ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
November 14, 2011

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

14 November 2011

The Royal Bank of Scotland Group plc

Gogarburn
PO Box 1000
Edinburgh EH12 1HQ
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(File Nos. 333-162219 and 333-162219-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Contents

Contents (continued)

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, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk weighted assets, return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; certain ring-fencing proposals; the Group’s future financial performance; the level and extent of future impairments and write-downs, including sovereign debt impairments; the protection provided by the Asset Protection Scheme (APS); 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: the full nationalisation of the Group or other resolution procedures under the Banking Act 2009; the 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 financial stability of other financial institutions, and the Group’s counterparties and borrowers; the ability to complete restructurings on a timely basis, or at all, including the disposal of certain Non-Core assets and assets and businesses required as part of the EC State Aid restructuring plan; organisational restructuring, including any adverse consequences of a failure to transfer, or delay in transferring, certain businesses, assets and liabilities from RBS Bank N.V. to RBS plc; the ability to access sufficient funding to meet liquidity needs; the extent of future write-downs and impairment charges caused by depressed asset valuations; the inability to hedge certain risks economically; 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 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; HM Treasury exercising influence over the operations of the Group; 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 government and regulatory bodies; impairments of goodwill; pension fund shortfalls; litigation and regulatory investigations; general operational risks; insurance claims; reputational risk; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the recommendations made by the UK Independent Commission on Banking and their potential implications; the participation of the Group in the APS and the effect of the APS on the Group’s financial and capital position; 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.

RFS Holdings is the entity that acquired ABN AMRO and is 98% owned by RBS and is fully consolidated in its financial statements. The interests of the State of the Netherlands (the successor to Fortis), and Santander in RFS Holdings are included in non-controlling interests. Following legal separation on 1 April 2010, the interests of other Consortium Members in RFS Holdings relate only to shared assets.

Non-GAAP financial information

IFRS requires the Group to consolidate those entities that it controls, including RFS Holdings as described above. However, discussion of the Group's performance focuses on performance measures that exclude the RFS Holdings minority interest 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. These non-GAAP financial measures are not a substitute for GAAP measures, for which management has responsibility. RBS has divided its operations into "Core" and "Non-Core" for internal reporting purposes. 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 UK Retail, UK Corporate, Wealth, Global Transaction Services, Ulster Bank and US Retail & Commercial divisions. This is a non-GAAP financial measure.

Net interest margin

The basis of calculating the net interest margin (NIM) was refined in Q1 2011 and reflects the actual number of days in each quarter. Group and divisional NIMs for 2010 have been re-computed on the new basis.

Recent Developments

In July 2010, the FSA notified the Group that it was commencing an investigation into the sale by Coutts & Co of the ALICO (American Life Insurance Company) Premier Access Bond Enhanced Variable Rate Fund (EVRF) to customers between 2001 and 2008 as well as its subsequent review of those sales. Subsequently on 11 January 2011, the FSA revised the investigation start date to December 2003.

On 8 November 2011, the FSA published its Final Notice having reached a settlement with Coutts & Co, under which Coutts & Co agreed to pay a fine of £6.3 million. The FSA did not make any findings on the suitability of advice given in individual cases. Nonetheless, in order to address the possibility that unsuitable advice may potentially have been given in relation to the EVRF, Coutts & Co has agreed to undertake a past business review of its sales of the product. This review will be overseen by an independent third party and will consider the advice given to customers invested in the EVRF as at the date of its suspension, 15 September 2008. As part of the review, Coutts & Co may identify clients affected by the FSA's findings and will offer them redress.

Condensed consolidated income statement
for the period ended 30 September 2011

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Interest receivable	5,371	5,404	5,584	16,176	17,164
Interest payable	(2,294)	(2,177)	(2,173)	(6,571)	(6,535)
Net interest income	3,077	3,227	3,411	9,605	10,629
Fees and commissions receivable	1,452	1,700	2,037	4,794	6,141
Fees and commissions payable	(304)	(323)	(611)	(887)	(1,762)
Income from trading activities	957	1,147	277	2,939	4,153
Gain on redemption of own debt	1	255	-	256	553
Other operating income (excluding insurance premium income)	2,384	1,142	(317)	3,917	476
Insurance net premium income	1,036	1,090	1,289	3,275	3,856
Non-interest income	5,526	5,011	2,675	14,294	13,417
Total income	8,603	8,238	6,086	23,899	24,046
Staff costs	(2,076)	(2,210)	(2,423)	(6,685)	(7,477)
Premises and equipment	(604)	(602)	(611)	(1,777)	(1,693)
Other administrative expenses	(962)	(1,752)	(914)	(3,635)	(2,947)
Depreciation and amortisation	(485)	(453)	(603)	(1,362)	(1,604)
Operating expenses	(4,127)	(5,017)	(4,551)	(13,459)	(13,721)
Profit before other operating charges and impairment losses	4,476	3,221	1,535	10,440	10,325
Insurance net claims	(734)	(793)	(1,142)	(2,439)	(3,601)
Impairment losses	(1,738)	(3,106)	(1,953)	(6,791)	(7,115)
Operating profit/(loss) before tax	2,004	(678)	(1,560)	1,210	(391)
Tax (charge)/credit	(791)	(222)	295	(1,436)	(637)
Profit/(loss) from continuing operations	1,213	(900)	(1,265)	(226)	(1,028)
Profit/(loss) from discontinued operations,	6	21	18	37	(688)

net of tax					
Profit/(loss) for the period	1,219	(879)	(1,247)	(189)	(1,716)
Non-controlling interests	7	(18)	101	(10)	703
Preference share and other dividends	-	-	-	-	(124)
Profit/(loss) attributable to ordinary and B shareholders	1,226	(897)	(1,146)	(199)	(1,137)
Basic earnings/(loss) per ordinary and B share from continuing operations	1.1p	(0.8p)	(1.1p)	(0.2p)	(0.5p)
Diluted earnings/(loss) per ordinary and B share from continuing operations	1.1p	(0.8p)	(1.1p)	(0.2p)	(0.5p)
Basic (loss)/earnings per ordinary and B share from discontinued operations	-	-	-	-	-
Diluted (loss)/earnings per ordinary and B share from discontinued operations	-	-	-	-	-

Comment

Stephen Hester, Group Chief Executive, commented:

“RBS’s third quarter results show the improved strength and resilience we have built up since 2008. They also highlight the external pressures facing banks, and economies more broadly, which are making the road to recovery longer and bumpier than hoped for.

Service to customers remains at the top of RBS’s agenda. We care about our customers and the communities we serve and are part of. Across our businesses we have both the means and the will to meet creditworthy demand with lending and other support. We provided £28.5 billion of new lending in Q3 across both UK businesses and personal mortgages, again exceeding our natural customer market shares in each segment.

In the face of eurozone turmoil and economic slowdown RBS has sustained its restructuring momentum. Our Core Tier 1 capital ratio is strong. Our loan:deposit ratio improved again, as did our liquidity position. Non-Core run-down is on-track for year end targets. Impairment charges fell, especially in Ireland.

In common with other banks, the picture on profitability is mixed. Our Retail & Commercial businesses are holding up well with 16% return on equity for the quarter, excluding Ulster Bank. Forward momentum will be challenging, however, until the economies we serve see stronger growth. Our investment bank was only modestly profitable in the third quarter, performing in line with competitors. While we have been pleased with GBM’s risk management in volatile markets, we expect difficult conditions to continue in Q4. Losses in Non-Core are coming down year by year but will remain significant and volatile for a while longer.

RBS will take clear action to adjust strategy where needed in the light of new economic and regulatory realities. The foundation established since 2009 helps us immeasurably. The path ahead is navigable, and we are committed to delivering the best of RBS for customers and shareholders.”

Highlights

Third quarter results summary

The Royal Bank of Scotland Group (RBS or the Group) reported an operating profit of £2,004 million in the third quarter of 2011. Operating profit for the first nine months of 2011 was £1,210 million, compared with a loss of £391 million in the same period of 2010.

The result reflects a challenging and uncertain economic environment, with the Group adopting a cautious approach by reducing its risk appetite and ensuring a strong and liquid balance sheet. The Group liquidity buffer was expanded from £155 billion to £170 billion and deposit growth remained a key strategic target, with the Group loan:deposit ratio improving to 112%, compared with 126% at 30 September 2010. Total funded assets were down £16 billion from Q2 and £44 billion from Q3 2010. Average value-at-risk in the Group's Core businesses was £58.3 million in Q3 2011 compared with £123.8 million in Q3 2010.

Retail & Commercial profitability was impacted by increased funding costs and impairments remaining high, particularly in Ulster Bank. In GBM, however, the subdued operating environment and lower risk appetite led to a year-to-date return on equity of 11%, compared with 19% in the prior year. Total Core return on equity in the first nine months was 12%, compared with 14% for the comparable period of 2010.

Non-Core kept up good progress, reducing its funded balance sheet by £8 billion during Q3 2011 to £105 billion. The division remains on course to meet its year-end asset target of £96 billion.

Significant non-operating items during Q3 2011 included a gain of £2,357 million on movements in the fair value of own debt, as the volatile market conditions led to a significant widening in the Group's credit spreads during the quarter. This compared with a gain of £339 million in Q2 2011 and a charge of £858 million in Q3 2010. An additional impairment of £142 million was booked against the Group's holdings of Greek sovereign bonds, which were marked at 37% of par value as at 30 September 2011. A further charge of £60 million (compared with £168 million in Q2 2011) was recorded in respect of the Asset Protection Scheme (APS), which is accounted for as a derivative, with changes in fair value booked each quarter. The cumulative APS charge now stands at £2.2 billion.

After these and other charges RBS recorded a pre-tax profit of £2,004 million, compared with a loss of £678 million in Q2 2011. Profit before tax for the first nine months of 2011 was £1,210 million, compared with a loss of £391 million in the prior year.

Net of tax and minority interests, Q3 2011 attributable profit was £1,226 million, compared with an attributable loss of £897 million in the second quarter.

Income

Group income totalled £8,603 million, up 4% from Q2 2011. Excluding movements in the fair value of own debt of £2,357 million, a charge on the APS credit default swap of £60 million, a loss on strategic disposals of £49 million, gain on redemption of own debt of £1 million and other adjustments of £4 million, Group income totalled £6,358 million in Q3 2011, down 18% from the second quarter, driven primarily by a decline in Non-Core income as valuation gains booked in Q2 2011 were not repeated. Retail & Commercial income was flat at £4,171 million, with growth in US Retail & Commercial, Global Transaction Services and Ulster Bank offset by declines in UK Retail and UK Corporate. GBM income was 29% lower at £1,099 million, reflecting a cautious risk appetite in view of the difficult market conditions.

7

Third quarter results summary (continued)

Income (continued)
Net interest income was 5% lower at £3,077 million with lower loan balances (reflecting in particular Non-Core run-off) and Group net interest margin (NIM) narrowing to 1.84% from 1.96% in the second quarter. Group margin was negatively affected by the cost of carrying higher liquidity reserves and central bank balances, along with lower yield on Non-Core assets due to run-off of high earning assets and lack of interest recoveries in the quarter. Retail & Commercial NIM was resilient, falling just 3 basis points to 3.19%, principally reflecting the impact of lower rates on current account balances, as well as competitive deposit pricing.

Non-interest income increased 10% to £5,526 million. Excluding movements in the fair value of own debt of £2,357 million, a charge on the APS credit default swap of £60 million, a loss on strategic disposals of £49 million, gain on redemption of own debt of £1 million and other adjustments of £3 million, non-interest income declined by 28% to £3,280 million, principally reflecting lower trading income in Non-Core, where valuation gains booked in the second quarter were not repeated, and where fair value losses were incurred on some portfolios as a result of the volatile market conditions. In addition, GBM non-interest income was 32% lower at £938 million, reflecting depressed primary market volumes and limited opportunities in the secondary market.

Expenses
Group third quarter expenses totalled £4,127 million, down 17% from Q2 2011. Excluding the amortisation of purchased intangible assets of £69 million, integration and restructuring costs of £233 million and other adjustments of £4 million, Group expenses totalled £3,821 million in Q3 2011, down 2% from Q2 and 7% from Q3 2010. The reduction in expenses was largely driven by reduced compensation accruals in GBM. Retail & Commercial costs were flat in the third quarter and down 2% compared with Q3 2010.

The Group cost:income ratio was 48% and the Core cost:income ratio 56%, reflecting the subdued operating environment. Retail & Commercial held its cost:income ratio stable.

Given the economic outlook and difficult trading environment, we are actively working on further cost initiatives across the Group.

Impairments
Impairments were £1,738 million, down 44% from Q2 2011. Excluding sovereign debt impairment of £142 million and interest rate hedge adjustments on available-for-sale Greek government bonds of £60 million, impairments fell by 32% from the prior quarter, principally due to reduced charges in Non-Core, which had recorded substantial additional provisions relating to development land values in its Irish portfolios during Q2 2011. Core impairments of 0.8% of loans and advances to customers were flat with Q2 2011. Across the Group, Irish impairments fell sequentially from £1,251 million in Q2 2011 to £610 million in Q3 2011, paced by lower Non-Core impairments. Core Ulster Bank impairments remained high reflecting the difficult economic environment in Ireland with elevated default levels across both mortgage and other corporate portfolios.

Highlights (continued)

Third quarter results summary (continued)

Balance sheet
The Group funded balance sheet fell by £16 billion during the quarter to £1,035 billion, with Non-Core down £8 billion to £105 billion and GBM down £20 billion to £399 billion. This was partially offset by an increase of £15 billion in cash balances at central banks held by Group Treasury for liquidity purposes. Loan growth in Core Retail & Commercial businesses was limited, with customer credit demand remaining subdued in the face of an uncertain economic outlook.

The reduction in Non-Core assets was driven by £4 billion of run-off and £3 billion of disposals, with another £1 billion of deals signed but not yet completed at the end of the quarter. The division remains on target to reduce third party assets to about £96 billion by the end of 2011.

The Group continues to be vigilant, and carefully monitors and controls country risk and exposures. Eurozone peripheral sovereign exposures have been substantially reduced and are at modest levels. Total exposures to central and local governments in Portugal, Greece, Italy, Spain and the Republic of Ireland have been reduced in 2011 from £4.6 billion to £1.1 billion (see pages 134 to 142). Our exposure to the Republic of Ireland is substantially funded domestically and is domiciled primarily in Ulster Bank, an in-market bank which has been established 175 years.

Funding and liquidity
The Group's prudent approach during the third quarter's uncertain market conditions was reflected in its strong funding and liquidity metrics. The Group loan:deposit ratio (LDR) improved again from 114% to 112%. The Core LDR also improved on the second quarter to 95%, principally reflecting a £5 billion increase in deposits.

Short-term wholesale funding levels remained stable and the Group continues to access the markets as required, although consistent with the overall market, tenors are shorter. RBS has completed its £23 billion term funding issuance target for 2011, successfully issuing in the secured and private markets during the third quarter and October despite difficult market conditions. We will look to access the term markets opportunistically over the remainder of the year.

The Group decided to increase its liquidity portfolio from £155 billion to £170 billion in view of the uncertain market environment. This portfolio substantially exceeds short-term wholesale funding, excluding derivatives collateral, of £141 billion.

Capital
The Core Tier 1 ratio remained strong at 11.3%. While gross risk-weighted assets (which excludes the benefit provided by APS) fell by £17 billion to £512 billion, this impact was partially offset by the attributable loss of £593 million, excluding FVOD.

The Group's TNAV increased from 50.3p to 52.6p during the quarter reflecting the reported attributable profit as well as positive movements in the available-for-sale (AFS) and cash flow hedging reserves, reflecting the decline in long-term interest rates.

Third quarter results summary (continued)

Strategy
2011 marks the halfway point of the Group’s five year recovery plan, adopted in 2009. Our plan’s three primary goals are to restore RBS to financial strength and stability; to support customers well (and better) across the Group’s core businesses; and to rebuild value for shareholders from the nadir reached in January 2009.

RBS’s structural approach to these tasks has worked well. The identification of Core businesses to drive the Group’s recovery has been validated; the customer franchises have shown their strength. The Non-Core bank as the primary vehicle of risk reduction and reduction in strategic scope has also paid off.

The RBS Strategic Plan has met or exceeded all material targets to date. Over £600 billion of assets have come off the balance sheet. Capital and funding ratios have been transformed. £32 billion of pre-impairment profits have been generated by the Core businesses since the Plan’s inception. These have been necessary to absorb the loan losses and restructuring costs incurred in dealing with the Bank’s legacy risk positions, a task that is well advanced but by no means finished.

At the same time, customer support has been uninterrupted and is improving in key areas. UK customer satisfaction has risen and is at the top end of competitor ratings, though further improvement remains important. Lending has been made available to meet demand, with RBS increasing market share in UK mortgages. In SME lending, the latest figures show RBS exceeding 40% of UK lending despite a much lower “natural” share of customer relationships (in the 20-30% range). We remain the only UK bank to guarantee the price and availability of SME overdraft facilities.

Our Strategic Plan has anticipated many of the challenges in our operating environment and has proved resilient. However, two important developments require additional strategic response.

Now that the Independent Commission on Banking (ICB) has published its final report, the future shape of UK banking regulation has become clearer. The Government’s formal response to the ICB is expected in December, but it has already indicated that it intends to implement the ICB’s recommendations, including the creation of a ring fence between different banking activities, and RBS is preparing for that outcome.

Clearly, extensive engagement will be needed between Government, regulators and industry to sort out the myriad of operational details that are inherent in proposals on this scale and then to implement them. We anticipate that it will take most of the scheduled adjustment period to complete this.

At the same time, the outlook for economic growth has been downgraded. Interest rates are likely to remain low for longer than originally forecast and markets appear likely to remain volatile for some time. We expect that unsecured wholesale funding availability for banks generally will remain scarcer and more expensive than in the past even when current uncertainties subside. The impact of these challenges will be felt by all banks.

Third quarter results summary (continued)

Strategy (continued)
Taken together, the impact of the ICB's ring-fencing proposals and changes in market and economic outlook will result in a further shift in the balance of RBS towards its retail and commercial businesses. It will drive a further shift in the Bank's funding model to even greater deposit focus. We will pursue additional cost cutting to reduce the impact on customers and shareholders of the regulatory and market developments. We do expect that the higher equity capital requirements and other changes to funding structure that the ICB measures entail will be met organically during the adjustment period.

RBS anticipates that it may take some years for the full implications of the ICB to be clear. It will also take time for the path of economic recovery to be more positive. This will mean RBS's own restructuring is likely to take longer to produce the targeted results and those results will be impacted by these external events.

RBS remains on course to meet or exceed its extant targets for capital, risk and balance sheet, and committed to the goal of all its businesses being capable of generating returns in excess of their cost of equity. Achievement of return on equity consistent with this goal and the related cost:income ratio is likely to take longer than the 2013 date originally envisaged.

Customer franchises
RBS Group is committed to supporting customers well. Improving the services the Group provides its customers and improving the way in which those services are provided are key to achieving this.

During the quarter UK Retail was awarded the "Best Financial Services Contact Centre in the UK" and "Best Large Contact Centre Organisation" accolades at the annual Customer Service Awards. To be recognised in this way is an important milestone in the division's transformation programme, begun in 2010, and acts as further motivation in achieving its goal of becoming the UK's most Helpful Bank.

Global Transaction Services (GTS) and Citizens both launched new products aimed at helping their customers manage their money better and more efficiently. GTS customers can now benefit from a product improving their ability to effectively manage cash positions and make successful liquidity and investment decisions while, in the US, Citizens focused on the specific needs of its small business customers. The launch of its expense management product follows on from a mobile cash management product launched during Q2 and allows business owners to track spend on cards issued by the business in real time and set limits for employee spending.

UK Corporate continued to promote its customer promise under the banner of Ahead for Business. By the end of Q3 for example, in addition to their regular customer visits, our relationship managers had spent over 600 additional days working in our customers' businesses, to better understand how these businesses work and support them through the pressures and challenges they face, under our Working With You programme.

Third quarter results summary (continued)

In the current difficult markets it is especially important that customers are able to monitor their money and for GBM customers with money invested in turbulent markets this can be especially important. In September, GBM launched RBS Agile, an automated trading tool which uses client specified criteria to enact hedging trades as required, helping customers to automatically manage their foreign exchange risk and strategy.

The Group recognises that there will always be more to achieve in customer satisfaction and product innovation but by focusing on the things that really matter to customers, it is moving in the right direction.

UK Lending

Q3 2011 was a difficult quarter for UK businesses, with weak macroeconomic news flows and the continuing sovereign debt crisis in the eurozone affecting confidence in future prospects and growth opportunities. In these conditions, RBS remains committed to serving its customers and the UK economy as a whole.

In Q3 2011 RBS provided a total of £24.5 billion of new lending to UK business customers - more than £375 million every working day. That brings total new lending in the first nine months of 2011 to £68.7 billion. These totals lead the industry, substantially exceed RBS’s ‘natural’ share of customer relationships and underpin the Bank’s demonstrable commitment to supporting customers.

Third quarter new business lending comprised £10.0 billion of new loans and facilities to mid and large corporates, £4.1 billion of mid-corporate overdraft renewals, £8.1 billion of new loans and facilities to SMEs and £2.3 billion of SME overdraft renewals. New SME lending in the first nine months of the year totalled £30.7 billion (£23.6 billion of new loans and facilities and £7.1 billion of overdraft renewals).

The overall pattern of credit demand remained similar to the previous quarter. Mid and large corporate demand was robust and largely driven by refinancing, with businesses taking advantage of longer tenors available and opportunistically refinancing 2010 facilities at lower margins. Demand from SMEs remained more muted, with loan applications during the quarter down 12% from the prior year at 68,000. Approval rates remained above 85%.

Most businesses remained focused on deleveraging. Repayments in the mid and large segments remained significant in the quarter, although mid corporate drawn balances remained stable in the quarter.

SMEs also continued to pay down existing debt and focus on building up their cash balances, with Core drawn balances overall falling by 2% in the quarter and overall credit balances increasing £2 billion since the beginning of 2011. Overdraft utilisation remained below 50%, as it has consistently been since February 2010. In Q3 2011, average price of new SME lending was generally stable, averaging 3.77%.

Third quarter results summary (continued)

UK Lending (continued)
RBS continues with a range of measures to reinforce SMEs' confidence that it is open for business including:

- An overdraft price promise, which has seen SME customers save more than £250 million since it was introduced in November 2008.
- Committed overdrafts (most banks' overdrafts can be withdrawn on demand).
- Experienced specialist bankers to support struggling companies.
- Business support seminars for exporters.
- A Business Hotline, which will review the decision if a business has been turned down for a loan, by RBS or another bank.
- A Start-up Hotline, which provides advice for those considering starting up their own business.
- Targeted industry funds, focusing on areas such as franchising, manufacturing and renewable energy.

On 3 November the Group launched a new loan product to support its SME customers with low fixed interest rates, no early repayment charges and, for a limited three month period, no initial fees. This offer responds to small businesses' increasing concerns about investing in the face of significant uncertainty. This is part of our efforts to instil confidence in our small business customers and encourage them to speak to us about their investment plans.

Additionally, in the immediate aftermath of the August riots in London and other parts of England, the Group was quick to recognise the extra support its customers might need as a result, providing £10 million of interest free and fee-free loans to business customers affected by the rioting. RBS also contributed to the "High Street Fund", in conjunction with other UK banks, to provide free cash support to small, independent traders to help them make repairs and get back to business.

RBS also recognises the importance of providing mortgage lending to UK consumers. Gross new lending in Q3 2011 increased by 5% compared with Q2 to £4.0 billion. In the first nine months of 2011 net mortgage lending to UK households increased by over £3.8 billion to £103.1 billion. One in five of the new mortgages provided by the Group during Q3 2011 was to first time buyers. RBS continues to provide more new mortgage lending than its historic market share.

Outlook
External market and economic conditions in Q4 are expected to remain challenging. RBS will continue to prioritise a strong balance sheet with an appropriate capital, funding and liquidity position.

We anticipate trends in our Core businesses broadly consistent with the third quarter. We expect to accelerate some Non-Core disposal losses to reduce RWAs in partial mitigation of Basel III implementation. Headline results will also be affected by volatility of own debt valuations and other non-operating items.

Analysis of results

	Quarter ended		Nine months ended	
	30 September 2011	30 June 2011	30 September 2011	30 September 2010
Net interest income	£m	£m	£m	£m
Net interest income	3,077	3,227	9,605	10,629
Average interest-earning assets	663,059	660,548	660,306	698,774
Net interest margin				
- Group	1.84%	1.96%	1.94%	2.03%
- Core				
- Retail & Commercial (1)	3.19%	3.22%	3.23%	3.11%
- Global Banking & Markets	0.71%	0.70%	0.72%	1.09%
- Non-Core	0.43%	0.87%	0.74%	1.18%

Note:
(1) Retail & Commercial comprises the UK Retail, UK Corporate, Wealth, Global Transaction Services, Ulster Bank and US Retail & Commercial divisions.

Key points

Q3 2011 compared with Q2 2011

- Group NIM was impacted by the cost of carrying higher liquidity portfolio and balances held at central banks (3 basis points). Lower recoveries and run-off in Non-Core also negatively impacted Group NIM (6 basis points).

- R&C NIM fell 3 basis points, principally reflecting lower long-term swap yields on current account balances and competitive deposit pricing. Front book asset margins in UK Retail and UK Corporate have continued to rebuild.

- Average interest-earning assets remained stable, as the build-up in the liquidity portfolio was offset by continued run-off of Non-Core.

Q3 2011 compared with Q3 2010

- R&C NIM remained essentially flat, with asset repricing offsetting the tightening of liability margins to support the Group's deposit-gathering targets.

Analysis of results (continued)

Non-interest income	Quarter ended 30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	Nine months ended 30 September 2011 £m	30 September 2010 £m
Net fees and commissions	1,148	1,377	1,426	3,907	4,379
Income from trading activities					
- Asset protection Scheme credit default swap - fair value changes	(60)	(168)	(825)	(697)	(825)
- movements in fair value of own debt	470	111	(330)	395	(185)
- other	547	1,204	1,432	3,241	5,163
Gain on redemption of own debt	1	255	-	256	553
Other operating income					
- strategic disposals	(49)	50	27	(22)	(331)
- movements in the fair value of own debt	1,887	228	(528)	1,821	(223)
- other	546	864	184	2,118	1,030
Non-interest income (excluding insurance net premium income)	4,490	3,921	1,386	11,019	9,561
Insurance net premium income	1,036	1,090	1,289	3,275	3,856
Total non-interest income	5,526	5,011	2,675	14,294	13,417

Key points

Q3 2011 compared with Q2 2011

- Non-interest income increased 10% to £5,526 million. Excluding movements in the fair value of own debt of £2,357 million, a charge on the APS credit default swap of £60 million, a loss on strategic disposals of £49 million, gain on redemption of own debt of £1 million and other adjustments of £3 million, non-interest income decreased by £1,254 million, 28%, principally reflecting lower trading income in Non-Core and in GBM. In Non-Core, Q2 2011 had reflected significant valuation gains c.£0.5 billion which were not repeated in the third quarter. Also in Q3 2011 Non-Core recorded net fair value losses on monoline related portfolios c.£0.2 billion.

- The Group's credit spreads widened significantly in the third quarter driving a FVOD gain of £2,357 million, compared with the Q2 2011 gain of £339 million.

- GBM's non-interest income was 33% lower, reflecting depressed primary market volumes, limited opportunities in the secondary market and a cautious risk appetite.

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Insurance net premium income fell 5%, driven by continued run-off of legacy insurance policies in Non-Core. Net premium income in RBS Insurance, at £990 million, remained largely flat quarter on quarter.

· The APS is accounted for as a derivative and changes to fair value are recorded in the income statement. In Q3 2011 the fair value charge was £60 million compared with a charge of £168 million in Q2 2011. The cumulative charge for the APS is £2.2 billion as at 30 September 2011.

Analysis of results (continued)

Key points (continued)

Q3 2011 compared with Q3 2010

- Non-interest income increased 52% to £5,526 million, Excluding movements in the fair value of own debt of £2,357 million, a charge on the APS credit default swap of £60 million, a loss on strategic disposals of £49 million, gain on redemption of own debt of £1 million and other adjustments of £3 million, non-interest income was £3,280 million. The 27% decline in non-interest income was largely driven by uncertain market conditions during the quarter.

- Q3 2010 Non-Core trading results included some substantial valuation gains with trading income of £219 million in the quarter, compared with a loss of £246 million in Q3 2011.

- Insurance net premium income declined by 20%, driven by the run-off of legacy policies in Non-Core and an 8% decrease in RBS Insurance largely as a result of the de-risking of the motor book and exit from unprofitable business lines.

- Strategic disposals saw a £49 million charge in Q3 2011, primarily relating to certain Non-Core loan assets which are held for disposal. This compares with a gain of £27 million in Q3 2010 primarily from the disposals of RBS Sempra Commodities JV and factoring businesses in France and Germany.

Analysis of results (continued)

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
Operating expenses	£m	£m	£m	£m	£m
Staff costs	2,076	2,210	2,423	6,685	7,477
Premises and equipment	604	602	611	1,777	1,693
Other					
- Payment Protection Insurance	-	850	-	850	-
- other	962	902	914	2,785	2,947
Administrative expenses	3,642	4,564	3,948	12,097	12,117
Depreciation and amortisation					
- amortisation of purchased intangible assets	69	56	123	169	273
- other	416	397	480	1,193	1,331
Operating expenses	4,127	5,017	4,551	13,459	13,721
General insurance	734	793	1,092	2,439	3,547
Bancassurance	-	-	50	-	54
Insurance net claims	734	793	1,142	2,439	3,601
Staff costs as a % of total income	24%	27%	40%	28%	31%

Key points

Q3 2011 compared with Q2 2011

- Group third quarter costs fell 17%. Excluding the amortisation of purchased intangible assets of £69 million, integration and restructuring costs of £233 million and other adjustments totalling £4 million, group expenses fell by 2%, to £3,821 million, largely driven by reduced compensation accruals in GBM, while R&C costs were flat.

- The Group cost:income ratio was 68% in Q3 2011 compared with 56%, reflecting the subdued operating environment, with income trends the dominant factor. The Core cost:income ratio also worsened, to 62% in the quarter.

Q3 2011 compared with Q3 2010

- Group costs were 9% lower than in the prior year, with expenses in Non-Core declining 42% with run-off the principal driver.

- General insurance claims fell by £358 million, 33%, primarily driven by the non-repeat of Q3 2010 reserve strengthening relating to bodily injury claims.

- The Group cost reduction programme continues to run ahead of target, achieving strong returns with lower programme spend than originally projected. The underlying run rate achieved to date is just under £3 billion per annum. This has enabled the Group to reinvest savings into enhancing the systems infrastructure to improve customer service, increase product offerings and respond to regulatory changes.

Bank Levy

Under IFRS, no liability for the bank levy arises until the measurement date, 31 December 2011. Accordingly, no accrual was made for the estimated cost of the levy at 30 September 2011. If the levy had been applied to the balance sheet at 30 September 2011, the cost of the levy to RBS would be a full year charge of approximately £330 million.

Analysis of results (continued)

Impairment losses	Quarter ended 30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	Nine months ended 30 September 2011 £m	30 September 2010 £m
Loan impairment losses	1,452	2,237	1,908	5,587	6,989
Securities impairment losses					
Sovereign debt impairment (1)	142	733	-	875	-
Interest rate hedge adjustments on impaired available-for-sale					
Greek government bonds	60	109	-	169	-
Other	84	27	45	160	126
Group impairment losses	1,738	3,106	1,953	6,791	7,115
Loan impairment losses - customers					
- latent	(60)	(188)	40	(355)	(5)
- collectively assessed	689	591	748	2,000	2,341
- individually assessed	823	1,834	1,120	3,942	4,653
Loan impairment losses	1,452	2,237	1,908	5,587	6,989
Core	817	810	779	2,479	2,825
Non-Core	635	1,427	1,129	3,108	4,164
Group	1,452	2,237	1,908	5,587	6,989
Customer loan impairment charge as a % of gross loans and advances (2)					
Group	1.1%	1.8%	1.4%	1.5%	1.7%
Core	0.8%	0.8%	0.7%	0.8%	0.9%
Non-Core	2.8%	6.0%	3.9%	4.6%	4.7%

Notes:

(1) The Group holds Greek government bonds with a notional amount of £1.45 billion. In the second quarter of 2011, the Group recorded an impairment loss of £733 million in respect of these bonds as a result of Greece's continuing fiscal difficulties. This charge (c.50% of notional) wrote the bonds down to their market price as at 30 June 2011. In the third quarter of 2011, an additional impairment loss of £142 million was recorded to write the bonds down to their market price as at 30 September 2011 (c.37% of notional).

(2) Gross loans and advances to customers include disposal groups and exclude reverse repurchase agreements.

Key points

Q3 2011 compared with Q2 2011

· Loan impairments fell 35% on the prior quarter to £1,452 million or 1.1% of gross loans and advances to customers. Core impairments were largely flat on Q2 2011 with a small increase in Retail & Commercial being offset by a reduction in GBM.

· The continuing macroeconomic issues in Greece and a further decline in the value of Greek sovereign bonds in Q3 2011 drove an additional impairment of the Group's AFS bond portfolio of £142 million. The Greek AFS bond portfolio was marked at 37% of par value at 30 September 2011.

· Non-Core's Q3 2011 loan impairments fell £792 million on the previous quarter, primarily reflecting a decline in impairments on the Ulster Bank portfolio, including a significantly reduced charge for development land values in Ireland.

· The Retail & Commercial impairment uplift mainly reflected a £58 million increase in Core Ulster Bank driven primarily by deteriorating mortgage metrics. Combined Ulster Bank (Core and Non-Core) impairments were £610 million, down 51% or £641 million from Q2 2011.

Analysis of results (continued)

Key points (continued)

Q3 2011 compared with Q3 2010

- Core loan impairments were up 5% on Q3 2010, primarily driven by the increase in Ulster Bank's mortgage portfolio. GTS increased its provision on an existing single name impairment, while UK Corporate saw an increase in collective charges.

- The Group customer loan impairment charge as a percentage of loans and advances was 1.1%, compared with 1.4% in Q3 2010.

- Provision coverage of risk elements in lending was 49% at the end of Q3 2011, in line with Q3 2010.

Q3 2011 compared with Q3 2010

- Integration and restructuring costs fell 25% versus a year ago, largely reflecting lower costs of established cost efficiency programmes.

Analysis of results (continued)

Capital resources and ratios	30 September 2011	30 June 2011	31 December 2010
Core Tier 1 capital	£48bn	£48bn	£50bn
Tier 1 capital	£58bn	£58bn	£60bn
Total capital	£62bn	£62bn	£65bn
Risk-weighted assets			
- gross	£512bn	£529bn	£571bn
- benefit of the Asset Protection Scheme	(£89bn)	(£95bn)	(£106bn)
Risk-weighted assets	£423bn	£434bn	£465bn
Core Tier 1 ratio (1)	11.3%	11.1%	10.7%
Tier 1 ratio	13.8%	13.5%	12.9%
Total capital ratio	14.7%	14.4%	14.0%

Note:

(1) The benefit of APS in Core Tier 1 ratio is 1.3% at 30 September 2011 (30 June 2011 - 1.3%; 31 December 2010 - 1.2%).

Key points

· The Group's Core Tier 1 ratio strengthened to 11.3%. The impact of the attributable loss (excluding FVOD) for the quarter was more than offset by a £17 billion reduction in gross RWAs, excluding the benefit of APS.

· In the third quarter APS provided Core Tier 1 benefit of 1.3%.

· The Q3 2011 gross RWAs decline was predominantly driven by Non-Core and GBM. Non-Core RWAs declined £7 billion from run-off and disposals; GBM's RWAs declined by £5 billion to £134 billion as a result of on-going risk mitigating actions.

Analysis of results (continued)

Balance sheet	30 September 2011	30 June 2011	31 December 2010
Funded balance sheet	£1,035bn	£1,051bn	£1,026bn
Total assets	£1,608bn	£1,446bn	£1,454bn
Loans and advances to customers (1)	£486bn	£490bn	£503bn
Customer deposits (2)	£434bn	£429bn	£429bn
Loan:deposit ratio - Core (3)	95%	96%	96%
Loan:deposit ratio - Group (3)	112%	114%	117%

Notes:
(1) Excluding reverse repurchase agreements and stock borrowing.
(2) Excluding repurchase agreements and stock lending.
(3) Net of provisions.

Key points

- The Group's Q3 2011 funded balance sheet decreased by £16 billion versus the prior quarter to £1,035 billion. GBM's funded balance sheet fell £20 billion to £399 billion while Non-Core's steady progress in run-off and disposals during the quarter reduced its assets by a further £8 billion to £105 billion. Non-Core is well placed to reach its year end target of funded assets of £96 billion. A £15 billion increase in liquidity portfolio assets held by Group Treasury partially offset these asset declines.

- The Group's total assets increased by £162 billion compared with Q2 2011 due to an increase in derivative fair values as a result of lower interest rates. Further discussion of derivatives is included on pages 123 to 127.

- Group customer deposits increased by £5 billion from Q2 2011, reflecting an increase in GBM and strong growth in both savings and current account balances in UK Retail. Loans and advances to customers fell in the third quarter as Non-Core continued to run down assets. In the core franchises there was modest loan growth in Wealth, US Retail & Commercial, GTS and GBM.

- The Q3 2011 Group loan:deposit ratio improved to 112% compared with 114% in Q2 2011. The Core loan:deposit ratio also improved to 95% versus 96% at Q2 2011.

Further discussion of the Group's funding and liquidity position is included on pages 104 to 112.

Divisional performance

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Operating profit/(loss) by division					
UK Retail	499	523	398	1,530	814
UK Corporate	301	345	422	1,139	1,130
Wealth	71	74	74	225	217
Global Transaction Services	195	164	309	546	821
Ulster Bank	(219)	(189)	(176)	(785)	(490)
US Retail & Commercial	115	127	73	322	242
Retail & Commercial	962	1,044	1,100	2,977	2,734
Global Banking & Markets	112	446	589	1,656	2,837
RBS Insurance	123	139	(33)	329	(286)
Central items	67	47	76	71	462
Core	1,264	1,676	1,732	5,033	5,747
Non-Core	(997)	(858)	(1,006)	(2,895)	(3,889)
	267	818	726	2,138	1,858
Reconciling items					
Fair value of own debt	2,357	339	(858)	2,216	(408)
Asset Protection Scheme credit default swap - fair value changes	(60)	(168)	(825)	(697)	(825)
Payment Protection Insurance costs	-	(850)	-	(850)	-
Sovereign debt impairment and related interest rate hedge adjustments	(202)	(842)	-	(1,044)	-
Amortisation of purchased intangible assets	(69)	(56)	(123)	(169)	(273)
Integration and restructuring costs	(233)	(208)	(311)	(586)	(733)
Gain on redemption of own debt	1	255	-	256	553
Strategic disposals	(49)	50	27	(22)	(331)
Other	(8)	(16)	(196)	(32)	(232)
	2,004	(678)	(1,560)	(1,210)	(391)
Impairment losses/(recoveries) by division					
UK Retail	195	208	251	597	938
UK Corporate	228	218	158	551	542

Wealth	4	3	1	12	12
Global Transaction Services	45	54	3	119	6
Ulster Bank	327	269	286	1,057	785
US Retail & Commercial	84	66	125	260	412
Retail & Commercial	883	818	824	2,596	2,695
Global Banking & Markets	(32)	37	(40)	(19)	156
Central items	3	(2)	(2)	2	(1)
Core	854	853	782	2,579	2,850
Non-Core	682	1,411	1,171	3,168	4,265
Group impairment losses	1,536	2,264	1,953	5,747	7,115

Divisional performance (continued)

	Quarter ended			Nine months ended	
	30 September 2011 %	30 June 2011 %	30 September 2010 %	30 September 2011 %	30 September 2010 %
Net interest margin by division					
UK Retail	3.90	4.00	3.99	3.98	3.87
UK Corporate	2.48	2.55	2.56	2.59	2.49
Wealth	3.46	3.61	3.41	3.51	3.40
Global Transaction Services	5.33	5.63	6.67	5.61	6.98
Ulster Bank	1.85	1.69	1.88	1.76	1.86
US Retail & Commercial	3.09	3.11	2.89	3.07	2.80
Retail & Commercial	3.19	3.22	3.20	3.23	3.11
Global Banking & Markets	0.71	0.70	1.13	0.72	1.09
Non-Core	0.43	0.87	1.04	0.74	1.18
Group net interest margin	1.84	1.96	2.03	1.94	2.03

	30 September 2011 £bn	30 June 2011 £bn	Change	31 December 2010 £bn	Change
Risk-weighted assets by division					
UK Retail	48.7	49.5	(2%)	48.8	-
UK Corporate	75.7	77.9	(3%)	81.4	(7%)
Wealth	13.0	12.9	1%	12.5	4%
Global Transaction Services	18.6	18.8	(1%)	18.3	2%
Ulster Bank	34.4	36.3	(5%)	31.6	9%
US Retail & Commercial	56.5	54.8	3%	57.0	(1%)
Retail & Commercial	246.9	250.2	(1%)	249.6	(1%)
Global Banking & Markets	134.3	139.0	(3%)	146.9	(9%)
Other	9.8	11.8	(17%)	18.0	(46%)
Core	391.0	401.0	(2%)	414.5	(6%)
Non-Core	117.9	124.7	(5%)	153.7	(23%)
Group before benefit of Asset Protection Scheme	508.9	525.7	(3%)	568.2	(10%)
Benefit of Asset Protection Scheme	(88.6)	(95.2)	(7%)	(105.6)	(16%)

Group before RFS Holdings minority interest	420.3	430.5	(2%)	462.6	(9%)
RFS Holdings minority interest	3.0	3.0	-	2.9	3%
Group	423.3	433.5	(2%)	465.5	(9%)

For the purposes of the divisional return on equity ratios, notional equity has been calculated as a percentage of the monthly average of divisional risk-weighted assets, adjusted for capital deductions. Currently, 9% has been applied to the Retail & Commercial divisions and 10% to Global Banking & Markets. However, these will be subject to modification as the final Basel III rules and ICB recommendations are considered.

Divisional performance (continued)

Employee numbers by division (full time equivalents in continuing operations rounded to the nearest hundred)	30 September 2011	30 June 2011	31 December 2010
UK Retail	27,900	27,900	28,200
UK Corporate	13,600	13,400	13,100
Wealth	5,600	5,500	5,200
Global Transaction Services	2,700	2,700	2,600
Ulster Bank	4,400	4,300	4,200
US Retail & Commercial	15,300	15,200	15,700
Retail & Commercial	69,500	69,000	69,000
Global Banking & Markets	18,900	19,000	18,700
RBS Insurance	15,200	14,600	14,500
Group Centre	6,100	5,100	4,700
Core	109,700	107,700	106,900
Non-Core	5,300	6,300	6,900
	115,000	114,000	113,800
Business Services	34,200	33,500	34,400
Integration	1,100	800	300
Group	150,300	148,300	148,500

The increase in Group employee numbers primarily reflects project staff employed to meet the short-term demands of the Group's change and customer service related programmes. The increase is temporary, and we expect a decline in Q4 2011, and further into 2012, due to the Group's on-going cost reduction programmes.

UK Retail

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Income statement					
Net interest income	1,074	1,086	1,056	3,236	2,990
Net fees and commissions	259	295	279	824	832
Other non-interest income	33	38	98	105	188
Non-interest income	292	333	377	929	1,020
Total income	1,366	1,419	1,433	4,165	4,010
Direct expenses					
- staff	(206)	(218)	(226)	(639)	(681)
- other	(102)	(106)	(134)	(321)	(409)
Indirect expenses	(364)	(364)	(374)	(1,078)	(1,114)
	(672)	(688)	(734)	(2,038)	(2,204)
Insurance net claims	-	-	(50)	-	(54)
Impairment losses	(195)	(208)	(251)	(597)	(938)
Operating profit	499	523	398	1,530	814
Analysis of income by product					
Personal advances	260	278	248	813	718
Personal deposits	236	257	277	747	831
Mortgages	576	581	527	1,700	1,427
Cards	231	243	243	712	711
Other, including bancassurance	63	60	138	193	323
Total income	1,366	1,419	1,433	4,165	4,010
Analysis of impairments by sector					
Mortgages	34	55	55	150	147
Personal	120	106	150	321	551
Cards	41	47	46	126	240
Total impairment losses	195	208	251	597	938

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	0.1%	0.2%	0.2%	0.2%	0.2%
Personal	4.7%	3.9%	4.8%	4.2%	5.9%
Cards	2.9%	3.4%	3.0%	3.0%	5.2%
Total	0.7%	0.8%	0.9%	0.7%	1.2%

UK Retail (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
Performance ratios					
Return on equity (1)	26.7%	27.6%	21.2%	26.8%	14.1%
Net interest margin	3.90%	4.00%	3.99%	3.98%	3.87%
Cost:income ratio	49%	48%	51%	49%	55%
Adjusted cost:income ratio (2)	49%	48%	53%	49%	56%

	30 September 2011 £bn	30 June 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	94.2	94.0	-	90.6	4%
- personal	10.3	10.8	(5%)	11.7	(12%)
- cards	5.6	5.6	-	6.1	(8%)
	110.1	110.4	-	108.4	2%
Customer deposits (excluding bancassurance)	98.6	95.9	3%	96.1	3%
Assets under management (excluding deposits)	5.6	5.8	(3%)	5.7	(2%)
Risk elements in lending	4.7	4.6	2%	4.6	2%
Loan:deposit ratio (excluding repos)	109%	112%	(300bp)	110%	(100bp)
Risk-weighted assets	48.7	49.5	(2%)	48.8	-

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

(2) Adjusted cost:income ratio is based on total income after netting insurance claims and operating expenses.

Key points

UK Retail's transformation into the UK's most helpful and sustainable bank picked up speed during Q3 2011, with good progress on reducing branch queuing, improving telephone services and reducing complaints.

With an uncertain economic environment and difficult financial market conditions across Europe, the third quarter was characterised by an additional focus on deposit gathering. UK Retail achieved good balance growth during the period, including successful fixed rate bond sales, though in a competitive pricing environment this growth came at the cost of margin.

There has been positive feedback from RBS customers following the introduction of the facility to obtain emergency cash and on the new packaged accounts. UK Retail continued to develop mobile banking applications and online functionality by developing iPad, Blackberry and Android applications for customers.

UK Retail (continued)

Key points (continued)

Q3 2011 compared with Q2 2011

- Operating profit of £499 million in Q3 2011 was £24 million lower than in the previous quarter. Income fell 4%, £53 million, though this was partly offset by a reduction in costs of 2%, £16 million and impairment losses of 6%, £13 million. Return on equity was 26.7% compared with 27.6% in Q2 2011.

- UK Retail achieved strong customer deposit growth of £2.7 billion in the quarter. Fixed rate bond offerings helped deliver strong savings deposit balance growth in Q3 2011. Mortgage balances increased marginally in the quarter and RBS's share of gross new lending was 8% in the quarter, in line with its share of stock, at 8%. Unsecured lending declined 3% in the quarter as the Group continue to focus on lower risk secured lending. Strong deposit growth contributed to the fall in the loan to deposit ratio to 109%.

- Net interest income fell 1%, £12 million in the quarter driven by a fall in deposit income due to continued lower long-term swap rate returns on current account balances and strong savings balance growth. Net interest margin declined 10 basis points to 3.90% driven by this reduction in the liability margin.

- Non-interest income declined by 12%, £41 million, on Q2 2011 driven by reductions in transactional fees, and investment product related income. Seasonal factors, largely related to ISA sales, attributed to an uplift in income in Q2 2011, which was not repeated in Q3 2011. Non-interest income was further negatively impacted by lower consumer spending and investment confidence in Q3 2011, linked to the current state of the economy and the market, respectively.

- Overall expenses decreased by 2%, or £16 million quarter on quarter. Direct costs fell by 5% due to headcount reductions and continued efficiency benefits. Indirect costs remained flat, reflecting high inflationary increases in utility and mail costs offset by further cost saving initiatives.

- Impairment losses fell by 6% or £13 million during the period.

  Mortgage impairment losses were £34 million on a total book of £94 billion, a £21 million reduction quarter-on-quarter. Arrears rates were stable and remained below the Council of Mortgage Lenders industry average.

  The unsecured portfolio impairment charge increased 5% to £161 million, on a book of almost £16 billion, as there were lower provision surplus releases on the already defaulted book compared with Q2 2011. Underlying default levels were slightly lower quarter-on-quarter. Industry benchmarks for cards arrears remain stable, with RBS continuing to perform better than the market.

- Risk-weighted assets decreased 2% in the quarter, primarily reflecting lower balances and improved quality within the unsecured portfolio, partly offset by volume growth in lower risk secured mortgages.

UK Retail (continued)

Key points (continued)

Q3 2011 compared with Q3 2010

- Operating profit increased by £101 million, with income down 1%, costs down 8% and impairments 22% lower than in Q3 2010.

- Net interest income was 2% higher than Q3 2010, with strong mortgage balance growth and recovering asset margins across all products, partially offset by continued competitive pressure on savings margins and continued lower long term swap rate returns adversely impacting current account income.

- Savings balances were up 10% on Q3 2010, significantly outperforming the market which remains highly competitive. The strong savings growth contributed to an improvement in the loan to deposit ratio from 115% to 109%.

- Non-interest income declined 23%, to £85 million. Excluding bancassurance claims of £50 million in Q3 2010, non-interest income declined by 11%, £35 million primarily driven by lower investment income as a result of the dissolution of the UK Retail bancassurance joint venture.

- Costs were 8% lower than in Q3 2010, reflecting continued implementation of process efficiencies, lower Financial Services Compensation Scheme charges and the impact of the dissolution of the bancassurance joint venture. The adjusted cost:income ratio improved from 53% to 49%.

- Impairment losses decreased by 22% on Q3 2010, primarily reflecting improvements in default rates on the unsecured book. Q3 2010 also included additional charges on the already defaulted book.

UK Corporate

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Income statement					
Net interest income	621	641	662	1,951	1,919
Net fees and commissions	244	231	244	719	701
Other non-interest income	83	94	80	265	292
Non-interest income	327	325	324	984	993
Total income	948	966	986	2,935	2,912
Direct expenses					
- staff	(184)	(199)	(186)	(585)	(580)
- other	(88)	(71)	(81)	(249)	(266)
Indirect expenses	(147)	(133)	(139)	(411)	(394)
	(419)	(403)	(406)	(1,245)	(1,240)
Impairment losses	(228)	(218)	(158)	(551)	(542)
Operating profit	301	345	422	1,139	1,130
Analysis of income by business					
Corporate and commercial lending	647	666	651	2,042	1,941
Asset and invoice finance	176	163	163	491	451
Corporate deposits	172	171	183	513	544
Other	(47)	(34)	(11)	(111)	(24)
Total income	948	966	986	2,935	2,912
Analysis of impairments by sector					
Banks and financial institutions	6	13	15	22	8
Hotels and restaurants	22	13	6	43	34
Housebuilding and construction	29	15	62	76	84
Manufacturing	9	6	2	21	10
Other	36	89	19	126	139
Private sector education, health, social work,	20	1	1	32	9

recreational and community services					
Property	82	51	34	151	161
Wholesale and retail trade, repairs	24	16	14	56	60
Asset and invoice finance	-	14	5	24	37
Total impairment losses	228	218	158	551	542

29

UK Corporate (continued)

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Banks and financial institutions	0.4%	0.9%	1.0%	0.5%	0.2%
Hotels and restaurants	1.4%	0.8%	0.3%	0.9%	0.7%
Housebuilding and construction	2.9%	1.4%	5.5%	2.5%	2.5%
Manufacturing	0.8%	0.5%	0.2%	0.6%	0.3%
Other	0.4%	1.1%	0.2%	0.5%	0.6%
Private sector education, health, social work, recreational and community services	0.9%	-	-	0.5%	0.1%
Property	1.1%	0.7%	0.5%	0.7%	0.7%
Wholesale and retail trade, repairs	1.1%	0.7%	0.5%	0.8%	0.8%
Asset and invoice finance	-	0.6%	0.2%	0.3%	0.5%
Total	0.8%	0.8%	0.6%	0.7%	0.6%

Key metrics

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
Performance ratios					
Return on equity (1)	11.1%	12.3%	14.1%	13.1%	12.2%
Net interest margin	2.48%	2.55%	2.56%	2.59%	2.49%
Cost:income ratio	44%	42%	41%	42%	43%

	30 September 2011 £bn	30 June 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Total third party assets	112.7	113.6	(1%)	114.6	(2%)
Loans and advances to customers (gross)					
- banks and financial institutions	5.7	5.9	(3%)	6.1	(7%)

- hotels and restaurants	6.3	6.5	(3%)	6.8	(7%)
- housebuilding and construction	4.0	4.2	(5%)	4.5	(11%)
- manufacturing	4.7	4.9	(4%)	5.3	(11%)
- other	32.6	32.2	1%	31.0	5%
- private sector education, health, social work, recreational and community services	8.7	8.8	(1%)	9.0	(3%)
- property	29.0	29.2	(1%)	29.5	(2%)
- wholesale and retail trade, repairs	8.9	9.2	(3%)	9.6	(7%)
- asset and invoice finance	10.1	9.9	2%	9.9	2%
	110.0	110.8	(1%)	111.7	(2%)
Customer deposits	98.9	99.5	(1%)	100.0	(1%)
Risk elements in lending	4.9	4.8	2%	4.0	23%
Loan:deposit ratio (excluding repos)	109%	109%	-	110%	(100bp)
Risk-weighted assets	75.7	77.9	(3%)	81.4	(7%)

Note:

(1) Divisional return on equity is based on divisional operating profit after tax, divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

UK Corporate (continued)

Key points

UK Corporate continues to support UK businesses through a challenging economic climate.

In Q3 2011, following the August riots, UK Corporate responded with a number of emergency measures to support SME customers. On 3 November we launched a new loan product to support our SME customers with low fixed interest rates, no early repayment charges and, for a limited three month period, no initial fees.

The division has worked closely with over 2,000 customers so far this year (600 in the quarter) to help reduce banking operations complexity and improve efficiency. The benefits include converting 30,000 cheques to BACS payments, migrating 22,000 credits from branch counters and reducing manual payments by 2,000 per annum.

Q3 2011 also saw UK Corporate's strategic investment programme deliver two new deposit products. The Managed Rate account enables customers to manage their liquidity requirements on a day by day basis. Since launch, £3 billion of base rate balances have migrated to the Managed Rate product. Additionally, an education sector specific product suite, offering attractively priced products and a deposit structure better suited to the sector's unique needs was also launched during the quarter.

Q3 2011 compared with Q2 2011

· Operating profit of £301 million was £44 million, 13%, lower, with adverse movements in lending income, costs and impairments.

· Net interest income fell by 3%, impacted by a small reduction in lending volumes and marginally higher costs of funding. Net interest margin declined by 7 basis points in the quarter.

· Non-interest income remained broadly in line with Q2 2011 with higher Global Banking & Markets (GBM) revenue share income largely offset by the non-repeat of modest asset disposal gains recognised in Q2 2011.

· Total costs increased 4% due to an operational loss recovery in Q2 2011 and higher operational costs of managing the non-performing book, partially offset by lower discretionary staff costs in Q3 2011.

· Impairments increased £10 million due to lower latent provision releases and higher collective provisions on the SME book, partially offset by a fall in specific provisions in the quarter.

Q3 2011 compared with Q3 2010

· Operating profit decreased by £121 million, 29%, primarily driven by increased impairments and higher costs of funding.

· Net interest income fell 6%, reflecting increased funding costs together with a 3% fall in net lending balances. This was partially offset by further re-pricing of the lending portfolio. Deposit growth of 1% supported an improvement in the loan to deposit ratio from 114% to 109%.

- Non-interest income was £3 million higher as a result of a rise in GBM revenue share and Invoice Finance income, partially offset by lower fee income.

- Expenses increased £13 million, 3%, primarily driven by higher operational costs of managing the non-performing book, increased costs associated with GBM cross-sales and increased marketing spend to support strategic customer initiatives.

- Impairments were £70 million or 44% higher primarily driven by an increased flow into collectively assessed balances.

Wealth

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Income statement					
Net interest income	178	182	156	527	449
Net fees and commissions	95	94	90	286	282
Other non-interest income	23	21	18	61	54
Non-interest income	118	115	108	347	336
Total income	296	297	264	874	785
Direct expenses					
- staff	(106)	(111)	(95)	(317)	(286)
- other	(57)	(51)	(39)	(152)	(113)
Indirect expenses	(58)	(58)	(55)	(168)	(157)
	(221)	(220)	(189)	(637)	(556)
Impairment losses	(4)	(3)	(1)	(12)	(12)
Operating profit	71	74	74	225	217
Analysis of income					
Private banking	244	245	217	720	637
Investments	52	52	47	154	148
Total income	296	297	264	874	785

Key metrics

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
Performance ratios					
Return on equity (1)	16.3%	17.4%	18.2%	17.5%	18.1%
Net interest margin	3.46%	3.61%	3.41%	3.51%	3.40%
Cost:income ratio	75%	74%	72%	73%	71%

	30 September 2011	30 June 2011	31 December 2010

	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	8.3	8.2	1%	7.8	6%
- personal	7.2	7.0	3%	6.7	7%
- other	1.5	1.6	(6%)	1.6	(6%)
	17.0	16.8	1%	16.1	6%
Customer deposits (2)	37.4	37.3	-	37.1	1%
Assets under management (excluding deposits) (2)	29.9	34.3	(13%)	33.9	(12%)
Risk elements in lending	0.2	0.2	-	0.2	-
Loan:deposit ratio (excluding repos) (2)	45%	45%	-	43%	200bp
Risk-weighted assets	13.0	12.9	1%	12.5	4%

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

(2) 31 December 2010 comparatives have been revised to reflect the current reporting methodology.

Wealth (continued)

Key points
Q3 2011 has seen continued execution of the Wealth strategy as announced in Q1 2011.

Plans to refresh the Coutts brand were finalised in the quarter with the initial launch in the UK market scheduled for Q4 2011. The new brand will bring Coutts UK and RBS Coutts under one single contemporary Coutts brand.

The Wealth divisional strategy focuses on territories where the businesses have the opportunity for greatest scale or growth and during Q3 2011 the refocus on target markets was completed. The division also furthered plans to enhance its propositions in strategic international markets such as Asia, the Middle East, and Eastern Europe.

In products and services further work was undertaken on the development of propositions for the diverse segments in the UK and International markets and the division continues to look to optimise how new products and services are delivered across multiple markets. The RBS Group provides significant opportunity to leverage synergies across divisions and Wealth continues to look at the connectivity potential with relevant businesses.

Strategic investment in technology continued in Q3 2011, in particular with the finalisation of plans to deploy a new class-leading global banking platform in the UK, Further technology solutions continue to be assessed to enhance client experience, client to advisor interaction, and advisor to advisor collaboration.

Q3 2011 compared with Q2 2011

- Operating profit fell 4% to £71 million in the third quarter as a result of stable income and a small rise in impairments.

- Income remained stable as a 3% increase in non-interest income was offset by a 2% decline in net interest income. The growth in non-interest income reflects strong foreign exchange dealing income, primarily driven by movements in Swiss franc exchange rates during the quarter. Net interest income declined despite continued growth in the lending book margin, as the division received lower internal reward for its funding surplus. This resulted in a 15 basis point decline in net interest margin.

- Expenses remained flat in the quarter as increased regulatory costs were offset by discretionary cost management.

- Client assets and liabilities managed by the division declined 5%. Lending volumes maintained their strong momentum, increasing a further 1% and deposit volumes remained stable. Assets under management declined 13% given adverse market movements, reflecting £3.2 billion of the movement, as well as net new business outflows of £1.2 billion as clients became cautious towards equities.

Wealth (continued)

Key points (continued)

Q3 2011 compared with Q3 2010

- Operating profit declined 4% on prior year as a strong income performance was offset by higher expenses, reflecting continued investment in the division and adverse foreign exchange movements.

- Income increased by 12% with growth in both net interest and non-interest income. Net interest income rose £22 million with a 5 basis point increase in net interest margin buttressed by robust growth in lending and deposit volumes. Non-interest income increased 9% with strong performances in foreign exchange dealing and investment income.

- Expenses grew by 17%, reflecting the impact of the increased regulatory costs in Q3 2011, adverse movements in foreign exchange and significant investment in strategic initiatives and private banker recruitment.

- Client asset and liabilities were up £0.4 billion, with continued growth in lending and deposits in a competitive environment. This growth was partially offset by a 9% fall in assets under management, with tough market conditions reducing values by 11%, partially offset by 2% growth provided by net new business.

Global Transaction Services

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Income statement					
Net interest income	276	263	257	799	711
Non-interest income	300	297	411	879	1,212
Total income	576	560	668	1,678	1,923
Direct expenses					
- staff	(89)	(95)	(100)	(280)	(306)
- other	(26)	(32)	(38)	(87)	(108)
Indirect expenses	(221)	(215)	(218)	(646)	(682)
	(336)	(342)	(356)	(1,013)	(1,096)
Impairment losses	(45)	(54)	(3)	(119)	(6)
Operating profit	195	164	309	546	821
Analysis of income by product					
Domestic cash management	216	217	216	645	611
International cash management	220	215	200	646	578
Trade finance	90	78	81	241	228
Merchant acquiring	4	4	123	11	371
Commercial cards	46	46	48	135	135
Total income	576	560	668	1,678	1,923

Key metrics

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
Performance ratios					
Return on equity (1)	31.0%	27.0%	47.8%	29.6%	42.8%
Net interest margin	5.33%	5.63%	6.67%	5.61%	6.98%
Cost:income ratio	58%	61%	53%	60%	57%

	30 September 2011	30 June 2011	31 December 2010

	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Total third party assets	29.9	30.2	(1%)	25.2	19%
Loans and advances	19.5	19.2	2%	14.4	35%
Customer deposits	71.4	73.3	(3%)	69.9	2%
Risk elements in lending	0.2	0.3	(33%)	0.1	100%
Loan:deposit ratio (excluding repos)	28%	26%	200bp	21%	700bp
Risk-weighted assets	18.6	18.8	(1%)	18.3	2%

Note:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

35

Global Transaction Services (continued)

Key points
In Q3 2011 Global Transaction Services (GTS) delivered revenue growth, careful cost management and resilient deposit performance.

GTS continued to deliver solutions to clients, for example, launching the new Liquidity Solutions Portal which gives clients the ability to view and control balances, forecast their cash positions and make effective liquidity and investment decisions in real time. The business also launched the new enhanced e-Invoicing solution, which received a 'Green Apple' award for environmental best practice from The Green Organisation.

Q3 2011 compared with Q2 2011

- Operating profit increased 19%, driven by income growth, lower costs and impairment charges.

- Income increased by 3% with good performance in trade finance and international cash management.

- Total expenses decreased by 2%, reflecting tight management of discretionary costs whilst supporting investment in technology and support infrastructure.

- Q3 2011 impairment losses of £45 million, which were largely related to additional provision on an existing single name impairment, were down 17%.

- Customer deposit levels held up well in a competitive environment, but were adversely affected by exchange rate movements.

Q3 2011 compared with Q3 2010

- Operating profit fell 37%, in part reflecting the sale of Global Merchant Services (GMS), which completed on 30 November 2010. Adjusting for the disposal, operating profit decreased 24%, reflecting provision on a single name impairment.

- Excluding GMS, income increased by 5% supported by the success of deposit-gathering initiatives and increased trade finance activity.

- Excluding GMS, expenses increased by 16%, reflecting business improvement initiatives and investment in technology and support infrastructure.

- Customer deposits were 9% higher at £71.4 billion, reflecting strong deposit volumes in domestic and international cash management, in a challenging competitive environment.

- Third party assets increased by £5.7 billion, largely due to strong growth in trade finance and international cash management.

- During Q3 2010, GMS recorded income of £120 million, total expenses of £67 million and an operating profit of £53 million.

Ulster Bank

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Income statement					
Net interest income	185	171	192	525	574
Net fees and commissions	41	37	38	114	116
Other non-interest income	19	14	14	48	42
Non-interest income	60	51	52	162	158
Total income	245	222	244	687	732
Direct expenses					
- staff	(55)	(57)	(54)	(168)	(180)
- other	(17)	(17)	(18)	(52)	(57)
Indirect expenses	(65)	(68)	(62)	(195)	(200)
	(137)	(142)	(134)	(415)	(437)
Impairment losses	(327)	(269)	(286)	(1,057)	(785)
Operating loss	(219)	(189)	(176)	(785)	(490)
Analysis of income by business					
Corporate	107	117	120	337	399
Retail	116	98	124	327	341
Other	22	7	-	23	(8)
Total income	245	222	244	687	732
Analysis of impairments by sector					
Mortgages	126	78	69	437	135
Corporate					
- property	78	66	107	241	306
- other corporate	111	103	100	334	309
Other lending	12	22	10	45	35
Total impairment losses	327	269	286	1,057	785

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	2.4%	1.4%	1.3%	2.8%	0.8%
Corporate					
- property	6.1%	5.0%	8.1%	6.3%	7.7%
- other corporate	5.4%	4.7%	4.3%	5.4%	4.4%
Other lending	3.2%	5.5%	2.4%	4.0%	2.7%
Total	3.7%	2.9%	3.0%	4.0%	2.8%

37

Ulster Bank (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
Performance ratios					
Return on equity (1)	(21.2%)	(19.7%)	(20.2%)	(27.1%)	(18.1%)
Net interest margin	1.85%	1.69%	1.88%	1.76%	1.86%
Cost:income ratio	56%	64%	55%	60%	60%

	30 September 2011 £bn	30 June 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	20.7	21.8	(5%)	21.2	(2%)
- corporate					
- property	5.1	5.3	(4%)	5.4	(6%)
- other corporate	8.2	8.7	(6%)	9.0	(9%)
- other lending	1.5	1.6	(6%)	1.3	15%
	35.5	37.4	(5%)	36.9	(4%)
Customer deposits	23.4	24.3	(4%)	23.1	1%
Risk elements in lending					
- mortgages	2.1	2.0	5%	1.5	40%
- corporate					
- property	1.5	1.1	36%	0.7	114%
- other corporate	1.8	1.8	-	1.2	50%
- other lending	0.2	0.2	-	0.2	-
Total risk elements in lending	5.6	5.1	10%	3.6	56%
Loan:deposit ratio (excluding repos)	141%	144%	(300bp)	152%	(1,100bp)
Risk-weighted assets	34.4	36.3	(5%)	31.6	9%
Spot exchange rate - €/£	1.162	1.106		1.160	

Note:

(1) Divisional return on equity is based on divisional operating loss after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

Key points
Ulster Bank's financial performance continues to be overshadowed by the challenging economic climate in Ireland, with impairments remaining elevated.

Progress has been made to identify growth opportunities in the Irish market over the medium term. To capitalise on these opportunities the business remains focused on deposit-gathering, targeting growth in sectors which leverage competitive advantage and cost efficiency.

Ulster Bank (continued)

Key points (continued)

Q3 2011 compared with Q2 2011

- Higher impairment losses resulted in an increase in the operating loss for the quarter to £219 million.

- Net interest income increased by £14 million reflecting a higher return on the bank's capital base, coupled with the impact of loan re-pricing, where progress continues to be made to improve customer margins, counteracting the impact of higher funding costs, contracting deposit margins and the non-performing loan book. Consequently, net interest margin rose by 16 basis points to 1.85%. Customer loan balances reduced 5% in the quarter.

- Non-interest income rose by £9 million driven by a one-off foreign exchange gain during the quarter.

- Expenses declined by £2 million, with direct costs falling by 3% reflecting continued discipline in managing the cost base. Indirect costs were 4% lower due to the non-repeat of a charge on the value of own property assets in Q2 2011.

- Impairment losses increased by £58 million in the quarter primarily due to a further decline in asset values driving higher losses on defaulted assets in both the mortgage and corporate portfolios.

- Customer deposit balances decreased 4%, reflecting rating downgrades and market uncertainty. This has resulted in an erosion of corporate balances, offset by growth in retail and SME deposits.

Q3 2011 compared with Q3 2010

- Operating loss increased by £43 million driven by the impact of deteriorating credit quality on impairment losses. Operating profit before impairment losses was broadly flat.

- Income remained largely stable despite a reduction in loan volumes coupled with the increased impact of the default portfolio.

- Loans and advances to customers fell by 6% as redemptions outweighed new business demand. Customer deposits remained stable resulting in an improved loan to deposit ratio of 141%.

- Expenses remained flat, largely due to cost reduction actions initiated to mitigate the underlying business performance.

- Risk-weighted assets increased by 6% due to deterioration in the risk metrics of both the retail and corporate lending portfolios.

· Customer numbers increased by 3% overall, with a 3% increase in consumer banking and a 2% increase in SME and corporate customers.

· Impairment losses increased by £41 million primarily due to a decline in asset values driving higher losses in the mortgage portfolio.

US Retail & Commercial (£ Sterling)

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Income statement					
Net interest income	483	469	480	1,403	1,450
Net fees and commissions	190	185	180	545	560
Other non-interest income	67	61	91	201	238
Non-interest income	257	246	271	746	798
Total income	740	715	751	2,149	2,248
Direct expenses					
- staff	(206)	(205)	(214)	(608)	(580)
- other	(152)	(135)	(148)	(411)	(445)
Indirect expenses	(183)	(182)	(191)	(548)	(569)
	(541)	(522)	(553)	(1,567)	(1,594)
Impairment losses	(84)	(66)	(125)	(260)	(412)
Operating profit	115	127	73	322	242
Average exchange rate - US$/£	1.611	1.631	1.551	1.614	1.534
Analysis of income by product					
Mortgages and home equity	119	108	142	336	381
Personal lending and cards	111	108	127	326	363
Retail deposits	236	231	223	683	697
Commercial lending	149	147	145	433	439
Commercial deposits	75	72	78	216	245
Other	50	49	36	155	123
Total income	740	715	751	2,149	2,248
Analysis of impairments by sector					
Residential mortgages	7	13	14	26	55
Home equity	29	11	56	80	100
Corporate and commercial	7	22	23	46	148
Other consumer	11	9	28	40	91
Securities	30	11	4	68	18

Total impairment losses	84	66	125	260	412
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.5%	0.9%	0.9%	0.6%	1.2%
Home equity	0.8%	0.3%	1.5%	0.7%	0.9%
Corporate and commercial	0.1%	0.4%	0.5%	0.3%	1.0%
Other consumer	0.7%	0.6%	1.6%	0.8%	1.8%
Total	0.4%	0.5%	1.0%	0.5%	1.1%

US Retail & Commercial (£ Sterling) (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
Performance ratios					
Return on equity (1)	6.0%	6.8%	3.3%	5.7%	3.6%
Net interest margin	3.09%	3.11%	2.89%	3.07%	2.80%
Cost:income ratio	73%	73%	74%	73%	71%

	30 September 2011 £bn	30 June 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Total third party assets	72.9	70.9	3%	71.2	2%
Loans and advances to customers (gross)					
- residential mortgages	5.9	5.7	4%	6.1	(3%)
- home equity	14.9	14.6	2%	15.2	(2%)
- corporate and commercial	22.1	21.3	4%	20.4	8%
- other consumer	6.6	6.3	5%	6.9	(4%)
	49.5	47.9	3%	48.6	2%
Customer deposits (excluding repos)	58.5	56.5	4%	58.7	-
Risk elements in lending					
- retail	0.6	0.5	20%	0.4	50%
- commercial	0.4	0.4	-	0.5	(20%)
Total risk elements in lending	1.0	0.9	11%	0.9	11%
Loan:deposit ratio (excluding repos)	83%	83%	-	81%	200bp
Risk-weighted assets	56.5	54.8	3%	57.0	(1%)
Spot exchange rate - US$/£	1.562	1.607		1.552	

Note:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

Key points

- Sterling weakened relative to the US dollar during the third quarter with the average exchange rate decreasing by 1%.

- Performance is described in full in the US dollar-based financial statements set out on pages 42 and 43.

US Retail & Commercial (US Dollar)

	Quarter ended			Nine months ended	
	30 September 2011 $m	30 June 2011 $m	30 September 2010 $m	30 September 2011 $m	30 September 2010 $m
Income statement					
Net interest income	778	764	745	2,265	2,223
Net fees and commissions	306	301	280	880	859
Other non-interest income	109	100	139	325	365
Non-interest income	415	401	419	1,205	1,224
Total income	1,193	1,165	1,164	3,470	3,447
Direct expenses					
- staff	(332)	(335)	(332)	(982)	(890)
- other	(245)	(220)	(230)	(663)	(683)
Indirect expenses	(295)	(297)	(296)	(885)	(872)
	(872)	(852)	(858)	(2,530)	(2,445)
Impairment losses	(136)	(107)	(193)	(420)	(631)
Operating profit	185	206	113	520	371
Analysis of income by product					
Mortgages and home equity	192	175	220	542	585
Personal lending and cards	179	176	196	526	556
Retail deposits	381	377	345	1,104	1,068
Commercial lending	240	240	225	699	673
Commercial deposits	121	118	122	349	376
Other	80	79	56	250	189
Total income	1,193	1,165	1,164	3,470	3,447
Analysis of impairments by sector					
Residential mortgages	12	21	22	42	85
Home equity	48	19	88	131	154
Corporate and commercial	11	35	35	74	225
Other consumer	17	16	42	66	139
Securities	48	16	6	107	28
Total impairment losses	136	107	193	420	631

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.5%	0.9%	0.9%	0.6%	1.2%
Home equity	0.8%	0.3%	1.5%	0.7%	0.9%
Corporate and commercial	0.1%	0.4%	0.5%	0.3%	1.0%
Other consumer	0.7%	0.6%	1.6%	0.8%	1.7%
Total	0.5%	0.5%	1.0%	0.5%	1.1%

42

US Retail & Commercial (US Dollar) (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
Performance ratios					
Return on equity (1)	6.0%	6.8%	3.3%	5.7%	3.6%
Net interest margin	3.09%	3.11%	2.89%	3.07%	2.80%
Cost:income ratio	73%	73%	74%	73%	71%

	30 September 2011 $bn	30 June 2011 $bn	Change	31 December 2010 $bn	Change
Capital and balance sheet					
Total third party assets	113.8	113.9	-	110.5	3%
Loans and advances to customers (gross)					
- residential mortgages	9.1	9.2	(1%)	9.4	(3%)
- home equity	23.3	23.5	(1%)	23.6	(1%)
- corporate and commercial	34.5	34.0	1%	31.7	9%
- other consumer	10.4	10.2	2%	10.6	(2%)
	77.3	76.9	1%	75.3	3%
Customer deposits (excluding repos)	91.3	90.7	1%	91.2	-
Risk elements in lending					
- retail	0.9	0.9	-	0.7	29%
- commercial	0.6	0.6	-	0.7	(14%)
Total risk elements in lending	1.5	1.5	-	1.4	7%
Loan:deposit ratio (excluding repos)	83%	83%	-	81%	200bp
Risk-weighted assets	88.2	88.1	-	88.4	-

Note:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of monthly average of divisional RWAs, adjusted for capital deductions).

Key points
US Retail & Commercial continued to focus on its “back-to-basics” strategy, with good progress made in developing the division’s customer franchise during 2011. The bank has continued to re-energise the franchise through new branding, product development and competitive pricing.

Consumer Finance continues to strengthen its alignment with branch banking, further improving the penetration of products to deposit households, which has increased over nine consecutive quarters. In addition, Consumer continues to improve its penetration of the on-line banking market, while also focusing on growing its auto, business banking, education finance and wealth management businesses.

The Commercial Banking business continues to achieve good momentum through a refreshed sales training programme, benefiting over 900 employees so far, an improved product offering and further improvements in the cross-sell of Global Transaction Services (GTS) products to its customer base.

Furthermore, Commercial Banking took an important step forward in branding, by unifying under the RBS Citizens brand, helping to ensure that customers and prospects understand both the depth of local expertise and the breadth of global capabilities.

US Retail & Commercial (US Dollar) (continued)

Key points (continued)

Q3 2011 compared with Q2 2011

- US Retail & Commercial posted an operating profit of £115 million ($185 million) compared with £127 million ($206 million) in the prior quarter, a decrease of £12 million ($21 million), or 9% driven by an increase in mortgage servicing rights impairment (£14 million or $23 million) and higher securities impairments (£20 million or $32 million). Excluding these items, operating profit was up (£22 million) $34 million, or 15%.

- The macroeconomic operating environment remained challenging, with low rates, high unemployment, a soft housing market, sluggish consumer activity and the continuing impact of legislative changes. While short term rates remained low, there was also a significant flattening of the yield curve as the 10 year Treasury rate dropped 130 basis points from a quarter high of 3.22%, ending the quarter at 1.92%.

- Net interest income was up £14 million ($14 million), or 3%. Product net interest income was in line with the previous quarter. Loans and advances were up slightly from the previous quarter due to strong growth in commercial loan volumes, partly offset by some continued planned run-off of long term fixed rate consumer products.

- Non-interest income was up £11 million ($14 million), or 4%, reflecting higher mortgage banking income.

- Total expenses were up £19 million ($20 million), or 2%, reflecting an increase in mortgage servicing rights impairment of £14 million ($23 million), driven by declining rates.

- Impairment losses were up £18 million ($29 million), or 27%, reflecting higher impairments (£20 million or $32 million) related to securities. Loan impairments as a percent of loans and advances were 0.4%.

Q3 2011 compared with Q3 2010

- Operating profit increased by 57% to £115 million ($185 million) substantially driven by lower impairments and improved net interest income.

- Net interest income was up £3 million ($33 million), or 1%. Net interest margin improved by 20 basis points to 3.09%, reflecting changes in deposit mix and continued discipline around deposit pricing as well as the positive impact of the balance sheet restructuring programme carried out during Q3 2010 combined with strong commercial loan growth partially offset by run-off of consumer loans.

- Impairment losses declined by £41 million ($57 million), or 33%, reflecting an improved credit environment partially offset by higher impairments related to securities. Loan impairments as a percentage of loans and advances improved to

0.4% from 1.0%.

- Customer deposits were down £2 billion ($4 billion), or 3%, reflecting the impact of a changed pricing strategy on low margin term and time products offset by strong checking balance growth. Consumer checking balances grew by 4% while small business checking balances grew by 5% over the year.

- Non-interest income was down £14 million ($4 million), or 5%, reflecting lower mortgage banking income largely offset by increased commercial banking fee income and higher ATM fees as a result of new pricing initiatives.

- Total expenses were down £12 million (up $14 million), or 2%, despite an increase in mortgage servicing rights impairment of £14 million ($23 million) and costs related to regulatory challenges.

Global Banking & Markets

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
	£m	£m	£m	£m	£m
Income statement					
Net interest income from banking activities	171	175	319	536	1,027
funding costs of rental assets	(10)	(11)	(9)	(30)	(26)
Net interest income	161	164	310	506	1,001
Net fees and commissions receivable	222	301	354	861	902
Income from trading activities	1,892	891	619	4,340	4,147
Other operating (loss)/income	(1,176)	194	271	(678)	275
Non-interest income	938	1,386	1,244	4,523	5,324
Total income	1,099	1,550	1,554	5,029	6,325
Direct expenses					
- staff	(527)	(605)	(621)	(1,995)	(2,139)
- other	(243)	(229)	(166)	(688)	(550)
Indirect expenses	(249)	(233)	(218)	(709)	(643)
	(1,019)	(1,067)	(1,005)	(3,392)	(3,332)
Impairment recoveries/(losses)	32	(37)	40	19	(156)
Operating profit	112	446	589	1,656	2,837
Analysis of income by product					
Rates - money markets	(19)	(41)	38	(134)	130
Rates - flow	113	357	402	1,203	1,572
Currencies	227	234	218	685	692
Credit and mortgage markets	93	437	349	1,415	1,782
Fixed income & currencies	414	987	1,007	3,169	4,176
Portfolio management and origination	571	329	349	1,237	1,399
Equities	114	234	198	623	750
Total income	1,099	1,550	1,554	5,029	6,325

Analysis of impairments by sector					
Manufacturing and infrastructure	-	(45)	34	(77)	53
Property and construction	(11)	-	-	(17)	(64)
Banks and financial institutions	44	(2)	3	65	(123)
Other	(1)	10	3	48	(22)
Total impairment recoveries/(losses)	32	(37)	40	19	(156)
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	(0.2%)	0.2%	(0.2%)	-	0.2%

45

Global Banking & Markets (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
Performance ratios					
Return on equity (1)	2.3%	8.7%	11.6%	10.7%	18.8%
Net interest margin	0.71%	0.70%	1.13%	0.72%	1.09%
Cost:income ratio	93%	69%	65%	67%	53%
Compensation ratio (2)	48%	39%	40%	40%	34%

	30 September 2011 £bn	30 June 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Loans and advances to customers	73.1	71.2	3%	75.1	(3%)
Loans and advances to banks	34.1	38.6	(12%)	44.5	(23%)
Reverse repos	100.6	97.5	3%	94.8	6%
Securities	124.5	141.5	(12%)	119.2	4%
Cash and eligible bills	33.3	32.8	2%	38.8	(14%)
Other	33.0	37.5	(12%)	24.3	36%
Total third party assets (excluding derivatives mark-to-market)	398.6	419.1	(5%)	396.7	-
Net derivative assets (after netting)	45.6	32.2	42%	37.4	22%
Customer deposits (excluding repos)	39.5	35.7	11%	38.9	2%
Risk elements in lending	1.6	1.5	7%	1.7	(6%)
Loan:deposit ratio (excluding repos)	185%	200%	(1,500bp)	193%	(800bp)
Risk-weighted assets	134.3	139.0	(3%)	146.9	(9%)

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) Compensation ratio is based on staff costs as a percentage of total income.

Key points

The ongoing European sovereign debt crisis and heightened concerns about growth expectations for the world economy caused market sentiment to deteriorate significantly during Q3 2011. Markets were volatile and generally pessimistic. Against this backdrop primary volumes were heavily depressed and opportunities in the secondary market were limited.

During this challenging period, it is all the more important that customers are provided with the best possible service and that the division capitalises on its strengths. Therefore, GBM continues to focus on improving relationships with its clients, while managing its activities very tightly and ensuring that sound risk policies are in place.

Global Banking & Markets (continued)

Key points (continued)

Q3 2011 compared with Q2 2011

· A small operating profit of £112 million reflected a sharp reduction in revenue, which fell 29% to £1,099 million.

· The fall in revenue was caused by the deterioration in the market environment:

As in previous quarters, negative revenue in Rates-Money Markets reflected the cost of the division's funding activities, which more than offset revenue generated by the short-term markets business.

Rates-Flow fell significantly for the second quarter in a row. Although client flow remained stable, trading margins were weak and a higher level of cost was incurred on the division's counterparty exposure management activities (circa £200 million).

Credit Markets recorded losses approaching £200 million during the quarter on the flow trading business as widening credit spreads resulted in mark-downs on a range of exposures. The Mortgage business was also negatively impacted by lower client activity.

Amidst a volatile and generally negative environment, Equities suffered from subdued client activity in both the primary and secondary markets.

The sharp increase in Portfolio Management and Origination income was driven by market derivative values. The underlying business weakened marginally as issuance volumes declined, partially offset by gains on portfolio hedging activities.

· Total costs fell £48 million, as performance-related pay accruals were adjusted in response to the decline in revenue. This was partially offset by higher investment costs, primarily reflecting depreciation. The increase in compensation ratio reflected the low level of revenue compared with fixed staff costs.

· Impairments generated a net credit, reflecting a single name provision release during the quarter.

· Third party assets were slightly below the targeted range of £400 - £450 billion, due to lower levels of activity and rigorous management of balance sheet exposures.

· Risk-weighted assets decreased 3%, reflecting the ongoing focus on efficient capital deployment.

· Return on equity was 2.3% driven by the fall in revenue.

Q3 2011 compared with Q3 2010

· A sharp fall in operating profit reflected a 29% fall in revenue.

· Rates-Flow and Credit Markets both suffered from the nervous and volatile credit environment during Q3 2011. Rates-Flow incurred higher costs on counterparty exposure management activities and Credit-Markets suffered losses on credit positions in the flow credit business.

- Equities revenue declined as the market weakness limited client activity.

- Staff costs declined as levels of performance-related pay fell as a result of the decline in revenue. The increase in other and indirect expenses is driven by higher investment spending and depreciation at both the divisional and group levels.

RBS Insurance

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Income statement					
Earned premiums	1,057	1,056	1,111	3,178	3,359
Reinsurers' share	(67)	(60)	(36)	(181)	(108)
Net premium income	990	996	1,075	2,997	3,251
Fees and commissions	(83)	(81)	(96)	(239)	(277)
Instalment income	35	35	39	105	121
Investment income	72	69	75	205	200
Other income	19	27	31	81	109
Total income	1,033	1,046	1,124	3,149	3,404
Direct expenses					
- staff expenses	(67)	(70)	(72)	(213)	(215)
- other expenses	(88)	(79)	(77)	(254)	(248)
Indirect expenses	(60)	(54)	(66)	(170)	(193)
	(215)	(203)	(215)	(637)	(656)
Net claims	(695)	(704)	(942)	(2,183)	(3,034)
Operating profit/(loss)	123	139	(33)	329	(286)
Analysis of income by product					
Personal lines motor excluding broker					
- own brands	475	471	489	1,414	1,458
- partnerships	49	63	91	193	273
Personal lines home excluding broker					
- own brands	121	123	123	364	365
- partnerships	97	95	99	295	305
Personal lines other excluding broker					
- own brands	44	47	48	138	147
- partnerships	48	51	48	147	163
Other					
- commercial	98	86	85	271	251
- international	90	87	82	258	249
- other (1)	11	23	59	69	193

Total income	1,033	1,046	1,124	3,149	3,404

Note:
(1) Other predominantly consists of the discontinued personal lines broker business.

48

RBS Insurance (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
In-force policies (000s)					
Personal lines motor excluding broker					
- own brands	3,832	3,931	4,276	3,832	4,276
- partnerships	388	474	698	388	698
Personal lines home excluding broker					
- own brands	1,832	1,844	1,807	1,832	1,807
- partnerships	2,504	2,524	2,533	2,504	2,533
Personal lines other excluding broker					
- own brands	1,886	1,932	2,027	1,886	2,027
- partnerships	7,714	7,577	6,527	7,714	6,527
Other					
- commercial	410	393	363	410	363
- international	1,357	1,302	1,060	1,357	1,060
- other (1)	44	211	861	44	861
Total in-force policies (2)	19,967	20,188	20,152	19,967	20,152
Gross written premium (£m)					
Personal lines motor excluding broker					
- own brands	438	408	458	1,236	1,277
- partnerships	36	36	70	109	198
Personal lines home excluding broker					
- own brands	133	117	135	362	362
- partnerships	144	135	145	417	419
Personal lines other excluding broker					
- own brands	48	44	49	134	137
- partnerships	48	42	43	130	120
Other					
- commercial	101	120	90	333	301
- international	125	134	79	428	302
- other (1)	4	(2)	59	(1)	194
Total gross written premium	1,077	1,034	1,128	3,148	3,310

Performance ratios					
Return on regulatory capital (3)	12.3%	15.4%	(3.5%)	11.0%	(10.3%)
Return on equity (4)	11.0%	12.9%	(3.0%)	10.0%	(8.6%)
Loss ratio (5)	70%	71%	88%	72%	93%
Commission ratio (6)	8%	8%	9%	8%	8%
Expense ratio (7)	20%	20%	19%	21%	20%
Combined operating ratio (8)	98%	99%	116%	101%	121%
Balance sheet					
Total insurance reserves - total (£m) (9)	7,545	7,557	7,668		

Notes:

(1) Other predominantly consists of the discontinued personal lines broker business.

(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 repayment payment protection.

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

(4) Return on equity is based on annualised divisional operating profit/(loss) after tax divided by divisional average tangible equity.

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

(6) Commission ratio is based on fees and commissions divided by gross written premium.

(7) Expense ratio is based on expenses (excluding fees and commissions) divided by gross written premium.

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

(9) Consists of General and Life insurance liabilities, unearned premium reserve and liability adequacy reserve.

49

Key points

RBS Insurance continues to undertake a significant programme of investment, designed to achieve a substantial improvement in financial and operational performance ahead of its planned divestment from the Group. The results of the first phase of this transformation - to recover profitability - are now apparent after four successive quarters of year-on-year improvement. The clearest evidence of the recovery is in September YTD 2011 underwriting profit of £761 million, an increase of £591 million versus September YTD 2010, primarily driven by a substantial improvement in net claims. The loss ratio for the first 9 months of 2011 was 72% compared with 93% for the equivalent period in 2010.

RBS Insurance is also making good progress in building its competitive advantage through its investment programme and business transformation, the largest element of which is the transformation of claims operations. Launched this year, the first phase of a new Claims Centre system now processes 100% of new Churchill home claims and 70% of all new Churchill, Direct Line, and Privilege motor claims. This system is set to achieve a substantial uplift in operational and financial performance. The rollout of a rating engine, which is largely complete on motor, and new pricing tools will complement customer propositions in order to generate greater value from RBS Insurance's multi-brand, multi-distribution strategy.

Implementation of the plan to rationalise the number of sites occupied, announced in 2010, continues, with 10 site exits to date. Progress is also being made to simplify the legal entity structure, to improve the efficient use of capital and to facilitate compliance with the Solvency II regulations.

Investment markets remain challenging as yields on quality fixed income instruments remain low. RBS Insurance's investment portfolio is composed of high quality gilts and bonds and cash. Of the total portfolio of £9.7 billion, 1.5% is directly exposed to issuers in Spain, Italy and Ireland. There is no direct exposure to either Greece or Portugal.

In September 2011 it was announced by The Ministry of Justice that referral fees will be banned. From a customer perspective, RBS Insurance is supportive of this proposal provided that there is a contemporaneous reduction in legal fees.

Overall, RBS Insurance is making good progress, has a positive momentum and is well positioned with powerful brands, coupled with a transformed claims function. In personal lines the business will continue to look for partners that fit with its strategy of providing a full end-to-end service, while complementing its own business and distribution channels. Elsewhere, RBS Insurance continues to develop its commercial and international divisions.

RBS Insurance (continued)

Key points (continued)

Q3 2011 compared with Q2 2011

- Operating profit reduced by £16 million from the previous quarter as a result of seasonal trends, reduced other income and the phasing of expenses.

- Overall gross written premium has increased by £43 million quarter-on-quarter. This was primarily driven by motor, up £30 million, due to seasonality, and home, up £25 million, as a result of higher web renewals on own brands and growing partnerships with Nationwide Building Society and the RBS branch network . These increases were partially offset by a £19 million fall in commercial reflecting a seasonal high in Q2 2011.

- The quarter saw continued income growth in the International business of £11 million principally due to the flow through of higher written premiums in Italy. Home income also increased, by £3 million. These increases partially offset the reductions in motor business from lower earned premiums together with the reduction in income from personal lines broker activities, which are in run-off.

- Claims decreased by £9 million, with lower motor claims volumes as a result of reduced accidental damage and third party property damage frequency.

- Total direct expenses were up £6 million on the prior quarter primarily due to the phasing of marketing spend.

- Investment income rose by £3 million in the quarter with realised gains on the sale of bonds partially offset by lower gilt yields.

- The loss ratio reduced by 1% to 70%, the expense ratio remained at 20%, and the combined ratio improved by 1% to 98%.

Q3 2011 compared with Q3 2010

- Operating profit was £123 million compared with a loss of £33 million for Q3 2010. The loss in Q3 2010 included reserve strengthening for bodily injury claims. The improved results were also attributable to the reduction in the risk of the book, selected business line exits, and pricing action taken. These factors led to a £247 million improvement in claims year-on-year.

- International in-force policies have increased by 28% year-on-year primarily driven by growth in Italy including a partnership with Fiat which commenced in Q4 2010. Motor in-force policies have reduced by 15%, reflecting the continued de-risking activity over the same period.

- Overall gross written premium is down £51 million year-on-year.

  Motor gross written premium declined £54 million driven by continued de-risking of the book coupled with lower new business and lower average premiums as a result of improvements in mix.

Other gross written premium was down £55 million due to the exit of unprofitable business lines.

International gross written premium was up £46 million, primarily driven by growth in volumes, including through the Fiat partnership Italy.

Commercial gross written premium increased £11 million, driven by growth in the property and liability books partially offset by a reduction in the van business.

- Total income was down £91 million year-on-year, principally due to lower premium income and lower other income in motor driven by reduced volumes.

- Other expenses were up £11 million due to the phasing of marketing spend. Total expenses were flat.

Central items

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
	£m	£m	£m	£m	£m
Central items not allocated	67	47	76	71	462

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 2011 compared with Q2 2011

· Central items not allocated represented a credit of £67 million, an increase of £20 million on the previous quarter. This movement was driven by increased profits on bond disposals in Q3 2011 partially offset by non-repeat of the Q2 2011 gain on the sale of the investment in VISA.

Q3 2011 compared with Q3 2010

· Central items not allocated represented a credit of £67 million, a decline of £9 million on Q3 2010 due to slightly lower bond disposal gains in Q3 2011.

Non-Core

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Income statement					
Net interest income	163	284	433	748	1,511
Funding costs of rental assets	(53)	(51)	(78)	(155)	(226)
Net interest income	110	233	355	593	1,325
Net fees and commissions	(85)	47	40	8	285
(Loss)/income from trading activities	(246)	231	227	(309)	130
Insurance net premium income	45	95	180	277	521
Other operating income					
- rental income	235	257	244	735	760
- other (1)	(13)	115	(176)	206	(378)
Non-interest income	(64)	745	515	917	1,318
Total income	46	978	870	1,510	2,643
Direct expenses					
- staff	(93)	(109)	(172)	(293)	(626)
- operating lease depreciation	(82)	(87)	(126)	(256)	(344)
- other	(62)	(68)	(133)	(199)	(432)
Indirect expenses	(86)	(71)	(130)	(233)	(373)
	(323)	(335)	(561)	(981)	(1,775)
Insurance net claims	(38)	(90)	(144)	(256)	(492)
Impairment losses	(682)	(1,411)	(1,171)	(3,168)	(4,265)
Operating loss	(997)	(858)	(1,006)	(2,895)	(3,889)

Note:

(1) Includes losses on disposals (quarter ended 30 September 2011 - £37 million; quarter ended 30 June 2011 - £20 million; quarter ended 30 September 2010 - £253 million; nine months ended 30 September 2011 - £91 million; nine months ended 30 September 2010 - £257 million).

Non-Core (continued)

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Analysis of income/(loss)by business					
Portfolios & banking	214	830	280	1,642	1,516
International businesses	101	137	182	327	694
Markets	(269)	11	408	(459)	433
Total income	46	978	870	1,510	2,643
(Loss)/income from trading activities					
Monoline exposures	(230)	(67)	191	(427)	52
Credit derivative product companies	(5)	(21)	(15)	(66)	(101)
Asset-backed products (1)	(51)	36	160	51	202
Other credit exotics	(7)	8	(2)	(167)	56
Equities	(11)	(2)	(15)	(12)	(28)
Banking book hedges	73	(9)	(123)	35	(12)
Other (2)	(15)	286	31	277	(39)
	(246)	231	227	(309)	130
Impairment losses					
Portfolios & banking	656	1,405	1,159	3,119	4,070
International businesses	17	15	25	52	141
Markets	9	(9)	(13)	(3)	54
Total impairment losses	682	1,411	1,171	3,168	4,265
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) (3)					
Portfolios & banking	2.8%	6.1%	4.0%	4.7%	4.7%
International businesses	2.7%	1.9%	1.5%	2.8%	2.9%
Markets	(0.4%)	(1.2%)	0.2%	(1.1%)	13.0%
Total	2.8%	6.0%	3.9%	4.6%	4.7%

Notes:

(1) Asset-backed products include super senior asset-backed structures and other asset-backed products.
(2) Q3 2011 includes profits in RBS Sempra Commodities JV of £1 million (quarter ended 30 September 2010 - £78 million). Q2 2011 includes securities gains of £362 million not repeated in Q3 2011.
(3) Includes disposal groups.

Non-Core (continued)

Key metrics

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
Performance ratios					
Net interest margin	0.43%	0.87%	1.04%	0.74%	1.18%
Cost:income ratio	nm	34%	64%	65%	67%

	30 September 2011 £bn	30 June 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet (1)					
Total third party assets (excluding derivatives) (2)	105.1	112.6	(7%)	137.9	(24%)
Total third party assets (including derivatives) (2)	117.7	134.7	(13%)	153.9	(24%)
Loans and advances to customers (gross)	88.9	94.9	(6%)	108.4	(18%)
Customer deposits	4.3	5.0	(14%)	6.7	(36%)
Risk elements in lending	24.6	24.9	(1%)	23.4	5%
Risk-weighted assets (2)	117.9	124.7	(5%)	153.7	(23%)

nm = not meaningful

Notes:

(1) Includes disposal groups.

(2) Includes RBS Sempra Commodities JV (30 September 2011 Third party assets, excluding derivatives (TPAs) £0.3 billion, RWAs £1.7 billion; 30 June 2011 TPAs £1.1 billion, RWAs £1.9 billion; 31 December 2010 TPAs £6.7 billion, RWAs £4.3 billion).

	30 September 2011 £bn	30 June 2011 £bn	31 December 2010 £bn
Gross customer loans and advances			
Portfolios & banking	86.6	92.1	104.9
International businesses	2.2	2.7	3.5

Markets	0.1	0.1	-
	88.9	94.9	108.4
Risk-weighted assets			
Portfolios & banking	66.6	72.6	83.5
International businesses	4.5	5.2	5.6
Markets	46.8	46.9	64.6
	117.9	124.7	153.7

55

Non-Core (continued)

Third party assets (excluding derivatives)

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

Quarter ended 30 June 2011

	31 March 2011 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	30 June 2011 £bn
Commercial real estate	38.7	(1.1)	(0.3)	0.2	(1.3)	0.4	36.6
Corporate	56.0	(2.6)	(4.0)	0.6	-	0.4	50.4
SME	3.1	(0.4)	-	-	-	-	2.7
Retail	8.3	(0.2)	-	-	(0.1)	-	8.0
Other	2.5	(0.2)	-	-	-	-	2.3
Markets	12.3	(0.7)	(0.4)	0.3	-	-	11.5
Total (excluding derivatives)	120.9	(5.2)	(4.7)	1.1	(1.4)	0.8	111.5
Markets - RBS Sempra Commodities JV	3.9	(0.5)	(2.2)	-	-	(0.1)	1.1
Total (1)	124.8	(5.7)	(6.9)	1.1	(1.4)	0.7	112.6

Quarter ended 30 September 2010

	30 June 2010 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	30 September 2010 £bn

Commercial real estate	44.1	2.9	(0.3)	(0.2)	(1.2)	1.2	46.5
Corporate	70.4	(2.8)	(2.4)	0.6	0.1	0.2	66.1
SME	4.7	(0.8)	-	-	-	-	3.9
Retail	16.8	(6.2)	-	-	(0.1)	(0.2)	10.3
Other	3.0	(0.2)	(0.3)	0.1	-	-	2.6
Markets	22.3	(1.4)	(4.4)	0.4	-	(0.4)	16.5
Total (excluding derivatives)	161.3	(8.5)	(7.4)	0.9	(1.2)	0.8	145.9
Markets - RBS Sempra Commodities JV	12.7	(0.5)	(3.3)	-	-	(0.6)	8.3
Total (1)	174.0	(9.0)	(10.7)	0.9	(1.2)	0.2	154.2

Notes:

(1) £1 billion of disposals have been signed as at 30 September 2011 but are pending completion (30 June 2011 - £2 billion; 30 September 2010 - £9 billion).

(2) Business restructuring in Q3 2011 resulted in third party assets of £1 billion transferring from Corporate to Commercial Real Estate resulting in run-off totalling £0.3 billion in the quarter.

Non-Core (continued)

	Quarter ended			Nine months ended	
	30 September 2011	30 June 2011	30 September 2010	30 September 2011	30 September 2010
	£m	£m	£m	£m	£m
Impairment losses by donating division and sector					
UK Retail					
Mortgages	1	1	1	(1)	4
Personal	1	3	4	7	6
Total UK Retail	2	4	5	6	10
UK Corporate					
Manufacturing and infrastructure	3	47	5	50	21
Property and construction	92	36	130	141	334
Transport	-	26	26	46	23
Banking and financial institutions	-	1	(8)	4	18
Lombard	12	25	25	55	79
Invoice finance	-	-	(3)	-	(3)
Other	18	46	(2)	75	119
Total UK Corporate	125	181	173	371	591
Ulster Bank					
Mortgages	-	-	(1)	-	42
Commercial real estate					
- investment	74	161	180	458	424
- development	162	810	415	1,475	1,163
Other corporate	45	6	82	158	270
Other EMEA	2	5	13	13	46
Total Ulster Bank	283	982	689	2,104	1,945
US Retail & Commercial					
Auto and consumer	14	12	(2)	51	45
Cards	-	(3)	2	(10)	20
SBO/home equity	57	58	57	168	226
Residential mortgages	4	6	3	14	5
Commercial real estate	(4)	11	49	26	154
Commercial and other	(1)	(6)	7	(10)	15

Total US Retail & Commercial	70	78	116	239	465
Global Banking & Markets					
Manufacturing and infrastructure	23	(6)	(53)	15	(305)
Property and construction	189	217	147	511	1,120
Transport	(6)	(1)	8	(13)	9
Telecoms, media and technology	27	34	32	50	32
Banking and financial institutions	(29)	(39)	5	(67)	177
Other	(1)	(36)	52	(45)	177
Total Global Banking & Markets	203	169	191	451	1,210
Other					
Wealth	1	(1)	7	1	51
Global Transaction Services	-	(3)	(10)	(3)	(7)
Central items	(2)	1	-	(1)	-
Total Other	(1)	(3)	(3)	(3)	44
Total impairment losses	682	1,411	1,171	3,168	4,265

Non-Core (continued)

	30 September 2011 £bn	30 June 2011 £bn	31 December 2010 £bn
Gross loans and advances to customers (excluding reverse repurchase agreements) by donating division and sector			
UK Retail			
Mortgages	1.4	1.5	1.6
Personal	0.3	0.3	0.4
Total UK Retail	1.7	1.8	2.0
UK Corporate			
Manufacturing and infrastructure	0.1	0.3	0.3
Property and construction	6.5	7.2	11.4
Transport	4.8	5.0	5.4
Banking and financial institutions	0.5	0.9	0.8
Lombard	1.2	1.4	1.7
Invoice finance	-	-	-
Other	7.5	6.8	7.4
Total UK Corporate	20.6	21.6	27.0
Ulster Bank			
Commercial real estate			
- investment	3.9	4.1	4.0
- development	8.7	9.0	8.4
Other corporate	1.7	1.8	2.2
Other EMEA	0.4	0.4	0.4
Total Ulster Bank	14.7	15.3	15.0
US Retail & Commercial			
Auto and consumer	1.9	2.2	2.6
Cards	0.1	0.1	0.1
SBO/home equity	2.6	2.7	3.2
Residential mortgages	0.6	0.7	0.7
Commercial real estate	1.1	1.2	1.5
Commercial and other	0.5	0.4	0.5
Total US Retail & Commercial	6.8	7.3	8.6

Global Banking & Markets			
Manufacturing and infrastructure	7.0	8.5	8.7
Property and construction	17.8	18.6	19.6
Transport	3.9	4.2	5.5
Telecoms, media and technology	0.9	0.8	0.9
Banking and financial institutions	8.3	8.8	12.0
Other	6.7	7.5	9.0
Total Global Banking & Markets	44.6	48.4	55.7
Other			
Wealth	0.3	0.3	0.4
Global Transaction Services	0.3	0.3	0.3
RBS Insurance	-	-	0.2
Central items	(0.3)	(0.3)	(1.0)
Total Other	0.3	0.3	(0.1)
Gross loans and advances to customers (excluding reverse repurchase agreements)	88.7	94.7	108.2

Non-Core (continued)

Key points

Non-Core continues to deliver in a challenging and uncertain environment with further reductions in Q3 2011 in third party assets, risk weighted assets, impairment charges and headcount.

The division remains on track to reduce third party assets to £96 billion by the end of 2011 and continues to focus upon reducing required levels of capital and funding.

Income in Q3 2011 was significantly lower than Q2 2011 reflecting equity-related gains in Q2 not repeated in Q3, lower underlying revenue in line with balance sheet reduction, a one-off charge in relation to de-risking the portfolio and fair value write-downs reflecting market conditions.

Despite ongoing difficulties in the commercial real estate sector and Ireland in particular, Q3 2011 impairment losses decreased by £729 million compared with Q2 2011.

Q3 2011 compared with Q2 2011

- Non-Core continued to reduce the size of the balance sheet with third party assets declining by £8 billion to £105 billion. This reduction was principally driven by run-off of £4 billion and disposals of £3 billion. At the end of the quarter £1 billion of deals were signed but not completed, compared with £2 billion at the end of Q2 2011.

- Risk-weighted assets fell by £7 billion in Q3 2011. The reduction principally reflected continued asset sales, run-off and impairments partially offset by foreign exchange movements. Specific portfolio de-risking also contributed towards the decline in the quarter.

- Non-Core operating loss was £997 million in the third quarter, compared with £858 million in Q2 2011. Net interest income fell by £123 million reflecting a lower balance sheet, increased term funding and liquidity costs and the non-repeat of some recoveries in Q2 2011. The decline in non-interest income reflected the non-repeat of circa £500 million of valuation gains recorded in Q2 2011, and losses in trading income due to widening credit spreads on monoline and securities positions.

- Impairments fell by £729 million from Q2 2011, reflecting substantial provisioning in relation to development land values in Ireland during Q2 2011 not repeated in Q3 2011.

- Non-Core headcount continues to decline in line with disposal activity. Headcount reductions in Q3 2011 predominantly relate to Asia, Non-Core Insurance and RBS Sempra Commodities JV.

Q3 2011 compared with Q3 2010

- Third party assets declined by £49 billion (32%) principally reflecting disposals (£29 billion) and run-off (£21 billion).

- Risk-weighted assets were £49 billion lower, driven principally by significant disposal activity combined with run-off.

- Market uncertainty resulted in higher losses on trading activities in Q3 2011 compared with Q3 2010, which included disposal gains on super senior assets and valuation gains in relation to monolines. In line with ongoing disposal and run-off activity, both net interest income and insurance premium income continue to decline.

- Expenses and headcount continued to fall reflecting disposal activity principally in exit countries, RBS Sempra Commodities JV and Non-Core Insurance.

Condensed consolidated income statement
for the period ended 30 September 2011

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Interest receivable	5,371	5,404	5,584	16,176	17,164
Interest payable	(2,294)	(2,177)	(2,173)	(6,571)	(6,535)
Net interest income	3,077	3,227	3,411	9,605	10,629
Fees and commissions receivable	1,452	1,700	2,037	4,794	6,141
Fees and commissions payable	(304)	(323)	(611)	(887)	(1,762)
Income from trading activities	957	1,147	277	2,939	4,153
Gain on redemption of own debt	1	255	-	256	553
Other operating income (excluding insurance premium income)	2,384	1,142	(317)	3,917	476
Insurance net premium income	1,036	1,090	1,289	3,275	3,856
Non-interest income	5,526	5,011	2,675	14,294	13,417
Total income	8,603	8,238	6,086	23,899	24,046
Staff costs	(2,076)	(2,210)	(2,423)	(6,685)	(7,477)
Premises and equipment	(604)	(602)	(611)	(1,777)	(1,693)
Other administrative expenses	(962)	(1,752)	(914)	(3,635)	(2,947)
Depreciation and amortisation	(485)	(453)	(603)	(1,362)	(1,604)
Operating expenses	(4,127)	(5,017)	(4,551)	(13,459)	(13,721)
Profit before other operating charges and impairment losses	4,476	3,221	1,535	10,440	10,325
Insurance net claims	(734)	(793)	(1,142)	(2,439)	(3,601)
Impairment losses	(1,738)	(3,106)	(1,953)	(6,791)	(7,115)
Operating profit/(loss) before tax	2,004	(678)	(1,560)	1,210	(391)
Tax (charge)/credit	(791)	(222)	295	(1,436)	(637)
Profit/(loss) from continuing operations	1,213	(900)	(1,265)	(226)	(1,028)
Profit/(loss) from discontinued operations,	6	21	18	37	(688)

net of tax					
Profit/(loss) for the period	1,219	(879)	(1,247)	(189)	(1,716)
Non-controlling interests	7	(18)	101	(10)	703
Preference share and other dividends	-	-	-	-	(124)
Profit/(loss) attributable to ordinary and B shareholders	1,226	(897)	(1,146)	(199)	(1,137)
Basic earnings/(loss) per ordinary and B share from continuing operations	1.1p	(0.8p)	(1.1p)	(0.2p)	(0.5p)
Diluted earnings/(loss) per ordinary and B share from continuing operations	1.1p	(0.8p)	(1.1p)	(0.2p)	(0.5p)
Basic (loss)/earnings per ordinary and B share from discontinued operations	-	-	-	-	-
Diluted (loss)/earnings per ordinary and B share from discontinued operations	-	-	-	-	-

Condensed consolidated statement of comprehensive income
for the period ended 30 September 2011

	Quarter ended			Nine months ended	
	30 September 2011 £m	30 June 2011 £m	30 September 2010 £m	30 September 2011 £m	30 September 2010 £m
Profit/(loss) for the period	1,219	(879)	(1,247)	(189)	(1,716)
Other comprehensive income/(loss)					
Available-for-sale financial assets (1)	996	1,406	235	2,365	743
Cash flow hedges	939	588	553	1,300	1,807
Currency translation	(22)	59	(647)	(323)	47
Other comprehensive income before tax	1,913	2,053	141	3,342	2,597
Tax charge	(480)	(524)	(256)	(972)	(702)
Other comprehensive income/(loss) after tax	1,433	1,529	(115)	2,370	1,895
Total comprehensive income/(loss) for the period	2,652	650	(1,362)	2,181	179
Total comprehensive income/(loss) recognised in the statement of changes in equity is attributable as follows:					
Non-controlling interests	(6)	3	(117)	(12)	(249)
Preference shareholders	-	-	-	-	105
Paid-in equity holders	-	-	-	-	19
Ordinary and B shareholders	2,658	647	(1,245)	2,193	304
	2,652	650	(1,362)	2,181	179

Note:
(1) Analysis provided on page 96.

Key point
· The Q3 2011 movement in available-for-sale financial assets reflects £1,207 million unrealised gains on securities, primarily in relation to high quality sovereign bonds,

partially offset by realised gains of £214 million from routine portfolio management, mainly in Group Treasury.

Condensed consolidated balance sheet
at 30 September 2011

	30 September 2011 £m	30 June 2011 £m	31 December 2010 £m
Assets			
Cash and balances at central banks	78,445	64,351	57,014
Net loans and advances to banks	52,602	53,133	57,911
Reverse repurchase agreements and stock borrowing	48,127	41,973	42,607
Loans and advances to banks	100,729	95,106	100,518
Net loans and advances to customers	485,573	489,572	502,748
Reverse repurchase agreements and stock borrowing	54,132	56,162	52,512
Loans and advances to customers	539,705	545,734	555,260
Debt securities	229,657	243,645	217,480
Equity shares	14,888	24,951	22,198
Settlement balances	21,526	24,566	11,605
Derivatives	572,344	394,872	427,077
Intangible assets	14,744	14,592	14,448
Property, plant and equipment	17,060	17,357	16,543
Deferred tax	4,988	6,245	6,373
Prepayments, accrued income and other assets	10,598	11,143	12,576
Assets of disposal groups	3,044	3,407	12,484
Total assets	1,607,728	1,445,969	1,453,576
Liabilities			
Bank deposits	78,370	71,573	66,051
Repurchase agreements and stock lending	36,227	35,381	32,739
Deposits by banks	114,597	106,954	98,790
Customer deposits	433,660	428,703	428,599
Repurchase agreements and stock lending	95,691	88,822	82,094
Customer accounts	529,351	517,525	510,693
Debt securities in issue	194,511	213,797	218,372
Settlement balances	17,983	22,905	10,991
Short positions	48,495	56,106	43,118
Derivatives	561,790	387,809	423,967
Accruals, deferred income and other liabilities	22,938	24,065	23,089
Retirement benefit liabilities	1,855	2,239	2,288
Deferred tax	1,913	2,092	2,142
Insurance liabilities	6,628	6,687	6,794
Subordinated liabilities	26,275	26,311	27,053
Liabilities of disposal groups	2,516	3,237	9,428
Total liabilities	1,528,852	1,369,727	1,376,725

Equity			
Non-controlling interests	1,433	1,498	1,719
Owners' equity*			
Called up share capital	15,318	15,317	15,125
Reserves	62,125	59,427	60,007
Total equity	78,876	76,242	76,851
Total liabilities and equity	1,607,728	1,445,969	1,453,576
* Owners' equity attributable to:			
Ordinary and B shareholders	72,699	70,000	70,388
Other equity owners	4,744	4,744	4,744
	77,443	74,744	75,132

Total assets of £1,607.7 billion at 30 September 2011 were up £161.8 billion, 11%, compared with 30 June 2011. This was principally driven by an increase in the mark-to-market value of derivatives within Global Banking & Markets, together with higher cash and balances at central banks in stressed global financial markets. This increase was partly offset by the continuing planned disposal of Non-Core assets.

Cash and balances at central banks increased £14.1 billion, 22%, to £78.4 billion principally due to the placing of short-term cash surpluses.

Loans and advances to banks increased £5.6 billion, 6%, to £100.7 billion. Within this, reverse repurchase agreements and stock borrowing ('reverse repos') were up £6.2 billion, 15%, to £48.1 billion with bank placings declining £0.6 billion, 1%, to £52.6 billion.

Loans and advances to customers declined £6.0 billion, 1%, to £539.7 billion. Within this, reverse repurchase agreements were down £2.0 billion, 4%, to £54.1 billion. Customer lending decreased by £4.0 billion, 1%, to £485.6 billion, or £4.0 billion to £506.2 billion before impairments. This reflected planned reductions in Non-Core of £5.4 billion, along with declines in UK Corporate, £0.8 billion, UK Retail, £0.3 billion and Ulster Bank, £0.3 billion, together with the effect of exchange rate and other movements, £0.4 billion. These were partially offset by growth in Global Banking & Markets, £2.2 billion, Global Transaction Services, £0.5 billion, Wealth, £0.3 billion and US Retail & Commercial, £0.2 billion.

Debt securities were down £14.0 billion, 6%, to £229.7 billion, driven mainly by a reduction in holdings of government and financial institution bonds within Global Banking & Markets and Group Treasury.

Equity shares decreased £10.1 billion, 40%, to £14.9 billion reflecting primarily the closure of positions to reduce the Groups' level of unsecured funding requirements to mitigate the potential impact of unfavourable market conditions.

Settlement balances declined £3.0 billion, 12%, to £21.5 billion as a result of decreased customer activity.

Movements in the value of derivative assets up, £177.5 billion, 45%, to £572.3 billion, and liabilities, up £174.0 billion, 45% to £561.8 billion, primarily reflect increases in interest rate contracts as a result of a significant downwards shift in interest rates across all major currencies, together with increases in the mark-to-market value of credit derivatives as a result of widening credit spreads and rising credit default swap prices. Further contributing to the increase was the net effect of currency movements, with sterling weakening against the US dollar but strengthening against the euro.

Deposits by banks increased £7.6 billion, 7%, to £114.6 billion, with higher repurchase agreements and stock lending ('repos'), up £0.8 billion, 2%, to £36.2 billion and inter-bank deposits up £6.8 billion, 9%, to £78.4 billion.

Commentary on condensed consolidated balance sheet (continued)

Customer accounts were up £11.8 billion, 2%, to £529.4 billion. Within this, repos increased £6.9 billion, 8%, to £95.7 billion. Excluding repos, customer deposits were up £4.9 billion, 1%, at £433.7 billion, reflecting growth in Global Banking & Markets, £4.1 billion, UK Retail, £2.7 billion, US Retail & Commercial, £0.4 billion and Wealth, £0.1 billion, together with exchange and other movements, £0.6 billion. This was partly offset by decreases in Global Transaction Services, £1.5 billion, UK Corporate, £0.7 billion, Non-Core, £0.7 billion and Ulster Bank, £0.1 billion.

Debt securities in issue declined £19.3 billion, 9%, to £194.5 billion as a result of reduced issuance by Global Banking & Markets and Group Treasury.

Settlement balances declined £4.9 billion, 21%, to £18.0 billion and short positions were down £7.6 billion, 14%, to £48.5 billion due to decreased customer activity.

Owner's equity increased by £2.7 billion, 4%, to £77.4 billion, driven by the attributable profit for the period of £1.2 billion and increases in available-for-sale reserves, £0.7 billion and cash flow hedging reserves, £0.7 billion.

Average balance sheet

	Quarter ended		Nine months ended	
	30 September 2011	30 June 2011	30 September 2011	30 September 2010
	%	%	%	%
Average yields, spreads and margins of the banking business				
Gross yield on interest-earning assets of banking business	3.21	3.28	3.28	3.28
Cost of interest-bearing liabilities of banking business	(1.74)	(1.65)	(1.67)	(1.47)
Interest spread of banking business	1.47	1.63	1.61	1.81
Benefit from interest-free funds	0.37	0.33	0.33	0.22
Net interest margin of banking business	1.84	1.96	1.94	2.03
Average interest rates				
The Group's base rate	0.50	0.50	0.50	0.50
London inter-bank three month offered rates				
- Sterling	0.87	0.82	0.83	0.69
- Eurodollar	0.30	0.26	0.29	0.36
- Euro	1.51	1.36	1.30	0.68

Average balance sheet (continued)

	Quarter ended 30 September 2011			Quarter ended 30 June 2011		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	72,453	154	0.84	67,213	164	0.98
Loans and advances to customers	469,307	4,505	3.81	469,814	4,535	3.87
Debt securities	121,299	712	2.33	123,521	705	2.29
Interest-earning assets - banking business	663,059	5,371	3.21	660,548	5,404	3.28
Trading business	281,267			284,378		
Non-interest earning assets	654,489			558,773		
Total assets	1,598,815			1,503,699		
Liabilities						
Deposits by banks	65,470	248	1.50	65,896	249	1.52
Customer accounts	332,891	919	1.10	331,453	853	1.03
Debt securities in issue	150,427	897	2.37	161,190	863	2.15
Subordinated liabilities	23,000	175	3.02	21,371	190	3.57
Internal funding of trading business	(48,161)	55	(0.45)	(51,609)	22	(0.17)
Interest-bearing liabilities - banking business	523,627	2,294	1.74	528,301	2,177	1.65
Trading business	314,626			314,099		
Non-interest-bearing liabilities						
- demand deposits	66,496			64,811		
- other liabilities	617,817			522,140		
Owners' equity	76,249			74,348		

Total liabilities and owners' equity	1,598,815	1,503,699

Note:

(1) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.

Average balance sheet (continued)

	Nine months ended 30 September 2011			Nine months ended 30 September 2010		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	67,932	490	0.96	49,867	424	1.14
Loans and advances to customers	470,913	13,633	3.87	514,937	14,134	3.67
Debt securities	121,461	2,053	2.26	133,970	2,606	2.60
Interest-earning assets - banking business	660,306	16,176	3.28	698,774	17,164	3.28
Trading business	281,601			276,338		
Non-interest earning assets	574,371			726,470		
Total assets	1,516,278			1,701,582		
Liabilities						
Deposits by banks	66,009	756	1.53	85,111	1,045	1.64
Customer accounts	329,882	2,603	1.05	340,404	2,795	1.10
Debt securities in issue	158,749	2,577	2.17	185,368	2,411	1.74
Subordinated liabilities	22,746	550	3.23	28,674	435	2.03
Internal funding of trading business	(50,581)	85	(0.22)	(43,349)	(151)	0.47
Interest-bearing liabilities - banking business	526,805	6,571	1.67	596,208	6,535	1.47
Trading business	310,184			295,847		
Non-interest-bearing liabilities						
- demand deposits	65,011			48,119		
- other liabilities	539,282			683,991		
Owners' equity	74,996			77,417		

Total liabilities and owners' equity	1,516,278	1,701,582

Note: