

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
November 05, 2010

FORM 6-K  
SECURITIES AND EXCHANGE COMMISSION  
Washington D.C. 20549

Report of Foreign Private Issuer

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

For November 5, 2010

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000  
Edinburgh EH12 1HQ

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F.

Form 20-F  X

Form 40-F  \_\_\_

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

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

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

Yes  \_\_\_

No  X

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

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

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 Risk and capital management
 

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## Presentation of information

The disclosures in this section include only those businesses of RBS N.V. that are retained by RBS.

## Capital

The Group aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements as capital adequacy and risk management are closely aligned. The Group's regulatory capital resources calculated in accordance with FSA definitions, set out below.

|                                | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 31<br>December<br>2009<br>£m |
|--------------------------------|-------------------------------|-----------------------|------------------------------|
| Risk-weighted assets           |                               |                       |                              |
| Credit risk                    | 404,000                       | 409,400               | 410,400                      |
| Counterparty risk              | 75,600                        | 80,200                | 56,500                       |
| Market risk                    | 75,200                        | 70,600                | 65,000                       |
| Operational risk               | 37,100                        | 37,100                | 33,900                       |
|                                | 591,900                       | 597,300               | 565,800                      |
| Asset Protection Scheme relief | (116,900)                     | (123,400)             | (127,600)                    |
|                                | 475,000                       | 473,900               | 438,200                      |
| Risk asset ratio               | %                             | %                     | %                            |
| Core Tier 1                    | 10.2                          | 10.5                  | 11.0                         |
| Tier 1                         | 12.5                          | 12.8                  | 14.4                         |
| Total                          | 13.5                          | 13.9                  | 16.3                         |

## Key points

- The attributable loss and reduced risk-weighted assets (RWA) relief on the Asset Protection Scheme (APS) led to a decline of 30 basis points to 10.2% in the Core Tier 1 ratio and to 12.5% in the Tier 1 ratio. The Total Capital ratio declined by 40 basis points to 13.5%.
- Gross RWAs were broadly flat at £592 billion, reflecting successful Non-Core de-leveraging counterbalanced by the roll-off of the capital relief trades within Global, Banking & Markets (GBM).
- RWAs eligible for APS relief declined by £6.5 billion to £117 billion, reflecting disposals and repayments as well as changes in risk parameters.

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Capital (continued)

|  | 30<br>September<br>2010<br>£m | 30 June<br>2010<br>£m | 31<br>December<br>2009<br>£m |
|--|-------------------------------|-----------------------|------------------------------|
| Composition of regulatory capital (proportional)                         |                               |                       |                              |
| Tier 1   |                               |                       |                              |
| Ordinary and B shareholders' equity                                      | 70,856                        | 72,058                | 69,890                       |
| Minority interests   | 1,542                         | 2,109                 | 2,227                        |
| Adjustments for:   |                               |                       |                              |
| - goodwill and other intangible assets - continuing businesses           | (14,369)                      | (14,482)              | (14,786)                     |
| - goodwill and other intangible assets - discontinued businesses         | (516)                         | (757)                 | (238)                        |
| - unrealised losses on available-for-sale (AFS) debt securities          | 1,347                         | 1,553                 | 1,888                        |
| - reserves: revaluation of property and unrealised gains on AFS equities | (170)                         | (117)                 | (207)                        |
| - reallocation of preference shares and innovative securities            | (548)                         | (548)                 | (656)                        |
| - other regulatory adjustments*  | (1,038)                       | (1,229)               | (950)                        |
| Less excess of expected losses over provisions net of tax                | (2,083)                       | (1,903)               | (2,558)                      |
| Less securitisation positions  | (2,032)                       | (2,004)               | (1,353)                      |
| Less APS first loss  | (4,678)                       | (4,936)               | (5,106)                      |
| Core Tier 1 capital  | 48,311                        | 49,744                | 48,151                       |
| Preference shares  | 5,584                         | 5,630                 | 11,265                       |
| Innovative Tier 1 securities   | 4,623                         | 4,768                 | 2,772                        |
| Tax on the excess of expected losses over provisions                     | 830                           | 759                   | 1,020                        |
| Less material holdings   | (173)                         | (271)                 | (310)                        |
| Total Tier 1 capital   | 59,175                        | 60,630                | 62,898                       |
| Tier 2   |                               |                       |                              |
| Reserves: revaluation of property and unrealised gains on AFS equities   | 170                           | 117                   | 207                          |
| Collective impairment provisions   | 713                           | 763                   | 796                          |
| Perpetual subordinated debt  | 1,835                         | 1,839                 | 4,200                        |
| Term subordinated debt   | 16,962                        | 16,829                | 18,120                       |
| Minority and other interests in Tier 2 capital                           | 11                            | 11                    | 11                           |
| Less excess of expected losses over provisions                           | (2,913)                       | (2,662)               | (3,578)                      |

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|   |             |             |             |
|---|-------------|-------------|-------------|
| Less securitisation positions   | (2,032)     | (2,004)     | (1,353)     |
| Less material holdings  | (173)       | (271)       | (310)       |
| Less APS first loss   | (4,678)     | (4,936)     | (5,106)     |
| <br>Total Tier 2 capital  | <br>9,895   | <br>9,686   | <br>12,987  |
| <br>Supervisory deductions  |             |             |             |
| Unconsolidated Investments  |             |             |             |
| - RBS Insurance   | (4,040)     | (4,016)     | (4,068)     |
| - other investments   | (323)       | (176)       | (404)       |
| Other deductions  | (352)       | (274)       | (93)        |
| <br>Deductions from total capital   | <br>(4,715) | <br>(4,466) | <br>(4,565) |
| <br>Total regulatory capital  | <br>64,355  | <br>65,850  | <br>71,320  |
| <br>* Includes reduction for own liabilities carried at fair value                    | <br>(765)   | <br>(1,378) | <br>(1,057) |
| <br>Movement in Core Tier 1 capital   |             |             | £m          |
| At 30 June 2010   |             |             | 49,744      |
| Attributable loss net of movements in fair value of own debt                          |             |             | (532)       |
| Foreign currency reserves   |             |             | (670)       |
| Loss of minority interest and reduction in goodwill due to partial disposal of Sempra |             |             | (309)       |
| Other   |             |             | 78          |
| <br>At 30 September 2010  |             |             | <br>48,311  |

RBS Group – Q3 2010 Results

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Risk and capital management (continued)

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Capital (continued)

Basel 2.5 and Basel III Impacts

CRD3, CRD4 and Basel III, commonly referred to as 'Basel 2.5 and Basel III', are a comprehensive set of reforms to strengthen the regulation, supervision, risk and liquidity management of the banking sector.

At its September 2010 meeting, the Group of Governors and Heads of Supervision, the oversight body of the Basel Committee on Banking Supervision, announced a substantial strengthening of existing capital requirements and endorsed the broad agreements it reached in July 2010 on the overall design of its capital and liquidity reform proposals including the definition of capital, the treatment of counterparty credit risk, the leverage ratio and global liquidity standards. There are transition arrangements proposed for implementing these new standards as follows:

- National implementation of increased capital requirements will begin on 1 January 2013;
- There will be a phased five year implementation of new deductions and regulatory adjustments to Core Tier 1 capital commencing 1 January 2014;
- The de-recognition of non-qualifying non common Tier 1 and Tier 2 capital instruments will be phased in over 10 years from 1 January 2013; and
- After an observation period beginning in 2011, the liquidity coverage ratio will be introduced on 1 January 2015. The revised net stable funding ratio will move to a minimum standard by 1 January 2018.

RBS is advanced in its planning to implement these new measures and is appropriately well-capitalised with Tangible Equity of £56 billion, Core Tier 1 capital of £48 billion and a Core Tier 1 ratio of 10.2% at 30 September 2010.

Set out below are indicative impacts and timings of the major Basel 2.5 and Basel III proposals on the Group's Core Tier 1 ratio. These are preliminary estimates and are subject to change; a high degree of uncertainty still remains around implementation details as the appropriate guidelines are yet to be finalised and then converted into rules by the FSA.

A substantial part of the mitigating impacts mentioned in the following paragraphs relate to run-off in the normal course of business and de-leveraging of legacy positions and securitisations, including Non-Core, as well as more 'industry standard' actions we are taking to de-risk market and counterparty exposures.

CRD3 (Basel 2.5): Published rules for market risk and re-securitisations. Proposed implementation date 31 December 2011

Estimated impact on pro-forma end 2011 RWAs post mitigation is an increase of £25 billion to £30 billion, split equally between Core GBM and Non-Core. This is lower than previously indicated (c.£60 billion) due to proposed changes to the rules affecting trading book securitisations, along with mitigating actions.



## Risk and capital management

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### Capital (continued)

Basel III Counterparty risk: Proposed implementation date 1 January 2013

Impact on RWAs in 2013 is currently estimated at £45 billion to £50 billion post mitigation and deleveraging, although there may still be movement in the final framework around this risk.

Basel III Securitisations: Proposed implementation date 1 January 2013

Under the proposals, current deductions under Basel 2 (50% Core Tier 1, 50% Tier 2) for securitisation positions are switched to RWAs weighted at 1250%. This change would add c.£50 billion to RWAs, but reduce deductions from Core Tier 1 and Tier 2 capital by c. £2 billion each as at 30 September 2010. Post the run-off of these securitisation positions and mitigating actions, the impact on end 2012 RWAs is expected to be an increase of £30 billion to £35 billion with a corresponding reduction in deductions from Core Tier 1 and Tier 2 capital of £1.2 billion to £1.4 billion each. The net RWA equivalent of this change assuming a 10% Core Tier 1 ratio would be an increase in RWAs of £18 billion to £20 billion.

### Summary RWA Impacts

To illustrate the impact of these changes on Core Tier 1 assume RWAs of c.£600 billion and a Core Tier 1 ratio of 10%. The impacts referenced above would lower the Core Tier 1 ratio by approximately 1.3%.

### Basel III Capital Deductions and Regulatory Adjustments

In addition to the changes outlined above, Basel III will also result in revisions to regulatory adjustments and capital deductions. These will be phased in over a five year period from 1 January 2014. The initial deduction is expected to be 20%, rising 20 percentage points each year until full deduction by 1 January 2018. However, this is subject to final implementation rules determined by the FSA. The proportion not deducted in the transition years will continue to be subject to existing national treatments.

The major categories of deductions include:

- Expected loss net of provisions;
- Deferred Tax Assets not relating to timing differences; and
- Unrealised losses on available-for-sale securities.

The net impact of these adjustments is expected to be manageable as most of these drivers reduce or are eliminated by 2014.



## Risk and capital management

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### Credit risk

Credit risk is the risk arising from the possibility that the Group will incur losses owing to the failure of customers to meet their financial obligations. The quantum and nature of credit risk assumed across the Group's different businesses varies considerably, while the overall credit risk outcome usually exhibits a high degree of correlation to the macroeconomic environment.

### Credit risk assets

Credit risk assets consist of loans and advances (including overdraft facilities), instalment credit, trade finance, finance lease receivables, trade-related instruments, financial guarantees and traded instruments across all customer types. Reverse repurchase agreements and issuer risk (primarily debt securities - see page 103) are excluded. Where relevant, and unless otherwise stated, the data reflects the effect of credit mitigation techniques.

### RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Country concentration risk

The country risk table below shows credit risk assets exceeding £1 billion by borrowers domiciled in countries with an external rating of A+ and below, from either Standard & Poor's, Moody's and/or Fitch, and are stated gross of mitigating action, which may have been taken to reduce or eliminate exposure to country risk events.

|                   | Personal<br>£m | Central<br>and local<br>government<br>£m | Financial<br>institutions<br>£m | Corporate<br>£m | Total<br>£m | Core<br>£m | Non-Core<br>£m |
|-------------------|----------------|--|---------------------------------|-----------------|-------------|------------|----------------|
| 30 September 2010 |                |  |                                 |                 |             |            |                |
| Italy             | 27             | 261                                      | 2,231                           | 3,476           | 5,995       | 3,812      | 2,183          |
| India             | 382            | 1  | 1,695                           | 3,605           | 5,683       | 4,921      | 762            |
| China             | 49             | 76                                       | 2,396                           | 978             | 3,499       | 3,241      | 258            |
| Turkey            | 11             | 300                                      | 536                             | 1,999           | 2,846       | 2,178      | 668            |
| Russia            | 59             | -  | 822                             | 1,514           | 2,395       | 2,076      | 319            |
| South Korea       | 1              | -  | 1,434                           | 874             | 2,309       | 2,257      | 52             |
| Mexico            | 1              | -  | 311                             | 1,235           | 1,547       | 1,117      | 430            |
| Portugal          | 7              | 118                                      | 433                             | 823             | 1,381       | 944        | 437            |
| Romania           | 461            | 81                                       | 208                             | 608             | 1,358       | 8          | 1,350          |
| Poland            | 6              | 20                                       | 150                             | 1,036           | 1,212       | 1,088      | 124            |
| Brazil            | 5              | -  | 914                             | 292             | 1,211       | 1,070      | 141            |
| Pakistan          | 114            | -  | 164                             | 769             | 1,047       | 99         | 948            |
| 30 June 2010      |                |  |                                 |                 |             |            |                |
| Italy             | 28             | 165                                      | 2,210                           | 3,495           | 5,898       | 3,607      | 2,291          |
| India             | 458            | 2  | 1,616                           | 3,800           | 5,876       | 5,033      | 843            |
| China             | 39             | 118                                      | 1,862                           | 1,097           | 3,116       | 2,784      | 332            |
| Turkey            | 11             | 297                                      | 555                             | 1,757           | 2,620       | 1,742      | 878            |
| Russia            | 66             | -  | 217                             | 1,938           | 2,221       | 2,024      | 197            |
| South Korea       | 1              | -  | 1,537                           | 965             | 2,503       | 2,438      | 65             |
| Mexico            | 1              | 42                                       | 189                             | 1,339           | 1,571       | 1,065      | 506            |
| Portugal          | 6              | 21                                       | 414                             | 811             | 1,252       | 846        | 406            |
| Romania           | 445            | 80                                       | 214                             | 680             | 1,419       | 31         | 1,388          |
| Poland            | 8              | 20                                       | 94                              | 1,205           | 1,327       | 1,175      | 152            |
| Brazil            | 4              | -  | 1,127                           | 334             | 1,465       | 1,311      | 154            |
| Pakistan          | 129            | 1  | 197                             | 837             | 1,164       | 129        | 1,035          |
| 31 December 2009  |                |  |                                 |                 |             |            |                |
| Italy             | 27             | 91                                       | 1,704                           | 5,697           | 7,519       | 3,921      | 3,598          |
| India             | 619            | 305                                      | 1,045                           | 3,144           | 5,113       | 4,308      | 805            |

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|             |     |     |       |       |       |       |       |
|-------------|-----|-----|-------|-------|-------|-------|-------|
| China       | 51  | 50  | 1,336 | 1,102 | 2,539 | 2,198 | 341   |
| Turkey      | 11  | 302 | 628   | 2,010 | 2,951 | 2,190 | 761   |
| Russia      | 41  | -   | 172   | 2,045 | 2,258 | 1,782 | 476   |
| South Korea | 1   | -   | 1,575 | 1,448 | 3,024 | 2,916 | 108   |
| Mexico      | 1   | 2   | 276   | 1,304 | 1,583 | 694   | 889   |
| Portugal    | 5   | 42  | 324   | 1,007 | 1,378 | 952   | 426   |
| Romania     | 508 | 102 | 438   | 753   | 1,801 | 66    | 1,735 |
| Poland      | 6   | 57  | 85    | 1,582 | 1,730 | 1,617 | 113   |
| Brazil      | 3   | -   | 902   | 423   | 1,328 | 1,113 | 215   |
| Pakistan    | 137 | 8   | 203   | 573   | 921   | 100   | 821   |

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Loans and advances to customers by geography and industry

The following table analyses the balance sheet value of loans and advances to customers excluding reverse repos and disposal groups, by industry and geography (by location of office).

|  | 30 September 2010 |                |             | 30 June 2010 |                |             | 31 December 2009 |                |             |
|--|-------------------|----------------|-------------|--------------|----------------|-------------|------------------|----------------|-------------|
|  | Core<br>£m        | Non-Core<br>£m | Total<br>£m | Core<br>£m   | Non-Core<br>£m | Total<br>£m | Core<br>£m       | Non-Core<br>£m | Total<br>£m |
| Total (1)                                  |                   |                |             |              |                |             |                  |                |             |
| Central and local government               | 9,766             | 1,204          | 10,970      | 9,527        | 1,370          | 10,897      | 6,128            | 1,532          | 7,660       |
| Finance                                    | 54,723            | 8,650          | 63,373      | 54,244       | 8,979          | 63,223      | 50,673           | 9,713          | 60,386      |
| Individuals – home                         | 139,457           | 6,351          | 145,808     | 132,046      | 11,933         | 143,979     | 127,975          | 12,932         | 140,907     |
| Individuals – other                        | 34,129            | 4,183          | 38,312      | 35,167       | 5,397          | 40,564      | 35,313           | 6,358          | 41,671      |
| Property                                   | 42,269            | 49,919         | 92,188      | 47,769       | 46,746         | 94,515      | 49,054           | 50,372         | 99,426      |
| Construction                               | 8,994             | 3,623          | 12,617      | 9,147        | 3,723          | 12,870      | 9,502            | 5,258          | 14,760      |
| Manufacturing                              | 26,255            | 9,339          | 35,594      | 28,438       | 9,894          | 38,332      | 30,272           | 14,402         | 44,674      |
| Service industries and business activities | 97,738            | 25,983         | 123,721     | 100,434      | 26,538         | 126,972     | 100,438          | 33,638         | 134,076     |
| Agriculture, forestry and fishing          | 3,952             | 158            | 4,110       | 3,920        | 144            | 4,064       | 3,726            | 553            | 4,279       |
| Finance leases and instalment credit       | 8,233             | 9,541          | 17,774      | 8,076        | 10,529         | 18,605      | 8,147            | 11,956         | 20,103      |
| Interest accruals                          | 847               | 278            | 1,125       | 920          | 426            | 1,346       | 1,179            | 549            | 1,728       |
| Loans and advances to customers – gross    | 426,363           | 119,229        | 545,592     | 429,688      | 125,679        | 555,367     | 422,407          | 147,263        | 569,670     |
| Loan impairment provisions                 | (7,664)           | (9,879)        | (17,543)    | (7,504)      | (8,523)        | (16,027)    | (6,786)          | (8,230)        | (15,016)    |
| Total loans and advances to customers      | 418,699           | 109,350        | 528,049     | 422,184      | 117,156        | 539,340     | 415,621          | 139,033        | 554,654     |
| By geographical region:                    |                   |                |             |              |                |             |                  |                |             |
| UK domestic                                | 3,942             | 147            | 4,089       | 4,160        | 183            | 4,343       | 2,951            | 223            | 3,174       |

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|  |         |        |         |         |        |         |         |        |         |
|--|---------|--------|---------|---------|--------|---------|---------|--------|---------|
| Central and local government               |         |        |         |         |        |         |         |        |         |
| Finance                                    | 17,122  | 3,506  | 20,628  | 18,595  | 3,497  | 22,092  | 14,658  | 2,365  | 17,023  |
| Individuals – home                         | 97,615  | 1,695  | 99,310  | 95,170  | 1,775  | 96,945  | 90,687  | 1,896  | 92,583  |
| Individuals – other                        | 23,395  | 706    | 24,101  | 23,414  | 768    | 24,182  | 24,109  | 1,136  | 25,245  |
| Property                                   | 14,995  | 27,862 | 42,857  | 18,083  | 27,877 | 45,960  | 18,057  | 30,802 | 48,859  |
| Construction                               | 4,390   | 2,235  | 6,625   | 4,500   | 2,260  | 6,760   | 4,493   | 3,287  | 7,780   |
| Manufacturing                              | 7,604   | 2,052  | 9,656   | 8,252   | 2,162  | 10,414  | 8,747   | 2,678  | 11,425  |
| Service industries and business activities | 38,669  | 10,801 | 49,470  | 38,477  | 10,851 | 49,328  | 39,188  | 12,472 | 51,660  |
| Agriculture, forestry and fishing          | 2,891   | 77     | 2,968   | 2,858   | 78     | 2,936   | 2,775   | 138    | 2,913   |
| Finance leases and instalment credit       | 5,487   | 8,683  | 14,170  | 5,192   | 9,638  | 14,830  | 5,343   | 10,843 | 16,186  |
| Interest accruals                          | 447     | 99     | 546     | 486     | 130    | 616     | 718     | 175    | 893     |
|  | 216,557 | 57,863 | 274,420 | 219,187 | 59,219 | 278,406 | 211,726 | 66,015 | 277,741 |

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Loans and advances to customers by geography and industry (continued)

|  | 30 September 2010 |                |             | 30 June 2010 |                |             | 31 December 2009 |                |             |
|--|-------------------|----------------|-------------|--------------|----------------|-------------|------------------|----------------|-------------|
|  | Core<br>£m        | Non-Core<br>£m | Total<br>£m | Core<br>£m   | Non-Core<br>£m | Total<br>£m | Core<br>£m       | Non-Core<br>£m | Total<br>£m |
| UK international (2)                             |                   |                |             |              |                |             |                  |                |             |
| Central and local                                |                   |                |             |              |                |             |                  |                |             |
| government                                       | 4,260             | 40             | 4,300       | 3,253        | 46             | 3,299       | 1,402            | 53             | 1,455       |
| Finance  | 19,435            | 3,082          | 22,517      | 15,296       | 3,194          | 18,490      | 14,615           | 3,640          | 18,255      |
| Individuals – home                               | 439               | -              | 439         | 427          | -              | 427         | 1                | -              | 1           |
| Individuals – other                              | 334               | 7              | 341         | 366          | 7              | 373         | 504              | 1              | 505         |
| Property   | 19,867            | 4,085          | 23,952      | 18,912       | 3,969          | 22,881      | 18,350           | 4,585          | 22,935      |
| Construction                                     | 2,695             | 336            | 3,031       | 2,606        | 357            | 2,963       | 2,471            | 353            | 2,824       |
| Manufacturing                                    | 4,099             | 770            | 4,869       | 4,953        | 637            | 5,590       | 5,715            | 577            | 6,292       |
| Service industries<br>and<br>business activities | 22,980            | 2,747          | 25,727      | 23,042       | 3,303          | 26,345      | 23,558           | 3,393          | 26,951      |
| Agriculture, forestry<br>and<br>fishing          | 168               | 10             | 178         | 184          | 14             | 198         | 171              | -              | 171         |
| Interest accruals                                | 2                 | -              | 2           | -            | 2              | 2           | -                | 2              | 2           |
|  | 74,279            | 11,077         | 85,356      | 69,039       | 11,529         | 80,568      | 66,787           | 12,604         | 79,391      |
| Europe (1)                                       |                   |                |             |              |                |             |                  |                |             |
| Central and local                                |                   |                |             |              |                |             |                  |                |             |
| government                                       | 351               | 967            | 1,318       | 786          | 1,047          | 1,833       | 334              | 1,164          | 1,498       |
| Finance  | 3,430             | 645            | 4,075       | 2,642        | 1,399          | 4,041       | 3,973            | 904            | 4,877       |
| Individuals – home                               | 19,726            | 634            | 20,360      | 13,328       | 5,765          | 19,093      | 15,055           | 6,718          | 21,773      |
| Individuals – other                              | 2,264             | 631            | 2,895       | 2,111        | 1,026          | 3,137       | 1,877            | 1,009          | 2,886       |
| Property   | 5,490             | 13,072         | 18,562      | 8,474        | 9,392          | 17,866      | 10,812           | 9,417          | 20,229      |
| Construction                                     | 1,303             | 845            | 2,148       | 1,486        | 878            | 2,364       | 1,946            | 1,167          | 3,113       |
| Manufacturing                                    | 6,646             | 5,011          | 11,657      | 6,885        | 5,080          | 11,965      | 7,311            | 8,609          | 15,920      |
| Service industries<br>and<br>business activities | 17,233            | 7,066          | 24,299      | 18,569       | 6,508          | 25,077      | 19,088           | 9,883          | 28,971      |
| Agriculture, forestry<br>and<br>fishing          | 843               | 70             | 913         | 838          | 52             | 890         | 737              | 356            | 1,093       |
| Finance leases and<br>instalment credit          | 377               | 831            | 1,208       | 378          | 864            | 1,242       | 379              | 1,094          | 1,473       |

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|  |        |        |        |        |        |        |        |        |         |
|--|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| Interest accruals                          | 129    | 97     | 226    | 131    | 196    | 327    | 165    | 246    | 411     |
|  | 57,792 | 29,869 | 87,661 | 55,628 | 32,207 | 87,835 | 61,677 | 40,567 | 102,244 |
| US   |        |        |        |        |        |        |        |        |         |
| Central and local government               | 214    | 45     | 259    | 207    | 65     | 272    | 196    | 64     | 260     |
| Finance                                    | 8,440  | 643    | 9,083  | 9,744  | 719    | 10,463 | 9,524  | 1,771  | 11,295  |
| Individuals – home                         | 21,271 | 3,829  | 25,100 | 22,715 | 4,221  | 26,936 | 21,842 | 4,317  | 26,159  |
| Individuals – other                        | 6,747  | 2,837  | 9,584  | 7,881  | 3,155  | 11,036 | 7,373  | 3,599  | 10,972  |
| Property                                   | 1,203  | 3,510  | 4,713  | 1,631  | 3,862  | 5,493  | 1,498  | 3,788  | 5,286   |
| Construction                               | 455    | 95     | 550    | 479    | 127    | 606    | 490    | 132    | 622     |
| Manufacturing                              | 5,358  | 678    | 6,036  | 5,555  | 1,015  | 6,570  | 5,895  | 1,200  | 7,095   |
| Service industries and business activities | 13,670 | 3,161  | 16,831 | 14,900 | 3,625  | 18,525 | 14,078 | 4,505  | 18,583  |
| Agriculture, forestry and fishing          | 32     | -      | 32     | 34     | -      | 34     | 27     | -      | 27      |
| Finance leases and instalment credit       | 2,323  | -      | 2,323  | 2,498  | -      | 2,498  | 2,417  | -      | 2,417   |
| Interest accruals                          | 181    | 78     | 259    | 219    | 88     | 307    | 204    | 94     | 298     |
|  | 59,894 | 14,876 | 74,770 | 65,863 | 16,877 | 82,740 | 63,544 | 19,470 | 83,014  |

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Loans and advances to customers by geography and industry (continued)

|  | 30 September 2010 |                |             | 30 June 2010 |                |             | 31 December 2009 |                |             |
|--|-------------------|----------------|-------------|--------------|----------------|-------------|------------------|----------------|-------------|
|  | Core<br>£m        | Non-Core<br>£m | Total<br>£m | Core<br>£m   | Non-Core<br>£m | Total<br>£m | Core<br>£m       | Non-Core<br>£m | Total<br>£m |
| RoW (3)  |                   |                |             |              |                |             |                  |                |             |
| Central and local<br>government                  | 999               | 5              | 1,004       | 1,121        | 29             | 1,150       | 1,245            | 28             | 1,273       |
| Finance  | 6,296             | 774            | 7,070       | 7,967        | 170            | 8,137       | 7,903            | 1,033          | 8,936       |
| Individuals – home                               | 406               | 193            | 599         | 406          | 172            | 578         | 390              | 1              | 391         |
| Individuals – other                              | 1,389             | 2              | 1,391       | 1,395        | 441            | 1,836       | 1,450            | 613            | 2,063       |
| Property   | 714               | 1,390          | 2,104       | 669          | 1,646          | 2,315       | 337              | 1,780          | 2,117       |
| Construction                                     | 151               | 112            | 263         | 76           | 101            | 177         | 102              | 319            | 421         |
| Manufacturing                                    | 2,548             | 828            | 3,376       | 2,793        | 1,000          | 3,793       | 2,604            | 1,338          | 3,942       |
| Service industries<br>and<br>business activities | 5,186             | 2,208          | 7,394       | 5,446        | 2,251          | 7,697       | 4,526            | 3,385          | 7,911       |
| Agriculture, forestry<br>and<br>fishing          | 18                | 1              | 19          | 6            | -              | 6           | 16               | 59             | 75          |
| Finance leases and<br>instalment credit          | 46                | 27             | 73          | 8            | 27             | 35          | 8                | 19             | 27          |
| Interest accruals                                | 88                | 4              | 92          | 84           | 10             | 94          | 92               | 32             | 124         |
|  | 17,841            | 5,544          | 23,385      | 19,971       | 5,847          | 25,818      | 18,673           | 8,607          | 27,280      |

## Notes:

- (1) The industry classification for Europe, and consequently total loans and advances to customers at 30 June 2010, have been revised.
- (2) UK international represents transactions concluded through offices in the UK which service international banking transactions.
- (3) Rest of the World.

## Key points

Total gross loans and advances to customers decreased by £9.8 billion or 2% in Q3 2010, with decreases in manufacturing, service industries and business activities, property and unsecured personal lending being partially offset by the increase in residential mortgages.

Residential mortgages increased by £1.8 billion primarily in the UK.



Overall property lending declined by £2.3 billion. However, there were increases in certain geographic regions including the Republic of Ireland due to foreign currency movements.

US lending declined by £8.0 billion or 10% across most sectors reflecting a lack of demand due to weak housing market, continued high unemployment and foreign currency movements.

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Loans, REIL and impairment provisions by industry and geography

The tables below analyse gross loans and advances to customers (excluding reverse repos and disposal groups) and risk elements in lending (REIL) and closing provisions relating to these loans, by industry and geography (by location of office). Finance leases below include instalment credit.

|  | 30 September 2010 |            |                  |                         |                              | 30 June 2010      |            |                  |                         |                              | Gross loans<br>£m | R  |
|--|-------------------|------------|------------------|-------------------------|------------------------------|-------------------|------------|------------------|-------------------------|------------------------------|-------------------|----|
|  | Gross loans<br>£m | REIL<br>£m | Provisions<br>£m | REIL as a %<br>of loans | Provisions as a %<br>of REIL | Gross loans<br>£m | REIL<br>£m | Provisions<br>£m | REIL as a %<br>of loans | Provisions as a %<br>of REIL |                   |    |
| Total                                      |                   |            |                  |                         |                              |                   |            |                  |                         |                              |                   |    |
| Central and local                          |                   |            |                  |                         |                              |                   |            |                  |                         |                              |                   |    |
| government                                 | 10,970            | -          | -                | -                       | -                            | 10,897            | -          | -                | -                       | -                            | 7,660             |    |
| Finance                                    | 63,373            | 1,014      | 561              | 1.6                     | 55.3                         | 63,223            | 1,156      | 460              | 1.8                     | 39.8                         | 60,386            | 1  |
| Individuals – home                         | 145,808           | 4,194      | 753              | 2.9                     | 18.0                         | 143,979           | 3,795      | 732              | 2.6                     | 19.3                         | 140,907           | 3  |
| Individuals – other                        | 38,312            | 3,839      | 3,129            | 10.0                    | 81.5                         | 40,564            | 3,826      | 3,056            | 9.4                     | 79.9                         | 41,671            | 3  |
| Property                                   | 92,188            | 19,270     | 6,273            | 20.9                    | 32.6                         | 94,515            | 17,895     | 5,199            | 18.9                    | 29.1                         | 99,426            | 14 |
| Construction                               | 12,617            | 2,225      | 764              | 17.6                    | 34.3                         | 12,870            | 1,749      | 691              | 13.6                    | 39.5                         | 14,760            | 2  |
| Manufacturing                              | 35,594            | 1,120      | 515              | 3.1                     | 46.0                         | 38,332            | 1,317      | 544              | 3.4                     | 41.3                         | 44,674            | 3  |
| Service industries and business activities | 123,721           | 5,381      | 2,215            | 4.3                     | 41.2                         | 126,972           | 5,584      | 2,220            | 4.4                     | 39.8                         | 134,076           | 5  |
| Agriculture, forestry and fishing          | 4,110             | 173        | 93               | 4.2                     | 53.8                         | 4,064             | 150        | 69               | 3.7                     | 46.0                         | 4,279             |    |
| Finance leases                             | 17,774            | 837        | 482              | 4.7                     | 57.6                         | 18,605            | 603        | 348              | 3.2                     | 57.7                         | 20,103            |    |
| Interest accruals                          | 1,125             |            |                  |                         |                              | 1,346             |            |                  |                         |                              | 1,728             |    |
| Latent                                     |                   |            | 2,758            |                         |                              |                   |            | 2,708            |                         |                              |                   |    |
|  | 545,592           | 38,053     | 17,543           | 7.0                     | 46.1                         | 555,367           | 36,075     | 16,027           | 6.5                     | 44.4                         | 569,670           | 34 |
| of which:                                  |                   |            |                  |                         |                              |                   |            |                  |                         |                              |                   |    |
| UK domestic                                | 274,420           | 18,721     | 8,500            | 6.8                     | 45.4                         | 278,406           | 17,688     | 8,103            | 6.4                     | 45.8                         | 277,741           | 15 |
| UK international                           | 85,356            | 287        | 134              | 0.3                     | 46.7                         | 80,568            | 278        | 127              | 0.3                     | 45.7                         | 79,391            |    |
| Europe                                     | 87,661            | 14,553     | 6,075            | 16.6                    | 41.7                         | 87,835            | 13,313     | 4,954            | 15.2                    | 37.2                         | 102,244           | 13 |
| US   | 74,770            | 2,465      | 1,798            | 3.3                     | 72.9                         | 82,740            | 2,870      | 1,915            | 3.5                     | 66.7                         | 83,014            | 4  |
| RoW  | 23,385            | 2,027      | 1,036            | 8.7                     | 51.1                         | 25,818            | 1,926      | 928              | 7.5                     | 48.2                         | 27,280            | 1  |

|         |        |        |     |      |         |        |        |     |      |         |    |
|---------|--------|--------|-----|------|---------|--------|--------|-----|------|---------|----|
| 545,592 | 38,053 | 17,543 | 7.0 | 46.1 | 555,367 | 36,075 | 16,027 | 6.5 | 44.4 | 569,670 | 34 |
|---------|--------|--------|-----|------|---------|--------|--------|-----|------|---------|----|

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Loans, REIL and impairment provisions by industry and geography (continued)

|  | 30 September 2010 |            |                  |                         |                              | 30 June 2010      |            |                  |                         |                              | Gross loans<br>£m | R  |
|--|-------------------|------------|------------------|-------------------------|------------------------------|-------------------|------------|------------------|-------------------------|------------------------------|-------------------|----|
|  | Gross loans<br>£m | REIL<br>£m | Provisions<br>£m | REIL as a %<br>of loans | Provisions as a %<br>of REIL | Gross loans<br>£m | REIL<br>£m | Provisions<br>£m | REIL as a %<br>of loans | Provisions as a %<br>of REIL |                   |    |
| Core Central and local                     |                   |            |                  |                         |                              |                   |            |                  |                         |                              |                   |    |
| government                                 | 9,766             | -          | -                | -                       | -                            | 9,527             | -          | -                | -                       | -                            | 6,128             |    |
| Finance                                    | 54,723            | 610        | 408              | 1.1                     | 66.9                         | 54,244            | 638        | 307              | 1.2                     | 48.1                         | 50,673            | 1  |
| Individuals – home                         | 139,457           | 3,910      | 590              | 2.8                     | 15.1                         | 132,046           | 3,076      | 515              | 2.3                     | 16.7                         | 127,975           | 2  |
| Individuals – other                        | 34,129            | 3,353      | 2,762            | 9.8                     | 82.4                         | 35,167            | 3,361      | 2,707            | 9.6                     | 80.5                         | 35,313            | 3  |
| Property                                   | 42,269            | 2,751      | 613              | 6.5                     | 22.3                         | 47,769            | 3,432      | 755              | 7.2                     | 22.0                         | 49,054            | 1  |
| Construction                               | 8,994             | 486        | 171              | 5.4                     | 35.2                         | 9,147             | 418        | 210              | 4.6                     | 50.2                         | 9,502             |    |
| Manufacturing                              | 26,255            | 438        | 246              | 1.7                     | 56.2                         | 28,438            | 379        | 199              | 1.3                     | 52.5                         | 30,272            |    |
| Service industries and business activities | 97,738            | 2,307      | 882              | 2.4                     | 38.2                         | 100,434           | 2,518      | 905              | 2.5                     | 35.9                         | 100,438           | 1  |
| Agriculture, forestry and fishing          | 3,952             | 111        | 54               | 2.8                     | 48.6                         | 3,920             | 101        | 46               | 2.6                     | 45.5                         | 3,726             |    |
| Finance leases                             | 8,233             | 231        | 134              | 2.8                     | 58.0                         | 8,076             | 208        | 124              | 2.6                     | 59.6                         | 8,147             |    |
| Interest accruals                          | 847               |            |                  |                         |                              | 920               |            |                  |                         |                              | 1,179             |    |
| Latent                                     |                   |            | 1,804            |                         |                              |                   |            | 1,736            |                         |                              |                   |    |
|  | 426,363           | 14,197     | 7,664            | 3.3                     | 54.0                         | 429,688           | 14,131     | 7,504            | 3.3                     | 53.1                         | 422,407           | 11 |
| of which:                                  |                   |            |                  |                         |                              |                   |            |                  |                         |                              |                   |    |
| UK domestic                                | 216,557           | 8,914      | 4,665            | 4.1                     | 52.3                         | 219,187           | 8,574      | 4,615            | 3.9                     | 53.8                         | 211,726           | 7  |
| UK international                           | 74,279            | 167        | 33               | 0.2                     | 19.8                         | 69,039            | 165        | 29               | 0.2                     | 17.6                         | 66,787            |    |
| Europe                                     | 57,792            | 3,280      | 1,872            | 5.7                     | 57.1                         | 55,628            | 3,473      | 1,730            | 6.2                     | 49.8                         | 61,677            | 2  |
| US   | 59,894            | 961        | 891              | 1.6                     | 92.7                         | 65,863            | 1,001      | 906              | 1.5                     | 90.5                         | 63,544            | 1  |
| RoW  | 17,841            | 875        | 203              | 4.9                     | 23.2                         | 19,971            | 918        | 224              | 4.6                     | 24.4                         | 18,673            |    |
|  | 426,363           | 14,197     | 7,664            | 3.3                     | 54.0                         | 429,688           | 14,131     | 7,504            | 3.3                     | 53.1                         | 422,407           | 11 |

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Loans, REIL and impairment provisions by industry and geography (continued)

|  | 30 September 2010 |            |                  |                         |                              | 30 June 2010      |            |                  |                         |                              | Gross loan | F  |
|--|-------------------|------------|------------------|-------------------------|------------------------------|-------------------|------------|------------------|-------------------------|------------------------------|------------|----|
|  | Gross loans<br>£m | REIL<br>£m | Provisions<br>£m | REIL as a %<br>of loans | Provisions as a %<br>of REIL | Gross loans<br>£m | REIL<br>£m | Provisions<br>£m | REIL as a %<br>of loans | Provisions as a %<br>of REIL |            |    |
| Non-Core                                   |                   |            |                  |                         |                              |                   |            |                  |                         |                              |            |    |
| Central and local                          |                   |            |                  |                         |                              |                   |            |                  |                         |                              |            |    |
| government                                 | 1,204             | -          | -                | -                       | -                            | 1,370             | -          | -                | -                       | -                            | 1,532      |    |
| Finance                                    | 8,650             | 404        | 153              | 4.7                     | 37.9                         | 8,979             | 518        | 153              | 5.8                     | 29.5                         | 9,713      |    |
| Individuals – home                         | 6,351             | 284        | 163              | 4.5                     | 57.4                         | 11,933            | 719        | 217              | 6.0                     | 30.2                         | 12,932     |    |
| Individuals – other                        | 4,183             | 486        | 367              | 11.6                    | 75.5                         | 5,397             | 465        | 349              | 8.6                     | 75.1                         | 6,358      |    |
| Property                                   | 49,919            | 16,519     | 5,660            | 33.1                    | 34.3                         | 46,746            | 14,463     | 4,444            | 30.9                    | 30.7                         | 50,372     | 12 |
| Construction                               | 3,623             | 1,739      | 593              | 48.0                    | 34.1                         | 3,723             | 1,331      | 481              | 35.8                    | 36.1                         | 5,258      | 1  |
| Manufacturing                              | 9,339             | 682        | 269              | 7.3                     | 39.4                         | 9,894             | 938        | 345              | 9.5                     | 36.8                         | 14,402     | 2  |
| Service industries and business activities | 25,983            | 3,074      | 1,333            | 11.8                    | 43.4                         | 26,538            | 3,066      | 1,315            | 11.6                    | 42.9                         | 33,638     | 3  |
| Agriculture, forestry and fishing          | 158               | 62         | 39               | 39.2                    | 62.9                         | 144               | 49         | 23               | 34.0                    | 46.9                         | 553        |    |
| Finance leases                             | 9,541             | 606        | 348              | 6.4                     | 57.4                         | 10,529            | 395        | 224              | 3.8                     | 56.7                         | 11,956     |    |
| Interest accruals                          | 278               |            |                  |                         |                              | 426               |            |                  |                         |                              | 549        |    |
| Latent                                     |                   |            | 954              |                         |                              |                   |            | 972              |                         |                              |            |    |
|  | 119,229           | 23,856     | 9,879            | 20.0                    | 41.4                         | 125,679           | 21,944     | 8,523            | 17.5                    | 38.8                         | 147,263    | 22 |
| of which:                                  |                   |            |                  |                         |                              |                   |            |                  |                         |                              |            |    |
| UK domestic                                | 57,863            | 9,807      | 3,835            | 16.9                    | 39.1                         | 59,219            | 9,114      | 3,488            | 15.4                    | 38.3                         | 66,015     | 8  |
| UK international                           | 11,077            | 120        | 101              | 1.1                     | 84.2                         | 11,529            | 113        | 98               | 1.0                     | 86.7                         | 12,604     |    |
| Europe                                     | 29,869            | 11,273     | 4,203            | 37.7                    | 37.3                         | 32,207            | 9,840      | 3,224            | 30.6                    | 32.8                         | 40,567     | 10 |
| US   | 14,876            | 1,504      | 907              | 10.1                    | 60.3                         | 16,877            | 1,869      | 1,009            | 11.1                    | 54.0                         | 19,470     | 2  |
| RoW  | 5,544             | 1,152      | 833              | 20.8                    | 72.3                         | 5,847             | 1,008      | 704              | 17.2                    | 69.8                         | 8,607      | 1  |
|  | 119,229           | 23,856     | 9,879            | 20.0                    | 41.4                         | 125,679           | 21,944     | 8,523            | 17.5                    | 38.8                         | 147,263    | 22 |

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Loans, REIL and impairment provisions (continued)

## Risk elements in lending (REIL) and potential problem loans (PPL)

The table below analyses the Group's loans to banks and customers that are classified as REIL and PPL.

|   | 30 September 2010 |                |             | 30 June 2010 |                |             | 31 December 2009 |                |             |
|---|-------------------|----------------|-------------|--------------|----------------|-------------|------------------|----------------|-------------|
|   | Core<br>£m        | Non-Core<br>£m | Total<br>£m | Core<br>£m   | Non-Core<br>£m | Total<br>£m | Core<br>£m       | Non-Core<br>£m | Total<br>£m |
| Non-accrual loans                                   |                   |                |             |              |                |             |                  |                |             |
| (1):  |                   |                |             |              |                |             |                  |                |             |
| - Domestic (2)                                      | 7,306             | 8,596          | 15,902      | 7,100        | 7,924          | 15,024      | 6,348            | 7,221          | 13,569      |
| - Foreign (2)                                       | 5,191             | 13,769         | 18,960      | 5,382        | 12,526         | 17,908      | 4,383            | 13,859         | 18,242      |
|   | 12,497            | 22,365         | 34,862      | 12,482       | 20,450         | 32,932      | 10,731           | 21,080         | 31,811      |
| Accruing loans past due                             |                   |                |             |              |                |             |                  |                |             |
| 90 days or more                                     |                   |                |             |              |                |             |                  |                |             |
| (3):  |                   |                |             |              |                |             |                  |                |             |
| - Domestic (2)                                      | 1,610             | 1,210          | 2,820       | 1,470        | 1,192          | 2,662       | 1,135            | 1,089          | 2,224       |
| - Foreign (2)                                       | 231               | 282            | 513         | 340          | 320            | 660         | 223              | 731            | 954         |
|   | 1,841             | 1,492          | 3,333       | 1,810        | 1,512          | 3,322       | 1,358            | 1,820          | 3,178       |
| Total REIL  | 14,338            | 23,857         | 38,195      | 14,292       | 21,962         | 36,254      | 12,089           | 22,900         | 34,989      |
| PPL (4):  |                   |                |             |              |                |             |                  |                |             |
| - Domestic (2)                                      | 332               | 113            | 445         | 292          | 174            | 466         | 137              | 287            | 424         |
| - Foreign (2)                                       | 36                | 136            | 172         | 179          | 353            | 532         | 135              | 365            | 500         |
| Total PPL   | 368               | 249            | 617         | 471          | 527            | 998         | 272              | 652            | 924         |
| Total REIL and PPL                                  | 14,706            | 24,106         | 38,812      | 14,763       | 22,489         | 37,252      | 12,361           | 23,552         | 35,913      |
| REIL as a % of gross loans to customers (5)         |                   |                |             |              |                |             |                  |                |             |
|   | 3.3%              | 19.5%          | 6.9%        | 3.3%         | 16.8%          | 6.5%        | 2.8%             | 15.1%          | 6.1%        |
| REIL and PPL as a % of gross loans to customers (5) |                   |                |             |              |                |             |                  |                |             |
|   | 3.4%              | 19.7%          | 7.1%        | 3.4%         | 17.3%          | 6.6%        | 2.9%             | 15.5%          | 6.2%        |



Notes:

- (1) Loans which have defaulted and against which an impairment provision is held.
- (2) Domestic activities consist of the UK domestic transactions of the Group. Foreign activities comprise the Group's transactions conducted through the offices outside the UK and those offices in the UK specifically organised to service international banking transactions.
- (3) Loans where an impairment event has taken place but no impairment provision recognised. This category is used for fully collateralised non-revolving credit facilities.
- (4) Loans for which an impairment event has occurred but no impairment provision is necessary. This category is used for advances and revolving credit facilities where the past due concept is not applicable.
- (5) Excludes reverse repos and includes gross loans relating to disposal groups.

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Loans, REIL and impairment provisions (continued)

## REIL, PPL and coverage ratios by division and movement in REIL

The table below analyses the Group's loans and advances to banks and customers by division that are classified as REIL, PPL and coverage ratios.

|                                | REIL   | PPL | REIL &<br>PPL | Total<br>provision | Provision<br>as<br>a % of<br>REIL | Provision as<br>a %<br>of REIL &<br>PPL |
|--------------------------------|--------|-----|---------------|--------------------|-----------------------------------|---|
|                                | £m     | £m  | £m            | £m                 | %                                 | %                                       |
| 30 September 2010              |        |     |               |                    |                                   |   |
| UK Retail                      | 4,994  | -   | 4,994         | 2,937              | 59                                | 59                                      |
| UK Corporate<br>Wealth         | 3,343  | 299 | 3,642         | 1,623              | 49                                | 45                                      |
|                                | 203    | 35  | 238           | 63                 | 31                                | 26                                      |
| Global Transaction<br>Services |        |     |               |                    |                                   |   |
|                                | 171    | 11  | 182           | 173                | 101                               | 95                                      |
| Ulster Bank                    | 3,172  | 1   | 3,173         | 1,289              | 41                                | 41                                      |
| US Retail &<br>Commercial      | 833    | -   | 833           | 523                | 63                                | 63                                      |
| Retail & Commercial            | 12,716 | 346 | 13,062        | 6,608              | 52                                | 51                                      |
| Global Banking &<br>Markets    | 1,622  | 22  | 1,644         | 1,183              | 73                                | 72                                      |
| Core                           | 14,338 | 368 | 14,706        | 7,791              | 54                                | 53                                      |
| Non-Core                       | 23,857 | 249 | 24,106        | 9,879              | 41                                | 41                                      |
|                                | 38,195 | 617 | 38,812        | 17,670             | 46                                | 46                                      |
| 30 June 2010                   |        |     |               |                    |                                   |   |
| UK Retail                      | 4,845  | -   | 4,845         | 2,887              | 60                                | 60                                      |
| UK Corporate<br>Wealth         | 2,928  | 245 | 3,173         | 1,477              | 50                                | 47                                      |
|                                | 229    | 48  | 277           | 64                 | 28                                | 23                                      |
| Global Transaction<br>Services |        |     |               |                    |                                   |   |
|                                | 174    | 13  | 187           | 169                | 97                                | 90                                      |
| Ulster Bank                    | 3,484  | 6   | 3,490         | 1,321              | 38                                | 38                                      |
| US Retail &<br>Commercial      | 865    | -   | 865           | 514                | 59                                | 59                                      |

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|                             |        |     |        |        |    |    |
|-----------------------------|--------|-----|--------|--------|----|----|
| Retail & Commercial         | 12,525 | 312 | 12,837 | 6,432  | 51 | 50 |
| Global Banking &<br>Markets | 1,767  | 159 | 1,926  | 1,201  | 68 | 62 |
| Core                        | 14,292 | 471 | 14,763 | 7,633  | 53 | 52 |
| Non-Core                    | 21,962 | 527 | 22,489 | 8,533  | 39 | 38 |
|                             | 36,254 | 998 | 37,252 | 16,166 | 45 | 43 |

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Loans, REIL and impairment provisions (continued)

## REIL, PPL and coverage ratios by division and movement in REIL (continued)

|                                | REIL   | PPL | REIL &<br>PPL | Total<br>provision | Provision<br>as a % of<br>REIL | Provision as<br>a % of REIL<br>& PPL |
|--------------------------------|--------|-----|---------------|--------------------|--------------------------------|--------------------------------------|
|                                | £m     | £m  | £m            | £m                 | %                              | %                                    |
| 31 March 2010                  |        |     |               |                    |                                |                                      |
| UK Retail                      | 4,706  | -   | 4,706         | 2,810              | 60                             | 60                                   |
| UK Corporate<br>Wealth         | 2,496  | 106 | 2,602         | 1,367              | 55                             | 53                                   |
| Global Transaction<br>Services | 219    | 45  | 264           | 58                 | 26                             | 22                                   |
| Ulster Bank                    | 184    | 7   | 191           | 184                | 100                            | 96                                   |
| US Retail &<br>Commercial      | 2,987  | 3   | 2,990         | 1,157              | 39                             | 39                                   |
| Retail & Commercial            | 710    | -   | 710           | 523                | 74                             | 74                                   |
| Global Banking &<br>Markets    | 11,302 | 161 | 11,463        | 6,099              | 54                             | 53                                   |
| Core                           | 1,237  | 177 | 1,414         | 1,298              | 105                            | 92                                   |
| Non-Core                       | 12,539 | 338 | 12,877        | 7,397              | 59                             | 57                                   |
|                                | 23,997 | 255 | 24,252        | 9,430              | 39                             | 39                                   |
|                                | 36,536 | 593 | 37,129        | 16,827             | 46                             | 45                                   |
| 31 December 2009               |        |     |               |                    |                                |                                      |
| UK Retail                      | 4,641  | -   | 4,641         | 2,677              | 58                             | 58                                   |
| UK Corporate<br>Wealth         | 2,330  | 97  | 2,427         | 1,271              | 55                             | 52                                   |
| Global Transaction<br>Services | 218    | 38  | 256           | 55                 | 25                             | 21                                   |
| Ulster Bank                    | 197    | 4   | 201           | 189                | 96                             | 94                                   |
| US Retail &<br>Commercial      | 2,260  | 2   | 2,262         | 962                | 43                             | 43                                   |
| Retail & Commercial            | 643    | -   | 643           | 478                | 74                             | 74                                   |
| Global Banking &<br>Markets    | 10,289 | 141 | 10,430        | 5,632              | 55                             | 54                                   |
|                                | 1,800  | 131 | 1,931         | 1,289              | 72                             | 67                                   |

|          |        |     |        |        |    |    |
|----------|--------|-----|--------|--------|----|----|
| Core     | 12,089 | 272 | 12,361 | 6,921  | 57 | 56 |
| Non-Core | 22,900 | 652 | 23,552 | 8,252  | 36 | 35 |
|          | 34,989 | 924 | 35,913 | 15,173 | 43 | 42 |

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

Credit risk: Loans, REIL and impairment provisions (continued)

REIL, PPL and coverage ratios by division and movement in REIL (continued)

The table below details the movement in REIL.

| Movement in REIL                              | Quarter ended<br>30 September 2010 |                |             | Half year ended<br>30 June 2010 |                |             |
|---|------------------------------------|----------------|-------------|---------------------------------|----------------|-------------|
|   | Core<br>£m                         | Non-Core<br>£m | Total<br>£m | Core<br>£m                      | Non-Core<br>£m | Total<br>£m |
| At beginning of period                        | 14,292                             | 21,962         | 36,254      | 12,089                          | 22,900         | 34,989      |
| Intra-Group transfers                         | (1,142)                            | 1,142          | -           | 587                             | (587)          | -           |
| Currency translation and other<br>adjustments | 80                                 | 791            | 871         | (53)                            | (614)          | (667)       |
| Additions                                     | 3,528                              | 3,382          | 6,910       | 4,832                           | 5,949          | 10,781      |
| Disposals, restructurings and<br>repayments   | (1,383)                            | (2,724)        | (4,107)     | (1,933)                         | (2,738)        | (4,671)     |
| Amounts written-off                           | (1,037)                            | (696)          | (1,733)     | (1,230)                         | (2,948)        | (4,178)     |
| At end of period                              | 14,338                             | 23,857         | 38,195      | 14,292                          | 21,962         | 36,254      |

## Key points

Total REIL increased by £1.9 billion in Q3 2010 (£1.3 billion increase in the first half of 2010). In Core, additions of £3.5 billion were offset by write-offs of £1.0 billion, transfers to Non-Core of £1.1 billion and repayments, restructuring and disposals.

REIL and PPL for Core were flat in Q3 2010 relative to Q2 2010. Net increases in Non-Core non-accrual loans of £1.9 billion were mainly due to a deterioration in the Ulster Bank development property portfolio as well as foreign currency movements of £0.9 billion.

## Risk and capital management (continued)

## Credit risk: Debt securities

The table below analyses debt securities by issuer and external ratings.

| External rating      | Central and local government |          |             | Banks<br>and<br>building<br>societies<br>£m | ABS<br>£m | Corporate<br>£m | Other<br>£m | Total<br>£m |
|----------------------|------------------------------|----------|-------------|---|-----------|-----------------|-------------|-------------|
|                      | UK<br>£m                     | US<br>£m | Other<br>£m |   |           |                 |             |             |
| 30 September 2010    |                              |          |             |   |           |                 |             |             |
| AAA                  | 14,825                       | 34,768   | 48,561      | 2,914                                       | 50,026    | 1,153           | -           | 152,247     |
| AA to AA+            | -                            | -        | 19,237      | 2,913                                       | 6,591     | 855             | 3           | 29,599      |
| A to AA-             | -                            | -        | 10,604      | 4,593                                       | 3,911     | 2,112           | 41          | 21,261      |
| BBB- to A-           | -                            | -        | 3,386       | 1,002                                       | 3,898     | 3,342           | 395         | 12,023      |
| Non investment grade | -                            | -        | 877         | 190   | 4,213     | 2,020           | 101         | 7,401       |
| Unrated              | -                            | -        | 215         | 197   | 1,373     | 1,682           | 412         | 3,879       |
|                      | 14,825                       | 34,768   | 82,880      | 11,809                                      | 70,012    | 11,164          | 952         | 226,410     |
| 30 June 2010         |                              |          |             |   |           |                 |             |             |
| AAA                  | 20,589                       | 33,836   | 44,520      | 3,626                                       | 56,330    | 1,088           | -           | 159,989     |
| AA to AA+            | -                            | -        | 20,869      | 3,482                                       | 7,367     | 1,090           | 11          | 32,819      |
| A to AA-             | -                            | -        | 8,762       | 4,490                                       | 4,848     | 1,680           | 568         | 20,348      |
| BBB- to A-           | -                            | -        | 2,014       | 864   | 4,232     | 2,147           | 9           | 9,266       |
| Non investment grade | -                            | -        | 1,739       | 163   | 4,616     | 3,075           | 3           | 9,596       |
| Unrated              | -                            | -        | 501         | 238   | 1,312     | 1,619           | 572         | 4,242       |
|                      | 20,589                       | 33,836   | 78,405      | 12,863                                      | 78,705    | 10,699          | 1,163       | 236,260     |
| 31 December 2009     |                              |          |             |   |           |                 |             |             |
| AAA                  | 26,601                       | 23,219   | 44,396      | 4,012                                       | 65,067    | 2,263           | -           | 165,558     |
| AA to AA+            | -                            | -        | 22,003      | 4,930                                       | 8,942     | 1,429           | -           | 37,304      |
| A to AA-             | -                            | -        | 13,159      | 3,770                                       | 3,886     | 1,860           | -           | 22,675      |
| BBB- to A-           | -                            | -        | 3,847       | 823   | 4,243     | 2,187           | -           | 11,100      |
| Non investment grade | -                            | -        | 353         | 169   | 3,515     | 2,042           | -           | 6,079       |
| Unrated              | -                            | -        | 504         | 289   | 1,949     | 2,601           | 1,036       | 6,379       |
|                      | 26,601                       | 23,219   | 84,262      | 13,993                                      | 87,602    | 12,382          | 1,036       | 249,095     |

## Key points

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59% of securities were issued by central and local governments (30 June 2010 – 56%; 31 December 2009 – 54%).

- 67% of securities were AAA rated (30 June 2010 – 68%; 31 December 2009 – 66%).
- Of the asset-backed securities (ABS) portfolios 71% were AAA rated (30 June 2010 – 72%; 31 December 2009 – 74%) and 51% were guaranteed by G10 governments or covered bonds (30 June 2010 - 48%; 31 December 2009 – 49%).
- 67% of corporate debt securities were investment grade (30 June 2010 – 56%; 31 December 2009 – 63%).
- Unrated securities declined from £6.4 billion at 31 December 2009 to £4.2 billion at 30 June 2010 and to £3.9 billion at 30 September 2010.

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Debt securities (continued)

The table below analyses debt securities by issuer and measurement classification.

| Measurement<br>classification | Central and local government |          |          | Banks<br>and<br>building<br>societies | ABS     | Corporate | Other | Total    |
|-------------------------------|------------------------------|----------|----------|---------------------------------------|---------|-----------|-------|----------|
|                               | UK                           | US       | Other    |                                       |         |           |       |          |
|                               | £m                           | £m       | £m       | £m                                    | £m      | £m        | £m    | £m       |
| 30 September 2010             |                              |          |          |                                       |         |           |       |          |
| Held-for-trading              | 5,302                        | 17,164   | 49,204   | 4,884                                 | 20,475  | 7,733     | 628   | 105,390  |
| DFV                           | 1                            | -        | 353      | 3                                     | 227     | 18        | 1     | 603      |
| Available-for-sale            | 9,511                        | 17,604   | 33,323   | 6,910                                 | 42,923  | 2,654     | 226   | 113,151  |
| Loans and<br>receivables      | 11                           | -        | -        | 12                                    | 6,387   | 759       | 97    | 7,266    |
|                               | 14,825                       | 34,768   | 82,880   | 11,809                                | 70,012  | 11,164    | 952   | 226,410  |
| Short positions               | (4,494)                      | (11,815) | (17,902) | (1,771)                               | (916)   | (3,581)   | (660) | (41,139) |
| Net                           | 10,331                       | 22,953   | 64,978   | 10,038                                | 69,096  | 7,583     | 292   | 185,271  |
| 30 June 2010                  |                              |          |          |                                       |         |           |       |          |
| Held-for-trading              | 8,993                        | 16,642   | 40,589   | 5,471                                 | 23,614  | 7,077     | 775   | 103,161  |
| DFV                           | 1                            | -        | 357      | 3                                     | 234     | 24        | -     | 619      |
| Available-for-sale            | 11,584                       | 17,194   | 37,459   | 7,371                                 | 47,709  | 2,324     | 300   | 123,941  |
| Loans and<br>receivables      | 11                           | -        | -        | 18                                    | 7,148   | 1,274     | 88    | 8,539    |
|                               | 20,589                       | 33,836   | 78,405   | 12,863                                | 78,705  | 10,699    | 1,163 | 236,260  |
| Short positions               | (5,609)                      | (10,002) | (16,890) | (2,171)                               | (1,768) | (3,053)   | (720) | (40,213) |
| Net                           | 14,980                       | 23,834   | 61,515   | 10,692                                | 76,937  | 7,646     | 443   | 196,047  |
| 31 December 2009              |                              |          |          |                                       |         |           |       |          |
| Held-for-trading              | 8,128                        | 10,427   | 50,150   | 6,103                                 | 28,820  | 6,892     | 893   | 111,413  |
| DFV                           | 122                          | 3        | 385      | 418                                   | 394     | 1,087     | 20    | 2,429    |
| Available-for-sale            | 18,350                       | 12,789   | 33,727   | 7,472                                 | 50,464  | 2,550     | 30    | 125,382  |
| Loans and<br>receivables      | 1                            | -        | -        | -                                     | 7,924   | 1,853     | 93    | 9,871    |

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|                 |         |         |          |         |         |         |       |          |
|-----------------|---------|---------|----------|---------|---------|---------|-------|----------|
|                 | 26,601  | 23,219  | 84,262   | 13,993  | 87,602  | 12,382  | 1,036 | 249,095  |
| Short positions | (5,805) | (8,957) | (14,491) | (1,951) | (3,616) | (2,199) | (512) | (37,531) |
| Net             | 20,796  | 14,262  | 69,771   | 12,042  | 83,986  | 10,183  | 524   | 211,564  |

Key points

- The net increase in HFT debt securities reflects an increase in government securities, partially offset by a reduction in ABS. The increase was primarily in Japanese and Swiss treasury bills and the decrease was due to the sale of US collateralised debt obligations and CLO positions in Non-Core.
- AFS securities were £10.8 billion lower principally reflecting reductions in GBM as well as in US Retail and Commercial and RBS N.V., adjusting down their liquidity portfolios.
- The reduction in LAR securities reflected ABS and corporate bond maturities.

RBS Group – Q3 2010 Results

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## Risk and capital management (continued)

## Credit risk: Debt securities (continued)

The table below analyses available-for-sale (AFS) debt securities and related AFS reserves relating to debt securities issued by governments and other entities by country for those exceeding £0.5 billion together with the total of those less than £0.5 billion.

|                          | 30 September 2010 |           |             |             |                       | 30 June 2010     |           |             |             |                       | 31 December 2009 |           |
|--------------------------|-------------------|-----------|-------------|-------------|-----------------------|------------------|-----------|-------------|-------------|-----------------------|------------------|-----------|
|                          | Government<br>£m  | ABS<br>£m | Other<br>£m | Total<br>£m | AFS<br>reserves<br>£m | Government<br>£m | ABS<br>£m | Other<br>£m | Total<br>£m | AFS<br>reserves<br>£m | Government<br>£m | ABS<br>£m |
| US                       | 17,604            | 20,140    | 824         | 38,568      | 127                   | 17,194           | 25,603    | 900         | 43,697      | 745                   | 12,789           | 24,788    |
| UK                       | 9,511             | 4,317     | 2,487       | 16,315      | (114)                 | 11,584           | 4,171     | 2,758       | 18,513      | (68)                  | 18,350           | 4,375     |
| Germany                  | 11,166            | 1,409     | 553         | 13,128      | 151                   | 12,027           | 918       | 400         | 13,345      | 179                   | 12,283           | 1,032     |
| Netherlands              | 3,246             | 6,939     | 513         | 10,698      | (31)                  | 4,482            | 6,503     | 513         | 11,498      | (324)                 | 4,329            | 7,521     |
| France                   | 6,645             | 598       | 874         | 8,117       | 171                   | 7,207            | 535       | 914         | 8,656       | 86                    | 6,456            | 541       |
| Spain                    | 97                | 7,087     | 222         | 7,406       | (898)                 | 108              | 6,591     | 217         | 6,916       | (665)                 | 162              | 8,071     |
| Japan                    | 3,379             | -         | 66          | 3,445       | -                     | 4,661            | -         | 258         | 4,919       | (2)                   | 1,426            | -         |
| Australia                | -                 | 445       | 1,724       | 2,169       | (32)                  | -                | 832       | 1,670       | 2,502       | (62)                  | -                | 581       |
| Italy                    | 968               | 251       | 45          | 1,264       | (75)                  | 1,200            | 248       | 31          | 1,479       | (77)                  | 1,007            | 381       |
| Belgium                  | 815               | 34        | 234         | 1,083       | (26)                  | 743              | 32        | 270         | 1,045       | 48                    | 788              | 301       |
| Switzerland              | 876               | -         | 149         | 1,025       | 12                    | 855              | -         | 93          | 948         | 13                    | 653              | -         |
| Greece                   | 977               | -         | -           | 977         | (517)                 | 919              | -         | -           | 919         | (494)                 | 1,389            | -         |
| Singapore                | 715               | 13        | 197         | 925         | 3                     | 759              | 14        | 182         | 955         | 3                     | 564              | 101       |
| Hong Kong                | 859               | -         | 9           | 868         | 3                     | 819              | -         | 10          | 829         | 3                     | 975              | -         |
| India                    | 615               | -         | 253         | 868         | 3                     | 628              | -         | 184         | 812         | (74)                  | 480              | -         |
| Denmark                  | 646               | -         | 171         | 817         | 4                     | 660              | -         | 213         | 873         | -                     | 659              | -         |
| Republic of<br>Ireland   | 120               | 180       | 468         | 768         | (59)                  | 121              | 581       | 421         | 1,123       | (132)                 | 150              | 521       |
| Austria                  | 292               | 42        | 232         | 566         | (27)                  | 397              | 145       | 10          | 552         | (31)                  | 249              | 201       |
| South Korea              | -                 | 500       | -           | 500         | (19)                  | -                | 164       | -           | 164         | -                     | -                | 521       |
| Luxembourg               | 150               | 79        | 264         | 493         | 27                    | -                | 186       | 356         | 542         | 20                    | -                | 221       |
| Portugal                 | 100               | 103       | 55          | 258         | (32)                  | 96               | 107       | 41          | 244         | (25)                  | 552              | 121       |
| Other (<£0.5<br>billion) | 1,657             | 786       | 450         | 2,893       | (18)                  | 1,777            | 1,079     | 554         | 3,410       | (696)                 | 1,605            | 1,521     |
|                          | 60,438            | 42,923    | 9,790       | 113,151     | (1,347)               | 66,237           | 47,709    | 9,995       | 123,941     | (1,553)               | 64,866           | 50,461    |



## Risk and capital management (continued)

## Credit risk: Derivatives

The table below analyses the fair value of the Group's derivative assets by contract type and residual maturity. Master netting arrangements in respect of mark-to-market (mtm) values and collateral do not result in a net presentation in the Group's balance sheet under IFRS.

| Contract type                                     | < 3<br>months<br>£m | 3 – 6<br>months<br>£m | 6 – 12<br>months<br>£m | 1 – 5<br>years<br>£m | > 5<br>years<br>£m | Gross<br>assets<br>£m | Counterparty<br>mtm netting<br>£m | Net<br>exposure<br>£m |
|---|---------------------|-----------------------|------------------------|----------------------|--------------------|-----------------------|-----------------------------------|-----------------------|
| 30 September 2010                                 |                     |                       |                        |                      |                    |                       |                                   |                       |
| Exchange rate                                     | 31,943              | 8,260                 | 10,033                 | 24,551               | 14,741             | 89,528                | (65,366)                          | 24,162                |
| Interest rate                                     | 5,598               | 8,177                 | 11,781                 | 117,241              | 279,380            | 422,177               | (358,824)                         | 63,353                |
| Credit derivatives                                | 1,323               | 83                    | 337                    | 13,678               | 15,389             | 30,810                | (22,719)                          | 8,091                 |
| Equity and commodity                              | 1,782               | 566                   | 284                    | 3,078                | 580                | 6,290                 | (2,443)                           | 3,847                 |
|   | 40,646              | 17,086                | 22,435                 | 158,548              | 310,090            | 548,805               | (449,352)                         | 99,453                |
| Cash collateral held against derivative exposures |                     |                       |                        |                      |                    |                       |                                   | (39,507)              |
| Net exposure                                      |                     |                       |                        |                      |                    |                       |                                   | 59,946                |
| 30 June 2010                                      |                     |                       |                        |                      |                    |                       |                                   |                       |
| Exchange rate                                     | 29,147              | 8,394                 | 9,712                  | 23,892               | 13,948             | 85,093                | (64,879)                          | 20,214                |
| Interest rate                                     | 8,277               | 4,636                 | 14,288                 | 118,683              | 246,945            | 392,829               | (323,262)                         | 69,567                |
| Credit derivatives                                | 375                 | 141                   | 455                    | 19,357               | 18,653             | 38,981                | (29,462)                          | 9,519                 |
| Equity and commodity                              | 1,090               | 1,133                 | 311                    | 2,936                | 498                | 5,968                 | (4,094)                           | 1,874                 |
|   | 38,889              | 14,304                | 24,766                 | 164,868              | 280,044            | 522,871               | (421,697)                         | 101,174               |
| Cash collateral held against derivative exposures |                     |                       |                        |                      |                    |                       |                                   | (36,709)              |
| Net exposure                                      |                     |                       |                        |                      |                    |                       |                                   | 64,465                |

31 December  
2009

|                      |        |        |        |         |         |         |           |        |
|----------------------|--------|--------|--------|---------|---------|---------|-----------|--------|
| Exchange rate        | 19,127 | 5,824  | 7,603  | 23,831  | 11,967  | 68,352  | (47,885)  | 20,467 |
| Interest rate        | 8,415  | 8,380  | 16,723 | 111,144 | 176,799 | 321,461 | (270,791) | 50,670 |
| Credit derivatives   | 201    | 112    | 390    | 19,859  | 21,186  | 41,748  | (36,411)  | 5,337  |
| Equity and commodity | 1,562  | 436    | 1,109  | 3,057   | 474     | 6,638   | (3,830)   | 2,808  |
|                      | 29,305 | 14,752 | 25,825 | 157,891 | 210,426 | 438,199 | (358,917) | 79,282 |

Cash collateral held against derivative exposures (33,667)

Net exposure 45,615

#### Key points

- Exchange and interest rate contracts fair values increased during Q3 2010, primarily due to changes in interest rates, currency movements and higher trading volumes.
- Credit derivative fair values and net exposures declined during the quarter primarily due to restructuring of certain monoline exposures, tightening credit spreads, and also foreign currency effects. The value of the APS credit derivative decreased by £0.8 billion.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: 5 November 2010

THE ROYAL BANK OF  
SCOTLAND GROUP plc  
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill  
Title: Deputy Secretary