investment.

· Total costs decreased by 4% due to continued tight control over discretionary spending.

· Impairments increased by 7% reflecting a small number of significant individual corporate cases in Q3 2012.

· The loan to deposit ratio improved by 500 basis points to 84%, due to a 2% growth in deposits and a 10% decline in property-related lending.

Wealth

	Quarter ended			Nine months ended	
	30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	30 September 2012 £m	30 September 2011 £m
Income statement					
Net interest income	185	178	152	542	477
Net fees and commissions	94	90	95	277	286
Other non-interest income	13	35	23	66	61
Non-interest income	107	125	118	343	347
Total income	292	303	270	885	824
Direct expenses					
- staff	(104)	(116)	(106)	(337)	(317)
- other	(57)	(56)	(57)	(173)	(152)
Indirect expenses	(58)	(55)	(58)	(171)	(168)
	(219)	(227)	(221)	(681)	(637)
Profit before impairment losses	73	76	49	204	187
Impairment losses	(8)	(12)	(4)	(30)	(12)
Operating profit	65	64	45	174	175
Analysis of income					
Private banking	237	252	218	726	670
Investments	55	51	52	159	154
Total income	292	303	270	885	824

Key metrics

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Performance ratios					
Return on equity (1)	14.3%	13.8%	9.4%	12.5%	12.4%
Net interest margin	3.88%	3.69%	2.96%	3.74%	3.18%
Cost:income ratio	75%	75%	82%	77%	77%

	30 September 2012 £bn	30 June 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	8.7	8.6	1%	8.3	5%
- personal	5.5	5.6	(2%)	6.9	(20%)
- other	2.8	2.8	-	1.7	65%
	17.0	17.0	-	16.9	1%
Customer deposits	38.7	38.5	1%	38.2	1%
Assets under management (excluding deposits)	29.5	30.6	(4%)	30.9	(5%)
Risk elements in lending	0.2	0.2	-	0.2	-
Loan:deposit ratio (excluding repos)	44%	44%	-	44%	-
Risk-weighted assets	12.3	12.3	-	12.9	(5%)

Note:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).

Wealth (continued)

Key points
Q3 2012 saw a solid performance. Interest margins continued to improve, while costs and impairments fell.

The division made further progress in implementing the refreshed Coutts strategy across all jurisdictions. This included two new appointments to the Board of Coutts & Co Ltd Zurich, who will work closely with senior management on the development of the business and enhancements to the client franchise and product offering, in line with Coutts strategy of growth in the region.

In the UK, Coutts is finalising preparations for the implementation of the Financial Services Authority's Retail Distribution Review regulations by 31 December 2012. Significant work has been undertaken to ensure clients continue to receive the best service and advice based on their specific needs, including the introduction of revised private banker and wealth manager roles and the development of refreshed products to reflect the new advice proposition.

Q3 2012 compared with Q2 2012

· Operating profit increased by £1 million, 2%, to £65 million in the third quarter. Higher net interest income, lower impairments and the non-repeat of client redress costs in Q2 2012 were partly offset by the non-repeat of the Q2 2012 gain on sale of the Latin American and African business.

· Income declined by 4% due to a 14% decrease in non-interest income, primarily reflecting the gain of £15 million on sale of the Latin American and African business in Q2 2012. Excluding the gain, income grew by 1% as improved net interest income reflected increases in lending margins.

· Expenses fell by 4% principally due to the non-recurrence of the Q2 2012 client redress expense following a past business review into the sale of the ALICO Enhanced Variable Rate Fund, announced in November 2011.

· Client assets and liabilities managed by the division declined 1%. Assets under management declined by £1.1 billion, with £1.5 billion of net outflows of low margin custody assets in international markets only partially offset by favourable market movements of £0.4 billion. Lending and deposit volumes were broadly stable.

· Impairments were £8 million, down £4 million, reflecting a lower level of specific impairments.

Q3 2012 compared with Q3 2011

· Operating profit rose 44% principally reflecting strong growth in income.

· Income increased by 8% driven by strong growth in net interest income as a result of improved lending margins and growth in divisional treasury income. Deposit income increased with a £1.3 billion growth in volumes and a 10 basis points improvement in margins. Non-interest income declined 9% with continued volatile markets subduing client demand for transactions, leading to reduced brokerage and foreign exchange income.

- Expenses decreased by 1% largely reflecting favourable exchange rate movements, assisted by continued close management of discretionary costs.

- Client assets and liabilities managed by the division increased by 1%, driven by the increase in deposits. Assets under management declined by 1% as favourable market movements, accounting for £2 billion of the movement, were offset by net new business outflows of low margin custody assets.

International Banking

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
	£m	£m	£m	£m	£m
Income statement					
Net interest income from banking activities	227	234	302	721	906
Funding costs of rental assets	-	-	(9)	(9)	(30)
Net interest income	227	234	293	712	876
Non-interest income	308	327	357	926	1,086
Total income	535	561	650	1,638	1,962
Direct expenses					
- staff	(132)	(153)	(170)	(472)	(546)
- other	(47)	(47)	(57)	(142)	(175)
Indirect expenses	(169)	(167)	(181)	(511)	(526)
	(348)	(367)	(408)	(1,125)	(1,247)
Profit before impairment losses	187	194	242	513	715
Impairment losses	(12)	(27)	(14)	(74)	(112)
Operating profit	175	167	228	439	603
Of which:					
Ongoing businesses	171	168	233	452	628
Run-off businesses	4	(1)	(5)	(13)	(25)
Analysis of income by product					
Cash management	224	246	241	738	699
Trade finance	76	73	77	221	208
Loan portfolio	228	233	315	658	1,008
Ongoing businesses	528	552	633	1,617	1,915
Run-off businesses	7	9	17	21	47
Total income	535	561	650	1,638	1,962
Analysis of impairments by sector					
Manufacturing and infrastructure	2	2	47	21	179

Property and construction	-	7	11	7	17
Transport and storage	-	-	2	(4)	11
Telecommunications, media and technology	-	-	-	9	-
Banks and financial institutions	12	19	(43)	43	(42)
Other	(2)	(1)	(3)	(2)	(53)
Total impairment losses	12	27	14	74	112
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	0.1%	0.2%	0.1%	0.2%	0.2%

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International Banking (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Performance ratios (ongoing businesses)					
Return on equity (1)	10.3%	10.5%	14.0%	9.5%	12.3%
Net interest margin	1.70%	1.65%	1.71%	1.65%	1.76%
Cost:income ratio	65%	65%	61%	67%	61%

	30 September 2012 £bn	30 June 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers	46.7	49.5	(6%)	56.9	(18%)
Loans and advances to banks	5.1	5.1	-	3.4	50%
Securities	2.3	2.4	(4%)	6.0	(62%)
Cash and eligible bills	0.7	0.7	-	0.3	133%
Other	3.6	3.7	(3%)	3.3	9%
Total third party assets (excluding derivatives mark-to-market)	58.4	61.4	(5%)	69.9	(16%)
Customer deposits (excluding repos)	41.7	42.2	(1%)	45.1	(8%)
Bank deposits (excluding repos)	6.5	7.7	(16%)	11.4	(43%)
Risk elements in lending	0.7	0.7	-	1.6	(56%)
Loan:deposit ratio (excluding repos and conduits)	101%	102%	(100bp)	103%	(200bp)
Risk-weighted assets	49.7	46.0	8%	43.2	15%

Note:

(1) Divisional return on equity is based on divisional operating profit after tax, divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions), for the ongoing businesses.

	Quarter ended			Nine months ended	
	30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	30 September 2012 £m	30 September 2011 £m

Run-off businesses (1)					
Total income	7	9	17	21	47
Direct expenses	(3)	(10)	(22)	(34)	(72)
Operating profit/(loss)	4	(1)	(5)	(13)	(25)

Note:
(1) Run-off businesses consist of the exited corporate finance business.

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International Banking (continued)

Key points
International Banking is an integrated, client-focused business, serving clients' financing, risk management, trade finance, payments and cash management needs internationally.

In Q3 2012, International Banking showed solid performance despite ongoing difficult market conditions.

Across the UK and Europe economic growth remained low. Income was negatively affected by margin compression in cash management and a continued deliberate reduction in lending portfolio exposure reflecting actions to improve capital efficiency.

International Banking maintained its focus on cost and capital management to ensure the most efficient use of resources in light of continued regulatory pressure across the industry. Furthermore, management continued to ensure the division's client base has access to the full Markets and International Banking proposition by implementing connectivity initiatives.

Q3 2012 compared with Q2 2012

- Operating profit was up £8 million, driven primarily by lower costs and lower impairments. Return on equity was 10.3%.

- Income was down £26 million to £535 million:
  - Cash management decreased by 9%, driven by margin compression as a result of lower rates in the UK and Europe, with Europe affected by the European Central Bank rate cut in July. Deposit levels remained resilient.
  - Trade finance increased 4% mainly due to loan growth in Europe, Middle East and Africa (EMEA) and Asia.

- Q3 2012 expenses declined by £19 million, reflecting planned headcount reduction following the formation of the International Banking division.

- Impairments fell by £15 million, largely due to the non-repeat of a single name provision in Q2 2012.

- Third party assets declined by 5%, with targeted reductions in the lending portfolio aimed at improving capital efficiency.

- Customer deposits declined marginally, but held up well despite economic pressures and the need to rebuild customer confidence following the Group technology incident in June 2012. The loan to deposit ratio remained solid, improving slightly to 101%.

International Banking (continued)

Key points (continued)

Q3 2012 compared with Q3 2011

- Operating profit decreased by £53 million as lower income was only partially offset by lower expenses and impairments.

- Income decreased by 18%:

  Net interest income was down £66 million primarily as a result of the deliberate reduction in loan portfolio exposures designed to improve capital efficiency. Net interest income from customer deposits also fell due to margin erosion following three European Central Bank rate cuts since Q3 2011 and lower deposit levels.

  Non-interest income was down £49 million mainly due to negative movements on credit hedging activity within the lending portfolio.

- Expenses fell by £60 million, largely reflecting planned headcount reduction, tight management of technology and support infrastructure costs and increased focus on the management of discretionary expenses.

- Third party assets fell by 23%, mainly due to planned loan portfolio reductions of £15 billion.

- Customer deposits decreased by 8%, reflecting sluggish market conditions and a highly competitive environment.

Ulster Bank

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
	£m	£m	£m	£m	£m
Income statement					
Net interest income	163	160	196	488	559
Net fees and commissions	36	35	41	109	114
Other non-interest income	14	11	19	36	48
Non-interest income	50	46	60	145	162
Total income	213	206	256	633	721
Direct expenses					
- staff	(53)	(52)	(55)	(157)	(168)
- other	(12)	(11)	(17)	(35)	(52)
Indirect expenses	(61)	(65)	(65)	(192)	(195)
	(126)	(128)	(137)	(384)	(415)
Profit before impairment losses	87	78	119	249	306
Impairment losses	(329)	(323)	(327)	(1,046)	(1,057)
Operating loss	(242)	(245)	(208)	(797)	(751)
Analysis of income by business					
Corporate	85	88	107	275	337
Retail	93	86	116	267	327
Other	35	32	33	91	57
Total income	213	206	256	633	721
Analysis of impairments by sector					
Mortgages	155	141	126	511	437
Corporate					
- property	92	61	78	207	241
- other corporate	75	103	111	292	334
Other lending	7	18	12	36	45
Total impairment losses	329	323	327	1,046	1,057

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	3.3%	2.9%	2.4%	3.6%	2.8%
Corporate					
- property	8.0%	5.1%	6.1%	6.0%	6.3%
- other corporate	4.1%	5.4%	5.4%	5.3%	5.4%
Other lending	2.2%	5.1%	3.2%	3.7%	4.0%
Total	4.1%	3.9%	3.7%	4.3%	4.0%

Ulster Bank (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Performance ratios					
Return on equity (1)	(20.4%)	(19.8%)	(18.3%)	(22.0%)	(23.6%)
Net interest margin	1.92%	1.82%	1.96%	1.87%	1.87%
Cost:income ratio	59%	62%	54%	61%	58%

	30 September 2012 £bn	30 June 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	18.9	19.2	(2%)	20.0	(6%)
- corporate					
- property	4.6	4.8	(4%)	4.8	(4%)
- other corporate	7.4	7.6	(3%)	7.7	(4%)
- other lending	1.3	1.4	(7%)	1.6	(19%)
	32.2	33.0	(2%)	34.1	(6%)
Customer deposits	20.3	20.6	(1%)	21.8	(7%)
Risk elements in lending					
- mortgages	2.9	2.6	12%	2.2	32%
- corporate					
- property	1.8	1.4	29%	1.3	38%
- other corporate	2.1	2.0	5%	1.8	17%
- other lending	0.2	0.2	-	0.2	-
Total risk elements in lending	7.0	6.2	13%	5.5	27%
Loan:deposit ratio (excluding repos)	141%	144%	(300bp)	143%	(200bp)
Risk-weighted assets	35.1	37.4	(6%)	36.3	(3%)
Spot exchange rate - €/£	1.256	1.238		1.196	

Note:

(1) Divisional return on equity is based on divisional operating loss after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).

Key points
In a challenging macroeconomic environment, in which recovery from the Group technology incident was a primary focus, Ulster Bank delivered improved pre-impairment profit in the quarter.

The deposit market remained competitive and margins continued to be constrained. Customer deposits remained broadly flat, with no significant outflows following the Group technology incident, while retail and SME balances increased marginally in the quarter. Ulster Bank remains focused on its deposit gathering and cost management strategy.

Ulster Bank (continued)

Key points (continued)

Q3 2012 compared with Q2 2012

· Operating profit before impairment losses increased by 12% to £87 million, reflecting higher income and lower expenses. The operating loss of £242 million was marginally lower than Q2 2012.

· Total income increased by £7 million reflecting a slight improvement in funding conditions coupled with a small uplift in non-interest income. The net interest margin increased by 10 basis points to 1.92%.

· Expenses decreased by £2 million as cost management remained a central priority.

· Impairment losses increased marginally, primarily in the residential mortgage portfolio. Mortgage arrears continued to rise as unemployment remained high and affordability issues persisted. This trend was exacerbated by a temporary disruption to collections activity during the Group technology incident in Q2 2012. Corporate risk elements in lending increased by £0.5 billion in the quarter due to a small number of large exposures which were in the course of being restructured in Q3 2012. However, this did not significantly impact impairment losses.

· Loans to customers fell further as repayments continued to outstrip new lending volumes.

· Customer deposits remained broadly flat, with no significant outflows following the Group technology incident, while retail and SME balances increased marginally in the quarter. The loan to deposit ratio improved by 300 basis points to 141%.

Q3 2012 compared with Q3 2011

· The operating loss increased by £34 million, with lower income only partly offset by a fall in expenses.

· Income decreased by 17%, driven by lower interest-earning asset volumes and higher costs of funding as customer deposit rates remained elevated despite the falls in market interest rates.

· Costs decreased by £11 million, with a focus on cost management and a reduction of discretionary spending through a number of cost saving initiatives.

· Impairment losses remained broadly stable.

· Loans to customers decreased by 9%, reflecting weak customer demand.

· Customer deposits declined by 13%, due to outflows of wholesale balances driven by market volatility and the impact of a rating downgrade in H2 2011. Retail and

SME balances remained stable over the period.

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US Retail & Commercial (£ Sterling)

	Quarter ended			Nine months ended	
	30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	30 September 2012 £m	30 September 2011 £m
Income statement					
Net interest income	492	492	482	1,480	1,404
Net fees and commissions	195	195	223	585	642
Other non-interest income	93	128	66	286	201
Non-interest income	288	323	289	871	843
Total income	780	815	771	2,351	2,247
Direct expenses					
- staff	(207)	(217)	(210)	(647)	(622)
- other	(128)	(144)	(156)	(388)	(420)
- litigation settlement	-	-	-	(88)	-
Indirect expenses	(201)	(197)	(197)	(606)	(584)
	(536)	(558)	(563)	(1,729)	(1,626)
Profit before impairment losses	244	257	208	622	621
Impairment losses	(21)	(28)	(85)	(68)	(261)
Operating profit	223	229	123	554	360
Average exchange rate - US$/£	1.581	1.582	1.611	1.578	1.614
Analysis of income by product					
Mortgages and home equity	139	134	119	407	335
Personal lending and cards	101	102	117	302	342
Retail deposits	215	224	238	659	690
Commercial lending	144	151	150	455	436
Commercial deposits	111	113	105	338	306
Other	70	91	42	190	138
Total income	780	815	771	2,351	2,247
Analysis of impairments by sector					
Residential mortgages	(5)	(4)	6	(3)	24

Home equity	40	20	32	82	83
Corporate and commercial	(35)	(6)	5	(57)	47
Other consumer	21	17	12	41	40
Securities	-	1	30	5	67
Total impairment losses	21	28	85	68	261
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	(0.3%)	(0.3%)	0.4%	(0.1%)	0.6%
Home equity	1.2%	0.6%	0.9%	0.8%	0.8%
Corporate and commercial	(0.6%)	(0.1%)	0.1%	(0.3%)	0.3%
Other consumer	1.0%	0.8%	0.7%	0.7%	0.9%
Total	0.2%	0.2%	0.4%	0.2%	0.5%

US Retail & Commercial (£ Sterling) (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Performance ratios					
Return on equity (1)	9.7%	10.0%	5.8%	8.1%	5.7%
Adjusted return on equity (2)	9.7%	8.3%	5.8%	8.8%	5.7%
Net interest margin	2.99%	3.02%	3.08%	3.02%	3.07%
Cost:income ratio	69%	69%	73%	74%	72%
Adjusted cost:income ratio (2)	69%	72%	73%	71%	72%

	30 September 2012 £bn	30 June 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Total third party assets	75.0	75.1	-	75.8	(1%)
Loans and advances to customers (gross)					
- residential mortgages	5.9	6.1	(3%)	6.1	(3%)
- home equity	13.6	14.2	(4%)	14.9	(9%)
- corporate and commercial	23.0	23.6	(3%)	22.9	-
- other consumer	8.2	8.3	(1%)	7.7	6%
	50.7	52.2	(3%)	51.6	(2%)
Customer deposits (excluding repos)	59.8	59.2	1%	60.0	-
Bank deposits (excluding repos)	3.8	5.0	(24%)	5.2	(27%)
Risk elements in lending					
- retail	0.7	0.6	17%	0.6	17%
- commercial	0.3	0.4	(25%)	0.4	(25%)
Total risk elements in lending	1.0	1.0	-	1.0	-
Loan:deposit ratio (excluding repos)	84%	87%	(300bp)	85%	(100bp)
Risk-weighted assets	56.7	58.5	(3%)	59.3	(4%)
Spot exchange rate - US$/£	1.614	1.569		1.548	

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional

RWAs, adjusted for capital deductions).

(2) Excludes the litigation settlement in Q1 2012 and net gain on sale of Visa B shares in Q2 2012.

Key point

- Sterling strengthened relative to the US dollar during the first nine months of 2012, with the spot exchange rate increasing by 4.3% compared with 31 December 2011.

US Retail & Commercial (US Dollar)

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
	$m	$m	$m	$m	$m
Income statement					
Net interest income	778	778	776	2,335	2,267
Net fees and commissions	306	309	358	922	1,036
Other non-interest income	149	202	109	453	325
Non-interest income	455	511	467	1,375	1,361
Total income	1,233	1,289	1,243	3,710	3,628
Direct expenses					
- staff	(327)	(344)	(340)	(1,021)	(1,005)
- other	(204)	(228)	(250)	(614)	(677)
- litigation settlement	-	-	-	(138)	-
Indirect expenses	(318)	(311)	(318)	(956)	(943)
	(849)	(883)	(908)	(2,729)	(2,625)
Profit before impairment losses	384	406	335	981	1,003
Impairment losses	(33)	(43)	(137)	(107)	(422)
Operating profit	351	363	198	874	581
Analysis of income by product					
Mortgages and home equity	219	211	192	641	542
Personal lending and cards	160	161	188	477	552
Retail deposits	340	355	384	1,041	1,114
Commercial lending	228	239	241	718	703
Commercial deposits	175	179	169	533	494
Other	111	144	69	300	223
Total income	1,233	1,289	1,243	3,710	3,628
Analysis of impairments by sector					
Residential mortgages	(8)	(6)	10	(5)	38
Home equity	64	30	52	129	134
Corporate and commercial	(55)	(9)	8	(89)	75

Other consumer	32	27	19	65	68
Securities	-	1	48	7	107
Total impairment losses	33	43	137	107	422
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	(0.3%)	(0.3%)	0.4%	(0.1%)	0.6%
Home equity	1.2%	0.5%	0.9%	0.8%	0.8%
Corporate and commercial	(0.6%)	(0.1%)	0.1%	(0.3%)	0.3%
Other consumer	1.0%	0.8%	0.7%	0.7%	0.9%
Total	0.2%	0.2%	0.5%	0.2%	0.5%

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US Retail & Commercial (US Dollar) (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Performance ratios					
Return on equity (1)	9.7%	10.0%	5.8%	8.1%	5.7%
Adjusted return on equity (2)	9.7%	8.3%	5.8%	8.8%	5.7%
Net interest margin	2.99%	3.02%	3.08%	3.02%	3.07%
Cost:income ratio	69%	69%	73%	74%	72%
Adjusted cost:income ratio (2)	69%	72%	73%	71%	72%

	30 September 2012 $bn	30 June 2012 $bn	Change	31 December 2011 $bn	Change
Capital and balance sheet					
Total third party assets	121.0	117.8	3%	117.3	3%
Loans and advances to customers (gross)					
- residential mortgages	9.5	9.6	(1%)	9.4	1%
- home equity	22.0	22.3	(1%)	23.1	(5%)
- corporate and commercial	37.2	37.0	1%	35.3	5%
- other consumer	13.1	13.1	-	12.0	9%
	81.8	82.0	-	79.8	3%
Customer deposits (excluding repos)	96.6	92.9	4%	92.8	4%
Bank deposits (excluding repos)	6.2	7.8	(21%)	8.0	(23%)
Risk elements in lending					
- retail	1.2	1.0	20%	1.0	20%
- commercial	0.5	0.6	(17%)	0.6	(17%)
Total risk elements in lending	1.7	1.6	6%	1.6	6%
Loan:deposit ratio (excluding repos)	84%	87%	(300bp)	85%	(100bp)
Risk-weighted assets	91.6	91.7	-	91.8	-

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of monthly average of divisional RWAs, adjusted for capital deductions).

(2)

Excludes the litigation settlement in Q1 2012 and net gain on sale of Visa B shares in Q2 2012.

Key points

Q3 2012 was another solid quarter for US Retail & Commercial. Excluding the £39 million ($62 million) net gain on sale of Visa B shares in Q2 2012, operating profit increased a further 17% quarter-on-quarter, largely driven by a decrease in expenses and higher securities gains.

US Retail & Commercial's strategy to focus on core banking products and to compete on service and product capabilities rather than price continued to deliver results. Key customer retention indicators in Consumer Banking, such as penetration in online banking, online bill pay and direct deposits, continued to improve in Q3 2012, while customers continued to rate services such as mobile banking highly compared with peers.

Consumer Banking has also seen benefits from its focus on growing and deepening valued customer relationships, resulting in higher core deposit balances and greater penetration in lending products.

US Retail & Commercial (US Dollar) (continued)

Key points (continued)

Commercial Banking has successfully utilised the growing strength of customer relationships to develop innovative e-marketing campaigns, targeting specific clients and prospects in chosen industries, and providing customers with access to relevant webinars, customer events and economic newsletters based on the business's understanding of their needs.

Commercial Banking has also focused on expanding and improving its Capital Markets and Treasury Solutions businesses throughout 2012.

By the end of Q3, the Capital Markets business was on track to finish 2012 with more than 100 lead roles in syndicate debt underwriting transactions, an increase of over 15% from 2011. In Q3 2012, the Treasury Solutions business improved its customer experience through the launch of accessSETUP™, a secure web interface that will allow safe and efficient exchange of documents in the initiation and implementation phases of cash management services.

Q3 2012 compared with Q2 2012

- US Retail & Commercial posted an operating profit of £223 million ($351 million) compared with £229 million ($363 million) in the prior quarter. Excluding the £39 million ($62 million) net gain on sale of Visa B shares in Q2 2012, operating profit increased by £33 million ($50 million), or 17%, largely reflecting higher securities gains of £16 million ($26 million) and lower expenses.

- Net interest income was in line with the prior quarter although net interest margin decreased by 3 basis points to 2.99% reflecting lower asset yields.

- Loans and advances were flat, reflecting continued run-off of consumer loan balances due to reduced credit demand and the unwillingness to hold long term fixed rate products, offset by growth in commercial loan volumes.

- Excluding a gross gain of £47 million ($75 million) on the sale of Visa B shares in Q2 2012, non-interest income was up £12 million ($19 million), or 4%, largely reflecting higher securities gains.

- Excluding the £8 million ($13 million) litigation reserve associated with the sale of Visa B shares in Q2 2012, direct expenses were down £18 million ($28 million), or 5%, driven by lower mortgage servicing rights impairments and the phasing of staff costs.

- Impairment losses were down £7 million ($10 million), although the credit environment remained broadly stable in the quarter.

Q3 2012 compared with Q3 2011

- Operating profit increased to £223 million ($351 million) from £123 million ($198 million), an increase of £100 million ($153 million), or 81%, driven by lower impairment losses and expenses.

- Net interest income was in line with Q3 2011. Consumer loan run-off and lower asset yields reflected prevailing economic conditions, but were offset by targeted commercial loan growth, deposit pricing discipline and lower funding costs.

- Customer deposits were up 2% with strong growth achieved in checking and money market balances. Consumer checking balances grew by 3% while small business checking balances grew by 8% over the year.

US Retail & Commercial (US Dollar) (continued)

Key points (continued)

Q3 2012 compared with Q3 2011 (continued)

- Non-interest income was down £1 million ($12 million), reflecting lower debit card fees as a result of the Durbin Amendment legislation, and lower deposit fees, partially offset by higher securities gains and strong mortgage banking fees.

- Total expenses declined by £27 million ($59 million), or 5%, reflecting a lower mortgage servicing rights impairment, a decline in loan collection costs and the elimination of the Everyday Points rewards programme for consumer debit card customers.

- Impairment losses declined by £64 million ($104 million), or 75%, reflecting an improved credit environment as well as lower impairments related to securities.

Markets

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
	£m	£m	£m	£m	£m
Income statement					
Net interest income	14	32	(9)	62	47
Net fees and commissions receivable	27	23	72	127	346
Income from trading activities	1,250	925	1,584	3,554	4,100
Other operating income	(249)`	86	(1,200)	99	(770)
Non-interest income	1,028	1,034	456	3,780	3,676
Total income	1,042	1,066	447	3,842	3,723
Direct expenses					
- staff	(393)	(423)	(406)	(1,360)	(1,609)
- other	(162)	(185)	(195)	(513)	(549)
Indirect expenses	(198)	(188)	(199)	(584)	(576)
	(753)	(796)	(800)	(2,457)	(2,734)
Profit/(loss) before impairment recoveries/ (losses)	289	270	(353)	1,385	989
Impairment recoveries/(losses)	6	(19)	5	(15)	19
Operating profit/(loss)	295	251	(348)	1,370	1,008
Of which:					
Ongoing businesses	300	268	(325)	1,429	1,039
Run-off businesses	(5)	(17)	(23)	(59)	(31)
Analysis of income by product					
Rates	390	416	42	1,607	1,078
Currencies	173	175	293	594	801
Asset backed products (ABP)	374	378	241	1,179	1,225
Credit markets	186	184	(58)	683	580
Investor products and equity derivatives	76	91	76	290	475
Total income ongoing businesses	1,199	1,244	594	4,353	4,159
Inter-divisional revenue share	(159)	(174)	(178)	(519)	(590)

Run-off businesses	2	(4)	31	8	154
Total income	1,042	1,066	447	3,842	3,723
Memo - Fixed income and currencies					
Rates/currencies/ABP/credit markets	1,123	1,153	518	4,063	3,684
Less: primary credit markets	(114)	(132)	(137)	(417)	(554)
Total fixed income and currencies	1,009	1,021	381	3,646	3,130

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Markets (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Performance ratios (ongoing businesses)					
Return on equity (1)	7.8%	6.8%	(8.2%)	12.0%	8.9%
Cost:income ratio	72%	73%	179%	62%	71%
Compensation ratio (2)	37%	38%	88%	34%	41%

	30 September 2012 £bn	30 June 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet (ongoing businesses)					
Loans and advances	51.7	53.7	(4%)	61.2	(16%)
Reverse repos	97.5	97.6	-	100.4	(3%)
Securities	97.9	101.7	(4%)	108.1	(9%)
Cash and eligible bills	34.7	26.8	29%	28.1	23%
Other	22.4	22.2	1%	14.8	51%
Total third party assets (excluding derivatives mark-to-market)	304.2	302.0	1%	312.6	(3%)
Customer deposits (excluding repos)	34.3	34.3	-	36.8	(7%)
Bank deposits (excluding repos)	42.9	50.7	(15%)	48.2	(11%)
Net derivative assets (after netting)	21.3	27.5	(23%)	37.0	(42%)
Risk-weighted assets	108.0	107.9	-	120.3	(10%)

Notes:
(1) Divisional return on equity is based on divisional operating profit after tax, divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions), for the ongoing businesses.
(2) Compensation ratio is based on staff costs as a percentage of total income.

	Quarter ended			Nine months ended	
	30 September	30 June 2012	30 September	30 September	30 September

Run-off businesses (1)	2012 £m	£m	2011 £m	2012 £m	2011 £m
Total income	2	(4)	31	8	154
Direct expenses	(7)	(13)	(54)	(67)	(185)
Operating loss	(5)	(17)	(23)	(59)	(31)

Run-off businesses (1)	30 September 2012 £bn	30 June 2012 £bn	31 December 2011 £bn
Total third party assets (excluding derivatives mark-to-market)	0.2	0.4	1.3

Note:
(1) Run-off businesses consist of the exited cash equities, corporate broking and equity capital markets operations.

Markets (continued)

Key points

During Q3 2012, Markets performed creditably in a challenging environment. Client activity was subdued and investors remained cautious, despite market supportive actions by both the US Federal Reserve and the European Central Bank which resulted in a narrowing of credit spreads.

In response to the difficult environment, Markets has continued to focus on managing both risk and costs. The effectiveness of risk management processes were further improved and risk positions mitigated. Headcount fell and the division continued to pursue a rigorous programme of front to back cost reduction.

Q3 2012 compared with Q2 2012

- Revenues declined by 2% due to continued uncertainty in the Eurozone and subdued client activity. However, the ongoing focus on costs generated an 18% increase in operating profit.

- Rates' income fell 6% in a low volatility environment. A decline in counterparty exposure management, which had a particularly strong Q2 2012, was partly offset by a strong performance in non-linear trading, as RBS worked with clients to restructure or unwind a number of client positions.

- Currencies volumes remained weak. Investors were risk averse which limited opportunities in emerging markets. Conversely, the currency options activity had better trading results as a consequence of efficient risk management.

- Asset-backed products continued to benefit from investors' search for yield, especially in the United States, where the Federal Reserve's stance on quantitative easing sustained the markets.

- Credit markets continued to stabilise during Q3 2012. Issuance in the EMEA debt capital markets remained difficult and windows of opportunity were narrow. The US market, less affected by uncertainty in the Eurozone, saw some growth in corporate activity.

- The 5% reduction in total expenses was driven by lower staff costs and the division's continued focus on controlling discretionary expenditure.

- Third party assets increased slightly due to a higher level of cash held with central banks at the end of the quarter. Excluding cash and eligible bills, third party assets fell by £6 billion.

- Risk-weighted assets remained flat as continuing regulatory pressures were offset by ongoing mitigation actions.

- Q3 2012 performance helped drive a strong return on equity of 12% for the first nine months of 2012, largely due to the improved cost position.

Markets (continued)

Key points (continued)

Q3 2012 compared with Q3 2011

- Revenues increased by £595 million as business performance and the market environment improved. During Q3 2011 both credit spreads and investor confidence deteriorated sharply whereas Q3 2012 has been supported by the actions of the US Federal Reserve and European Central Bank.

  Rates benefited from a more stable market environment and more effective risk management. Non-linear trading performed particularly well during Q3 2012.
  Flow currencies weakened compared with Q3 2011 reflecting low volumes. The currency options business was lower, but this reflected a strong Q3 2011.
  A stronger performance in asset backed products reflected a more sustained market rally than during 2011. Quantitative easing in the US and investors' search for yield supported asset prices.
  Credit markets incurred significant losses in Q3 2011 on flow credit trading, reflecting the sharp deterioration in the credit environment. More benign credit conditions and a focus on risk management drove improved results in Q3 2012.

- Staff numbers have fallen significantly as a consequence of both the strategic decision to exit cash equities and origination and a more efficient use of resources in the ongoing business. The compensation ratio of 37% represents a significant improvement from Q3 2011. Lower headcount, combined with the focus on discretionary expenditure, has driven down the overall cost base.

Direct Line Group

	Quarter ended			Nine months ended	
	30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	30 September 2012 £m	30 September 2011 £m
Income statement					
Earned premiums	1,013	1,012	1,057	3,045	3,178
Reinsurers' share	(81)	(83)	(67)	(246)	(181)
Net premium income	932	929	990	2,799	2,997
Fees and commissions	(129)	(113)	(83)	(351)	(239)
Instalment income	32	31	35	94	105
Investment income	48	73	72	211	205
Other income	16	14	19	46	81
Total income	899	934	1,033	2,799	3,149
Direct expenses					
- Staff expenses	(88)	(81)	(67)	(248)	(213)
- Other expenses	(106)	(81)	(88)	(278)	(254)
Total direct expenses	(194)	(162)	(155)	(526)	(467)
Indirect expenses	-	(61)	(60)	(124)	(170)
	(194)	(223)	(215)	(650)	(637)
Net claims	(596)	(576)	(695)	(1,821)	(2,183)
Operating profit	109	135	123	328	329
Analysis of income by product					
Personal lines motor excluding broker					
- own brands	433	440	475	1,324	1,414
- partnerships	34	34	49	104	193
Personal lines home excluding broker					
- own brands	116	123	121	360	364
- partnerships	90	98	97	280	295
Personal lines rescue and other excluding broker					
- own brands	46	45	44	137	138
- partnerships	43	48	48	135	147

Commercial	86	88	90	261	258
International	84	84	98	259	271
Other (1)	(33)	(26)	11	(61)	69
Total income	899	934	1,033	2,799	3,149

For the notes to this table refer to page 53.

Direct Line Group (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
In-force policies (000s)					
Personal lines motor excluding broker					
- own brands	3,762	3,816	3,832	3,762	3,832
- partnerships	332	319	388	332	388
Personal lines home excluding broker					
- own brands	1,777	1,795	1,832	1,777	1,832
- partnerships	2,514	2,509	2,504	2,514	2,504
Personal lines rescue and other excluding broker					
- own brands	1,816	1,798	1,886	1,816	1,886
- partnerships	7,955	7,895	7,714	7,955	7,714
Commercial	466	460	410	466	410
International	1,444	1,441	1,357	1,444	1,357
Other (1)	52	54	44	52	44
Total in-force policies (2)	20,118	20,087	19,967	20,118	19,967
Gross written premium (£m)					
Personal lines motor excluding broker					
- own brands	400	378	438	1,176	1,236
- partnerships	40	32	36	109	109
Personal lines home excluding broker					
- own brands	128	112	133	350	362
- partnerships	139	127	144	402	417
Personal lines rescue and other excluding broker					
- own brands	48	45	48	136	134
- partnerships	45	45	48	131	130
Commercial	103	123	101	333	333
International	113	133	125	419	428
Other (1)	(1)	1	4	1	(1)
Total gross written premium	1,015	996	1,077	3,057	3,148

For the notes to this table refer to the following page.

Direct Line Group (continued)

Key metrics (continued)

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Performance ratios					
Return on tangible equity (3)	12.9%	13.4%	11.0%	10.3%	10.0%
Loss ratio (4)	64%	62%	70%	65%	73%
Commission ratio (5)	14%	12%	8%	13%	8%
Expense ratio (6)	21%	24%	22%	23%	21%
Combined operating ratio (7)	99%	98%	100%	101%	102%
Balance sheet					
Total insurance reserves - (£m) (8)	8,112	8,184	7,545	8,112	7,545

Notes:

(1) 'Other' predominantly consists of the personal lines broker business and from Q1 2012 business previously reported in Non-Core.

(2) 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 and card payment protection.

(3) Return on tangible equity is based on annualised operating profit after tax divided by average tangible equity adjusted for dividend payments.

(4) Loss ratio is based on net claims divided by net premium income.

(5) Commission ratio is based on fees and commissions divided by net premium income.

(6) Expense ratio is based on expenses divided by net premium income.

(7) Combined operating ratio is the sum of the loss, commission and expense ratios.

(8) Consists of general and life insurance liabilities, unearned premium reserve and liability adequacy reserve.

Key points

In October 2012 RBS Group sold 520.8 million ordinary shares in Direct Line Group completing a successful initial public offering (IPO). This represented 34.7% of the total share capital, generating gross proceeds of £911 million.

Direct Line Group continues to hold a steady position in a competitive market with stable in-force policies and an operating profit of £328 million for the nine months ended 30 September 2012. Q3 2012 operating profit of £109 million was lower than Q3 2011 as a result of increased financing costs, following successful implementation of balance sheet restructuring, and lower investment returns.

The combined operating ratio of 99% in the quarter reflects normal weather and some improvement in expense ratio compared with Q2 2012, partially offset by lower releases from prior year reserves.

Following the renewal and expansion of partnership agreements with Nationwide Building Society and Sainsbury's Bank in H1 2012, Direct Line Group signed an arm's length, five year distribution agreement with RBS Group for the continued provision of general insurance products post divestment. In September, a new marketing campaign was launched for the Direct Line brand further differentiating its service led proposition. These activities reinforce Direct Line Group's multi-brand, multi-product and multi-channel personal lines business model in the UK.

Key points (continued)
During the quarter, Commercial continued to develop its new e-trading platform. This will enable NIG to provide a wider range of Small to Medium Enterprise (SME) products for brokers on an electronic trading platform and drive greater operational efficiency, whilst also significantly improving the broker and customer experience.

International continued to consolidate its position with 1.4 million in-force policies. Gross written premium for the year-to-date was up 5% in local currency on the same period last year. This followed a period of strong growth in 2010 and 2011. International continues to benefit from its multi-channel distribution model including partnerships.

During Q3 2012, agreement was reached on the final level of reserves to be retained by Direct Line Group in respect of the run-off of remaining claims under Tesco Personal Finance policies and finalised certain other matters arising out of the expiration of the distribution arrangements. Following this determination of the reserves, the risks and rewards of the run-off for this line of business was transferred to Direct Line Group.

Direct Line Group continues to focus on reducing operational costs, targeting the delivery of gross annual cost and claims savings of £100 million in 2014 through overall improvements in operational efficiency, continued efforts to simplify its internal organisational structure and better managing its customer acquisition costs.

Investment markets remained challenging with continued low yields. Direct Line Group continues to manage its investment portfolios conservatively, with portfolios composed primarily of investment grade corporate bonds, cash and gilts. At 30 September 2012, exposure to peripheral Eurozone debt was £52 million, less than 1% of the portfolio, comprising non-sovereign debt issued in Ireland, Italy and Spain. During the quarter, Direct Line Group continued to restructure its portfolio through a further purchase of £287 million in corporate bonds and £33 million in property.

Direct Line Group continues to optimise its capital structure with a further dividend of £200 million paid to RBS Group on 3 September 2012, taking the total dividend paid to £1 billion in 2012. Following the IPO, Direct Line Group plans to adopt a progressive dividend policy which will aim to increase dividends annually in real terms. For 2012, the dividend pay-out ratio is expected to be between 50-60% of post tax profits from ongoing operations and a final dividend of two thirds of this amount is expected to be paid in Q2 2013.

Over the last 18 months, a number of regulatory reviews and initiatives have been announced by the UK Government, the Ministry of Justice and the Competition Commission in relation to the motor insurance industry. Direct Line Group is actively engaged with major stakeholders and supports the introduction of a coherent set of reforms. This was reinforced by the recent reversal of an earlier Court of Appeal decision (Simmons v Castle) in relation to the 10% uplift in general damages.

Direct Line Group (continued)

Key points (continued)

Separation update
From 1 July 2012, Direct Line Group has operated on a substantially standalone basis with independent corporate functions and governance, following successful implementation of a comprehensive programme of separation initiatives. During the first nine months of the year these included launching a new corporate identity and the Direct Line Group Board becoming fully compliant with the UK Corporate Governance code following further non-executive director appointments. New contracts of employment have been agreed and issued to staff, independent HR systems have been implemented and an arm's length transitional services agreement has been reached with RBS Group for residual services.

RBS completed the successful initial public offering of Direct Line Group in October 2012, representing another important milestone in RBS's restructuring plan.

Q3 2012 compared with Q2 2012

· Operating profit of £109 million was £26 million, or 19% lower, as a result of increased financing costs, following successful implementation of balance sheet restructuring and lower investment returns.

· Gross written premiums of £1,015 million were £19 million higher, driven by seasonality across the products.

· Total income of £899 million was £35 million, or 4% lower, predominantly due to increased commissions payable relating to business previously reported within Non-Core and lower investment income.

· Investment income of £48 million was £25 million lower as realised gains arising from portfolio management initiatives during Q2 2012 were not repeated in the current quarter. In addition financing costs were higher following a full quarter of interest on the Tier 2 debt issued in Q2 2012.

· Net claims of £596 million were £20 million, or 4% higher, reflecting lower releases of reserves from prior years compared with the prior quarter, partially offset by less severe weather.

· Total expenses of £194 million were £29 million, or 13% lower than Q2 2012, primarily due to being substantially operationally separate from RBS Group, and the cessation of a period of dual running costs.

Q3 2012 compared with Q3 2011

· Operating profit was £14 million, or 11% lower than Q3 2011. Lower investment income, included £12 million of financing costs relating to the Tier 2 debt issued in Q2 2012.

- Gross written premiums of £1,015 million were £62 million, or 6% lower than Q3 2011. This was predominantly driven by Motor, due to the impact of de-risking actions taken in 2011 and the continued focus on disciplined underwriting in a competitive market. International was also down, reflecting adverse exchange rate movements.

- Total income decreased by £134 million as a result of the earn through of lower written premiums, together with significantly higher commissions payable relating to business previously reported in Non-Core and lower investment income.

Direct Line Group (continued)

Key points (continued)

Q3 2012 compared with Q3 2011 (continued)

- Investment income was £24 million, or 33% lower reflecting lower yields during 2012, lower realised gains on the portfolio, and the interest payable on the Tier 2 debt issued in Q2 2012. This was partially offset by gains relating to business previously reported in Non-Core.

- Net claims were £99 million, or 14% lower due to a reduction in volumes, reserve releases and favourable movements relating to business previously reported within Non-Core, which is almost entirely offset within fees and commissions.

- Expenses decreased by £21 million, or 9%, principally reflecting the move to substantial operational separation from RBS Group in Q3 2012.

Central items

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
	£m	£m	£m	£m	£m
Central items not allocated	176	(32)	78	-	102

Note:
(1) Costs/charges are denoted by brackets.

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.

Key points

Q3 2012 compared with Q2 2012

- Central items not allocated represented a credit of £176 million, an improvement of £208 million compared with Q2 2012.

- The movement was predominantly driven by an increased profit from available-for-sale bond disposals of £325 million, as the Group repositioned its liquidity portfolio, offset by higher unallocated volatility costs in Group Treasury of £95 million. In addition, a further provision of £50 million in respect of the Group technology incident was recorded in Q3 2012 compared with £125 million in Q2 2012.

- Q3 2012 also included a £75 million reserve for various litigation and legacy conduct issues.

Q3 2012 compared with Q3 2011

- Central items not allocated represented a credit of £176 million, an improvement of £98 million compared with Q3 2011.

- The movement was due to increases in available-for-sale bond disposals, partially offset by an increase in unallocated volatility costs and the additional provisions noted above.

Central items (continued)

Technology incident - costs of redress

The following table provides an analysis by division of the estimated costs of redress following the technology incident in June 2012. These costs are included in Central items above and include waiver of interest and other charges together with other compensation payments all of which are reported in expenses.

	Quarter ended		
	30 September 2012	30 June 2012	Total
	£m	£m	£m
UK Retail	6	35	41
UK Corporate	(12)	36	24
International Banking	(18)	21	3
Ulster Bank	54	28	82
Group Centre	20	5	25
	50	125	175

During Q3, the Group increased the provision by £50 million, primarily in relation to Ulster Bank (£54 million) partially offset by reductions in UK Corporate and International Banking.

Non-Core

	Quarter ended			Nine months ended	
	30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	30 September 2012 £m	30 September 2011 £m
Income statement					
Net interest income	72	10	75	95	390
Funding costs of rental assets	7	38	54	96	159
Net interest income	79	48	129	191	549
Net fees and commissions	17	29	(85)	77	8
Loss from trading activities	(203)	(133)	(246)	(604)	(309)
Insurance net premium income	-	-	45	-	277
Other operating income					
- rental income	80	173	235	470	735
- other (1)	77	(116)	(13)	186	206
Non-interest (loss)/income	(29)	(47)	(64)	129	917
Total income	50	1	65	320	1,466
Direct expenses					
- staff	(69)	(80)	(93)	(220)	(293)
- operating lease depreciation	(43)	(69)	(82)	(195)	(256)
- other	(30)	(46)	(62)	(117)	(199)
Indirect expenses	(70)	(67)	(86)	(205)	(233)
	(212)	(262)	(323)	(737)	(981)
(Loss)/profit before insurance net claims and impairment losses	(162)	(261)	(258)	(417)	485
Insurance net claims	-	-	(38)	-	(256)
Impairment losses	(424)	(607)	(682)	(1,520)	(3,168)
Operating loss	(586)	(868)	(978)	(1,937)	(2,939)

Note:
(1) Includes (losses)/gains on disposals (Q3 2012 - £42 million loss; Q2 2012 - £39 million loss; Q3 2011 - £37 million loss; nine months ended 30 September 2012 - £101 million gain; nine months ended 30 September 2011 - £91 million loss).

Non-Core (continued)

	Quarter ended			Nine months ended	
	30 September 2012 £m	30 June 2012 £m	30 September 2011 £m	30 September 2012 £m	30 September 2011 £m
Analysis of income/(loss) by business					
Banking and portfolios	91	(117)	233	151	1,607
International businesses	60	76	101	221	319
Markets	(101)	42	(269)	(52)	(460)
Total income	50	1	65	320	1,466
Loss from trading activities					
Monoline exposures	21	(63)	(230)	(170)	(427)
Credit derivative product companies	(199)	31	(5)	(206)	(66)
Asset-backed products (1)	17	37	(51)	85	51
Other credit exotics	16	(69)	(7)	(33)	(167)
Equities	1	3	(11)	3	(12)
Banking book hedges	(14)	(22)	73	(36)	35
Other	(45)	(50)	(15)	(247)	277
	(203)	(133)	(246)	(604)	(309)
Impairment losses					
Banking and portfolios	433	706	656	1,623	3,119
International businesses	16	14	17	41	52
Markets	(25)	(113)	9	(144)	(3)
Total impairment losses	424	607	682	1,520	3,168
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) (2)					
Banking and portfolios	2.8%	4.2%	2.8%	3.6%	4.8%
International businesses	4.5%	3.4%	2.7%	3.9%	3.2%
Markets	0.4%	(4.4%)	(0.4%)	(1.6%)	(4.0%)
Total	2.9%	4.2%	2.8%	3.6%	4.8%

Notes:

(1) Asset-backed products include super senior asset-backed structures and other asset-backed products.

(2) Includes disposal groups.

Non-Core (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2012	30 June 2012	30 September 2011	30 September 2012	30 September 2011
Performance ratios					
Net interest margin	0.41%	0.24%	0.50%	0.32%	0.69%
Cost:income ratio	nm	nm	nm	nm	67%
Adjusted cost:income ratio	nm	nm	nm	nm	81%

	30 September 2012 £bn	30 June 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Total third party assets (excluding derivatives)	65.1	72.1	(10%)	93.7	(31%)
Total third party assets (including derivatives)	72.2	80.6	(10%)	104.7	(31%)
Loans and advances to customers (gross) (1)	61.6	67.7	(9%)	79.4	(22%)
Customer deposits (1)	3.3	2.9	14%	3.5	(6%)
Risk elements in lending (1)	22.0	23.1	(5%)	24.0	(8%)
Risk-weighted assets	72.2	82.7	(13%)	93.3	(23%)

nm = not meaningful

Note:
(1) Excludes disposal groups.

	30 September 2012 £bn	30 June 2012 £bn	31 December 2011 £bn
Gross customer loans and advances			
Banking and portfolios	60.4	66.3	77.3
International businesses	1.2	1.4	2.0
Markets	-	-	0.1
	61.6	67.7	79.4

Risk-weighted assets			
Banking and portfolios	60.5	64.4	64.8
International businesses	2.7	2.9	4.1
Markets	9.0	15.4	24.4
	72.2	82.7	93.3
Third party assets (excluding derivatives)			
Banking and portfolios	57.6	63.5	81.3
International businesses	1.9	2.2	2.9
Markets	5.6	6.4	9.5
	65.1	72.1	93.7

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Non-Core (continued)

Third party assets (excluding derivatives)

Quarter ended 30 September 2012	30 June 2012 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	30 September 2012 £bn
Commercial real estate	26.9	(0.9)	(0.4)	-	(0.4)	(0.2)	25.0
Corporate	32.8	(2.7)	(1.1)	0.4	-	(0.4)	29.0
SME	1.6	(0.2)	(0.1)	-	-	-	1.3
Retail	4.0	(0.1)	-	-	-	(0.1)	3.8
Other	0.4	-	-	-	-	-	0.4
Markets	6.4	(0.2)	(0.6)	0.1	-	(0.1)	5.6
Total (excluding derivatives)	72.1	(4.1)	(2.2)	0.5	(0.4)	(0.8)	65.1

Quarter ended 30 June 2012	31 March 2012 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	30 June 2012 £bn
Commercial real estate	29.1	(1.2)	(0.2)	-	(0.4)	(0.4)	26.9
Corporate	40.1	(1.7)	(5.9)	0.5	(0.2)	-	32.8
SME	1.9	(0.3)	(0.1)	0.1	-	-	1.6
Retail	4.2	(0.3)	-	0.1	(0.1)	0.1	4.0
Other	0.6	(0.2)	-	-	-	-	0.4
Markets	7.4	(0.7)	(0.5)	-	0.1	0.1	6.4
Total (excluding derivatives)	83.3	(4.4)	(6.7)	0.7	(0.6)	(0.2)	72.1

Quarter ended 30 September 2011	30 June 2011 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	30 September 2011 £bn
Commercial real estate	36.6	0.3	(0.6)	0.2	(0.5)	(0.7)	35.3
Corporate	50.4	(2.4)	(1.3)	0.5	-	(0.3)	46.9
SME	2.7	(0.3)	-	-	-	-	2.4
Retail	8.0	(0.3)	(0.3)	-	(0.1)	0.1	7.4
Other	2.3	(0.4)	-	-	-	-	1.9
Markets	11.5	(0.9)	(0.4)	0.6	-	0.1	10.9
Total (excluding derivatives)	111.5	(4.0)	(2.6)	1.3	(0.6)	(0.8)	104.8
Markets - RBS Sempra Commodities JV	1.1	-	(0.8)	-	-	-	0.3

Total (1)	112.6	(4.0)	(3.4)	1.3	(0.6)	(0.8)	105.1

Note:
(1)