

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
November 02, 2012

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 02, 2012

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-

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:

 Risk and balance sheet management

Balance sheet management

Capital

The Group aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements. Capital adequacy and risk management are closely aligned. The Group's risk-weighted assets and risk asset ratios, calculated in accordance with Financial Services Authority (FSA) definitions, are set out below.

| | 30 September 2012 £bn | 30 June 2012 £bn | 31 December 2011 £bn |
|--|--------------------------------|------------------------|-------------------------------|
| Risk-weighted assets (RWAs) by risk | | | |
| Credit risk | 334.5 | 334.8 | 344.3 |
| Counterparty risk | 53.3 | 53.0 | 61.9 |
| Market risk | 47.4 | 54.0 | 64.0 |
| Operational risk | 45.8 | 45.8 | 37.9 |
| | 481.0 | 487.6 | 508.1 |
| Asset Protection Scheme (APS) relief | (48.1) | (52.9) | (69.1) |
| | 432.9 | 434.7 | 439.0 |
| Risk asset ratios | % | % | % |
| Core Tier 1 | 11.1 | 11.1 | 10.6 |
| Core Tier 1 excluding capital relief provided by APS | 10.4 | 10.3 | 9.7 |
| Tier 1 | 13.4 | 13.4 | 13.0 |
| Total | 14.6 | 14.6 | 13.8 |

Key points

- The Core Tier 1 ratio remained stable at 11.1%. Excluding the capital relief provided by APS, the Core Tier 1 ratio improved by 70 basis points year-to-date, of which 10 basis points were in Q3 2012, reflecting reductions in RWAs and capital deductions. Gross RWAs decreased by £27.1 billion year-to-date, of which £6.6 billion was in Q3 2012.
- Non-Core RWAs decreased by £21.1 billion year-to-date (Q3 2012 - down £10.5 billion) mainly as a result of lower market risk through active reduction in

derivatives, including the impact of restructuring a large derivative exposure to a highly leveraged counterparty in the first half of 2012. Credit and counterparty RWAs fell, driven by sales and run-off partly offset by the impact of regulatory uplifts.

- In Markets, RWAs fell driven by lower market risk.
- Retail & Commercial credit risk RWAs remained stable at c.£250 billion despite the impact of regulatory wholesale credit model changes, particularly in International Banking and UK Corporate.
- The decrease in capital deductions principally related to securitisations, reflecting the continuation of Non-Core's de-risking strategy.

Risk and balance sheet management (continued)

Balance sheet management: Capital (continued) The Group's regulatory capital resources in accordance with FSA definitions were as follows:

| | 30 September 2012 £m | 30 June 2012 £m | 31 December 2011 £m |
|--|-------------------------------|-----------------------|------------------------------|
| Shareholders' equity (excluding non-controlling interests) | | | |
| Shareholders' equity per balance sheet | 72,699 | 74,016 | 74,819 |
| Preference shares - equity | (4,313) | (4,313) | (4,313) |
| Other equity instruments | (431) | (431) | (431) |
| | 67,955 | 69,272 | 70,075 |
| Non-controlling interests | | | |
| Non-controlling interests per balance sheet | 1,194 | 1,200 | 1,234 |
| Non-controlling preference shares | (548) | (548) | (548) |
| Other adjustments to non-controlling interests for regulatory purposes | (259) | (259) | (259) |
| | 387 | 393 | 427 |
| Regulatory adjustments and deductions | | | |
| Own credit | 651 | (402) | (2,634) |
| Unrealised losses on AFS debt securities | 375 | 520 | 1,065 |
| Unrealised gains on AFS equity shares | (84) | (70) | (108) |
| Cash flow hedging reserve | (1,746) | (1,399) | (879) |
| Other adjustments for regulatory purposes | 895 | 637 | 571 |
| Goodwill and other intangible assets | (14,798) | (14,888) | (14,858) |
| 50% excess of expected losses over impairment provisions (net of tax) | (2,429) | (2,329) | (2,536) |

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| | | | |
|---|----------|----------|----------|
| 50% of securitisation positions | (1,180) | (1,461) | (2,019) |
| 50% of APS first loss | (1,926) | (2,118) | (2,763) |
| | (20,242) | (21,510) | (24,161) |
| Core Tier 1 capital | 48,100 | 48,155 | 46,341 |
| Other Tier 1 capital | | | |
| Preference shares - equity | 4,313 | 4,313 | 4,313 |
| Preference shares - debt | 1,055 | 1,082 | 1,094 |
| Innovative/hybrid Tier 1 securities | 4,065 | 4,466 | 4,667 |
| | 9,433 | 9,861 | 10,074 |
| Tier 1 deductions | | | |
| 50% of material holdings | (242) | (313) | (340) |
| Tax on excess of expected losses over impairment provisions | 788 | 756 | 915 |
| | 546 | 443 | 575 |
| Total Tier 1 capital | 58,079 | 58,459 | 56,990 |
| Qualifying Tier 2 capital | | | |
| Undated subordinated debt | 2,245 | 1,958 | 1,838 |
| Dated subordinated debt - net of amortisation | 12,641 | 13,346 | 14,527 |
| Unrealised gains on AFS equity shares | 84 | 70 | 108 |
| Collectively assessed impairment provisions | 500 | 552 | 635 |
| Non-controlling Tier 2 capital | 11 | 11 | 11 |
| | 15,481 | 15,937 | 17,119 |
| Tier 2 deductions | | | |
| 50% of securitisation positions | (1,180) | (1,461) | (2,019) |
| 50% excess of expected losses over impairment provisions | (3,217) | (3,085) | (3,451) |
| 50% of material holdings | (242) | (313) | (340) |
| 50% of APS first loss | (1,926) | (2,118) | (2,763) |
| | (6,565) | (6,977) | (8,573) |
| Total Tier 2 capital | 8,916 | 8,960 | 8,546 |

Risk and balance sheet management (continued)

Balance sheet management: Capital (continued)

| | | | |
|--|-----------|---------|----------|
| | 30 | | 31 |
| | September | 30 June | December |
| | 2012 | 2012 | 2011 |
| | £m | £m | £m |

| | | | |
|----------------------------|---------|---------|---------|
| Supervisory deductions | | | |
| Unconsolidated Investments | | | |
| - Direct Line Group | (3,537) | (3,642) | (4,354) |
| - Other investments | (144) | (141) | (239) |
| Other deductions | (217) | (197) | (235) |
| | (3,898) | (3,980) | (4,828) |
| Total regulatory capital | 63,097 | 63,439 | 60,708 |

| | |
|--|--------|
| Movement in Core Tier 1 capital | £m |
| At 1 January 2012 | 46,341 |
| Attributable profit net of movements in fair value of own debt | 242 |
| Share capital and reserve movements in respect of employee share schemes | 659 |
| Foreign currency reserves | (461) |
| Decrease in non-controlling interests | (34) |
| Decrease in capital deductions including APS first loss | 1,410 |
| Increase in goodwill and intangibles | (30) |
| Other movements | 28 |
| At 30 June 2012 | 48,155 |
| Attributable loss net of movements in fair value of own debt | (330) |
| Ordinary shares issued | 123 |
| Share capital and reserve movements in respect of employee share schemes | 46 |
| Foreign currency reserves | (567) |
| Decrease in non-controlling interests | (6) |
| Decrease in capital deductions including APS first loss | 373 |
| Decrease in goodwill and intangibles | 90 |
| Other movements | 216 |
| At 30 September 2012 | 48,100 |

Risk and balance sheet management (continued)

Balance sheet management: Capital (continued)

Risk-weighted assets by division

Risk-weighted assets by risk category and division are set out below.

| | Credit risk | Counterparty risk | Market risk | Operational risk | Gross RWAs |
|-------------------|-------------|-------------------|-------------|------------------|------------|
| 30 September 2012 | £bn | £bn | £bn | £bn | £bn |
| UK Retail | 39.9 | - | - | 7.8 | 47.7 |
| UK Corporate | 73.5 | - | - | 8.6 | 82.1 |

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| | | | | | |
|------------------------|--------|-------|------|-------|--------|
| Wealth | 10.3 | - | 0.1 | 1.9 | 12.3 |
| International Banking | 44.5 | - | - | 5.2 | 49.7 |
| Ulster Bank | 32.4 | 0.9 | 0.1 | 1.7 | 35.1 |
| US Retail & Commercial | 50.9 | 0.9 | - | 4.9 | 56.7 |
| Retail & Commercial | 251.5 | 1.8 | 0.2 | 30.1 | 283.6 |
| Markets | 15.4 | 35.3 | 41.6 | 15.7 | 108.0 |
| Other | 12.1 | 0.4 | - | 1.4 | 13.9 |
| Core | 279.0 | 37.5 | 41.8 | 47.2 | 405.5 |
| Non-Core | 52.4 | 15.8 | 5.6 | (1.6) | 72.2 |
| Group before RFS | | | | | |
| Holdings MI | 331.4 | 53.3 | 47.4 | 45.6 | 477.7 |
| RFS Holdings MI | 3.1 | - | - | 0.2 | 3.3 |
| Group | 334.5 | 53.3 | 47.4 | 45.8 | 481.0 |
| APS relief | (42.2) | (5.9) | - | - | (48.1) |
| Net RWAs | 292.3 | 47.4 | 47.4 | 45.8 | 432.9 |

30 June 2012

| | | | | | |
|------------------------|--------|-------|------|-------|--------|
| UK Retail | 39.6 | - | - | 7.8 | 47.4 |
| UK Corporate | 70.8 | - | - | 8.6 | 79.4 |
| Wealth | 10.3 | - | 0.1 | 1.9 | 12.3 |
| International Banking | 41.2 | - | - | 4.8 | 46.0 |
| Ulster Bank | 34.7 | 0.9 | 0.1 | 1.7 | 37.4 |
| US Retail & Commercial | 52.5 | 1.1 | - | 4.9 | 58.5 |
| Retail & Commercial | 249.1 | 2.0 | 0.2 | 29.7 | 281.0 |
| Markets | 15.7 | 33.4 | 43.1 | 15.7 | 107.9 |
| Other | 10.5 | 0.2 | 0.2 | 1.8 | 12.7 |
| Core | 275.3 | 35.6 | 43.5 | 47.2 | 401.6 |
| Non-Core | 56.4 | 17.4 | 10.5 | (1.6) | 82.7 |
| Group before RFS | 331.7 | 53.0 | 54.0 | 45.6 | 484.3 |
| Holdings MI | | | | | |
| RFS Holdings MI | 3.1 | - | - | 0.2 | 3.3 |
| Group | 334.8 | 53.0 | 54.0 | 45.8 | 487.6 |
| APS relief | (46.2) | (6.7) | - | - | (52.9) |
| Net RWAs | 288.6 | 46.3 | 54.0 | 45.8 | 434.7 |

Risk and balance sheet management (continued)

Balance sheet management: Capital: Risk-weighted assets by division(continued)

| 31 December 2011 | Credit risk £bn | Counterparty risk £bn | Market risk £bn | Operational risk £bn | Gross RWAs £bn |
|---------------------------------|-----------------------|-----------------------------|-----------------------|----------------------------|----------------------|
| UK Retail | 41.1 | - | - | 7.3 | 48.4 |
| UK Corporate Wealth | 71.2 | - | - | 8.1 | 79.3 |
| International Banking | 10.9 | - | 0.1 | 1.9 | 12.9 |
| Ulster Bank | 38.9 | - | - | 4.3 | 43.2 |
| US Retail & Commercial | 33.6 | 0.6 | 0.3 | 1.8 | 36.3 |
| | 53.6 | 1.0 | - | 4.7 | 59.3 |
| Retail & Commercial | 249.3 | 1.6 | 0.4 | 28.1 | 279.4 |
| Markets | 16.7 | 39.9 | 50.6 | 13.1 | 120.3 |
| Other | 9.8 | 0.2 | - | 2.0 | 12.0 |
| Core | 275.8 | 41.7 | 51.0 | 43.2 | 411.7 |
| Non-Core | 65.6 | 20.2 | 13.0 | (5.5) | 93.3 |
| Group before RFS Holdings MI | 341.4 | 61.9 | 64.0 | 37.7 | 505.0 |
| RFS Holdings MI | 2.9 | - | - | 0.2 | 3.1 |
| Group | 344.3 | 61.9 | 64.0 | 37.9 | 508.1 |
| APS relief | (59.6) | (9.5) | - | - | (69.1) |
| Net RWAs | 284.7 | 52.4 | 64.0 | 37.9 | 439.0 |

Risk and balance sheet management (continued)

Balance sheet management (continued)

Liquidity and funding risk

Liquidity risk is the risk that the Group is unable to meet its obligations, including financing maturities as they fall due. Liquidity risk is heavily influenced by the maturity profile and mix of the Group's funding base, as well as the quality and liquidity value of its liquidity portfolio.

Overview

The Group continues to improve the structure and composition of its balance sheet against a backdrop of improved wholesale funding market conditions and a tempering of UK regulatory requirements relating to liquidity risk.

- Short-term wholesale funding (STWF) excluding derivative collateral continued to be actively reduced and stood at £49 billion at 30 September 2012, which was well covered by a strong Group liquidity buffer of £147 billion. STWF accounted for 5%

of the funded balance sheet and 31% of wholesale funding, compared with 7% and 34%, respectively at 30 June 2012.

- The Group's liquidity buffer was lowered by £9 billion during the quarter to £147 billion reflecting the shrinking overall balance sheet and reduced STWF.
- The Group's customer funding gap has decreased significantly, from £37 billion at the end of 2011 to £19 billion at 30 June 2012 and £8 billion at 30 September 2012. Customer deposits now account for 70% of the Group's primary funding sources.
- Progress against the Group's strategic plan has resulted in a balance sheet structure which is broadly matched. At 30 September 2012, the Group's loan:deposit ratio improved to 102% with a Core ratio of 91%.
- The combined impacts of the ongoing deleveraging process being driven by Non-Core and Markets have allowed the Group to further reduce its wholesale funding base. During the third quarter, the Group completed a cash tender offer to repurchase £4.4 billion of senior unsecured debt securities issued by RBS plc. The repurchase was across dollar, sterling and euro securities of varying maturities and interest rates.
- The Group took advantage of the improved wholesale market conditions in the quarter and issued US\$2 billion of public fixed rate notes to help pre-fund future financing needs of the holding company.
- The Group has drawn £750 million under the Bank of England's Funding for Lending Scheme (FLS) and held a comparable amount of related treasury bills at 30 September 2012.
- The 'A' senior unsecured credit rating was affirmed with a stable outlook for the Group by Fitch in July 2012 and for RBS plc by S&P in October 2012.

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk (continued)

Funding sources

The table below shows the Group's primary funding sources including deposits in disposal groups and excluding repurchase agreements.

| | 30 September 2012 £m | 30 June 2012 £m | 31 December 2011 £m |
|----------------------------|-------------------------------|-----------------------|------------------------------|
| Deposits by banks | | | |
| derivative cash collateral | 28,695 | 32,001 | 31,807 |
| other deposits | 29,433 | 35,619 | 37,307 |

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| | | | |
|--|---------|---------|---------|
| | 58,128 | 67,620 | 69,114 |
| Debt securities in issue | | | |
| conduit asset-backed commercial paper (ABCP) | 2,909 | 4,246 | 11,164 |
| other commercial paper (CP) | 2,829 | 1,985 | 5,310 |
| certificates of deposits (CDs) | 6,696 | 10,397 | 16,367 |
| medium-term notes (MTNs) | 70,417 | 81,229 | 105,709 |
| covered bonds | 9,903 | 9,987 | 9,107 |
| securitisations | 11,403 | 12,011 | 14,964 |
| | 104,157 | 119,855 | 162,621 |
| Subordinated liabilities | 25,309 | 25,596 | 26,319 |
| Notes issued | 129,466 | 145,451 | 188,940 |
| Wholesale funding | 187,594 | 213,071 | 258,054 |
| Customer deposits | | | |
| cash collateral | 9,642 | 10,269 | 9,242 |
| other deposits | 425,238 | 425,031 | 427,511 |
| Total customer deposits | 434,880 | 435,300 | 436,753 |
| Total funding | 622,474 | 648,371 | 694,807 |
| Disposal group deposits included above | | | |
| banks | 1 | 1 | 1 |
| customers | 22,168 | 22,531 | 22,610 |
| | 22,169 | 22,532 | 22,611 |

The table below shows the Group's wholesale funding source metrics.

| | Short-term wholesale funding (1) | | Total wholesale funding | | Net inter-bank funding (2) | | |
|-------------------|--|--|--|--|----------------------------|--------------|-------------------------------|
| | Excluding derivative collateral £bn | Including derivative collateral £bn | Excluding derivative collateral £bn | Including derivative collateral £bn | Deposits £bn | Loans £bn | Net Inter-bank funding £bn |
| 30 September 2012 | 48.5 | 77.2 | 158.9 | 187.6 | 29.4 | (20.2) | 9.2 |
| 30 June 2012 | 62.3 | 94.3 | 181.1 | 213.1 | 35.6 | (22.3) | 13.3 |
| 31 March 2012 | 79.7 | 109.1 | 204.9 | 234.3 | 36.4 | (19.7) | 16.7 |
| 31 December 2011 | 102.4 | 134.2 | 226.2 | 258.1 | 37.3 | (24.3) | 13.0 |
| 30 September 2011 | 141.6 | 174.1 | 267.0 | 299.4 | 46.2 | (33.0) | 13.2 |

Notes:

(1)

Short-term balances denote those with a residual maturity of less than one year and includes longer-term issuances.

(2) Excludes derivative collateral.

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk: Funding sources (continued)

Notes issued

The table below shows the Group's debt securities in issue and subordinated liabilities by remaining maturity.

| | Debt securities in issue | | | | | | Subordinated liabilities | Total notes issued | Total notes issued |
|-------------------|--------------------------|------------------|--------|---------------|------------------|---------|--------------------------|--------------------|--------------------|
| | Conduit ABCP | Other CP and CDs | MTNs | Covered bonds | Securit-isations | Total | | | |
| 30 September 2012 | £m | £m | £m | £m | £m | £m | £m | £m | % |
| Less than 1 year | 2,909 | 9,079 | 13,466 | 1,009 | 15 | 26,478 | 1,632 | 28,110 | 22 |
| 1-3 years | - | 441 | 22,477 | 2,865 | 1,243 | 27,026 | 5,693 | 32,719 | 25 |
| 3-5 years | - | 1 | 13,221 | 2,323 | - | 15,545 | 2,272 | 17,817 | 14 |
| More than 5 years | - | 4 | 21,253 | 3,706 | 10,145 | 35,108 | 15,712 | 50,820 | 39 |
| | 2,909 | 9,525 | 70,417 | 9,903 | 11,403 | 104,157 | 25,309 | 129,466 | 100 |
| 30 June 2012 | | | | | | | | | |
| Less than 1 year | 4,246 | 12,083 | 16,845 | 1,020 | 69 | 34,263 | 1,631 | 35,894 | 25 |
| 1-3 years | - | 293 | 24,452 | 1,681 | 1,263 | 27,689 | 5,401 | 33,090 | 23 |
| 3-5 years | - | 1 | 16,620 | 3,619 | - | 20,240 | 2,667 | 22,907 | 15 |
| More than 5 years | - | 5 | 23,312 | 3,667 | 10,679 | 37,663 | 15,897 | 53,560 | 37 |
| | 4,246 | 12,382 | 81,229 | 9,987 | 12,011 | 119,855 | 25,596 | 145,451 | 100 |
| 31 December 2011 | | | | | | | | | |
| Less than 1 year | 11,164 | 21,396 | 36,302 | - | 27 | 68,889 | 624 | 69,513 | 37 |
| 1-3 years | - | 278 | 26,595 | 2,760 | 479 | 30,112 | 3,338 | 33,450 | 18 |
| 3-5 years | - | 2 | 16,627 | 3,673 | - | 20,302 | 7,232 | 27,534 | 14 |
| More than 5 years | - | 1 | 26,185 | 2,674 | 14,458 | 43,318 | 15,125 | 58,443 | 31 |

11,164 21,677 105,709 9,107 14,964 162,621 26,319 188,940 100

Key point

- Debt securities in issue decreased by £15.7 billion in Q3 2012 mainly due to the active reduction of CP and conduit ABCP, the maturity of unsecured MTNs and the impact of the execution of the liability management exercise.

Deposit and repo funding

The table below shows the composition of the Group's deposits excluding repos and repo funding including disposal groups.

| | 30 September | | 30 June 2012 | | 31 December 2011 | |
|---------------------------------|--------------|---------|--------------|---------|------------------|---------|
| | Deposits | Repos | Deposits | Repos | Deposits | Repos |
| | £m | £m | £m | £m | £m | £m |
| Financial institutions | | | | | | |
| - central and other banks | 58,128 | 49,222 | 67,620 | 39,125 | 69,114 | 39,691 |
| - other financial institutions | 69,697 | 92,321 | 65,563 | 87,789 | 66,009 | 86,032 |
| Personal and corporate deposits | 365,183 | 1,022 | 369,737 | 1,161 | 370,744 | 2,780 |
| | 493,008 | 142,565 | 502,920 | 128,075 | 505,867 | 128,503 |

Key points

- The central and other banks balances include €10 billion of funding accessed through the European Central Bank's long-term re-financing operation facility in the first half of 2012.
- Approximately 40% of the customer deposits above are insured through the UK Financial Services Compensation Scheme, US Federal Deposit Insurance Corporation and similar schemes.

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk: Funding sources (continued)

Customer loan:deposit ratio and funding gap

The table below shows the Group's divisional customer loan:deposit ratio (LDR) and customer funding gap.

| 30 September 2012 | Deposits | | LDR (3) % | Funding surplus/ (gap) (3) £m |
|-------------------|-----------------|-----------|--------------|--|
| | Loans (1) £m | (2) £m | | |
| UK Retail | 110,267 | 105,984 | 104 | (4,283) |
| UK Corporate | 105,952 | 126,780 | 84 | 20,828 |

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| | | | | |
|--------------------------------------|---------|---------|-----|----------|
| Wealth | 16,919 | 38,692 | 44 | 21,773 |
| International Banking (4) | 42,154 | 41,668 | 101 | (486) |
| Ulster Bank | 28,615 | 20,278 | 141 | (8,337) |
| US Retail & Commercial | 50,116 | 59,817 | 84 | 9,701 |
| Conduits (International Banking) (4) | 4,588 | - | nm | (4,588) |
| Retail & Commercial | 358,611 | 393,219 | 91 | 34,608 |
| Markets | 29,324 | 34,348 | 85 | 5,024 |
| Direct Line Group and other | 3,274 | 3,388 | 97 | 114 |
| Core | 391,209 | 430,955 | 91 | 39,746 |
| Non-Core | 51,355 | 3,925 | nm | (47,430) |
| Group | 442,564 | 434,880 | 102 | (7,684) |

30 June 2012

| | | | | |
|--------------------------------------|---------|---------|-----|----------|
| UK Retail | 110,318 | 106,571 | 104 | (3,747) |
| UK Corporate | 107,775 | 127,446 | 85 | 19,671 |
| Wealth | 16,888 | 38,462 | 44 | 21,574 |
| International Banking (4) | 43,190 | 42,238 | 102 | (952) |
| Ulster Bank | 29,701 | 20,593 | 144 | (9,108) |
| US Retail & Commercial | 51,634 | 59,229 | 87 | 7,595 |
| Conduits (International Banking) (4) | 6,295 | - | nm | (6,295) |
| Retail & Commercial | 365,801 | 394,539 | 93 | 28,738 |
| Markets | 30,191 | 34,257 | 88 | 4,066 |
| Direct Line Group and other | 1,320 | 2,999 | 44 | 1,679 |
| Core | 397,312 | 431,795 | 92 | 34,483 |
| Non-Core | 57,398 | 3,505 | nm | (53,893) |
| Group | 454,710 | 435,300 | 104 | (19,410) |

nm = not meaningful

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

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk: Funding sources (continued)

Customer loan to deposit ratio and funding gap (continued)

| | Loans (1) | Deposits (2) | LDR (3) | Funding surplus/ gap (3) |
|--|-----------|-----------------|---------|--------------------------------|
|--|-----------|-----------------|---------|--------------------------------|

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| 31 December 2011 | £m | £m | % | £m |
|--------------------------------------|---------|---------|-----|----------|
| UK Retail | 107,983 | 101,878 | 106 | (6,105) |
| UK Corporate | 108,668 | 126,309 | 86 | 17,641 |
| Wealth | 16,834 | 38,164 | 44 | 21,330 |
| International Banking (4) | 46,417 | 45,051 | 103 | (1,336) |
| Ulster Bank | 31,303 | 21,814 | 143 | (9,489) |
| US Retail & Commercial | 50,842 | 59,984 | 85 | 9,142 |
| Conduits (International Banking) (4) | 10,504 | - | nm | (10,504) |
| Retail & Commercial | 372,551 | 393,200 | 95 | 20,649 |
| Markets | 31,254 | 36,776 | 85 | 5,522 |
| Direct Line Group and other | 1,196 | 2,496 | 48 | 1,300 |
| Core | 405,001 | 432,472 | 94 | 27,471 |
| Non-Core | 68,516 | 4,281 | nm | (64,235) |
| Group | 473,517 | 436,753 | 108 | (36,764) |

nm = not meaningful

Notes:

- (1) Loans and advances to customers excluding reverse repurchase agreements and stock borrowing and including disposal groups.
- (2) Excluding repurchase agreements and stock lending but including disposal groups.
- (3) Based on loans and advances to customers net of provisions and customer deposits as shown.
- (4) All conduits relate to International Banking and have been extracted and shown separately.

Key point

- The Group loan:deposit ratio has improved 600 basis points during the first nine months of 2012 to 102%, of which 200 basis points was in Q3 2012, as the Group continued to make progress on the strategic goal of a broadly matched balance sheet structure.

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk: Funding sources (continued)

Long-term debt issuance

The table below shows debt securities issued by the Group with an original maturity of one year or more. The Group also executes other long-term funding arrangements (predominantly term repurchase agreements) which are not reflected in the following tables.

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| | Quarter ended | | | Nine months ended 30 September 2012 | Year ended 31 December 2011 |
|----------------|----------------------|-----------------|------------------|---|-----------------------------------|
| | 30 September 2012 | 30 June 2012 | 31 March 2012 | | |
| | £m | £m | £m | £m | £m |
| Public | | | | | |
| - unsecured | 1,237 | - | - | 1,237 | 5,085 |
| - secured | - | - | 1,784 | 1,784 | 9,807 |
| Private | | | | | |
| - unsecured | 1,631 | 909 | 1,676 | 4,216 | 12,414 |
| - secured | - | - | - | - | 500 |
| Gross issuance | 2,868 | 909 | 3,460 | 7,237 | 27,806 |
| Buy backs (1) | (2,213) | (1,730) | (1,129) | (5,072) | (6,892) |
| Net issuance | 655 | (821) | 2,331 | 2,165 | 20,914 |

Note:

(1) Excludes liability management exercises.

Key point

· During Q3 2012, the Group issued US\$2 billion public fixed rate notes to help pre-fund future financing needs of the holding company.

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk (continued)

Liquidity portfolio

The table below shows the composition of the Group's liquidity portfolio (at estimated liquidity value). All assets within the liquidity portfolio are unencumbered.

| | 30 September 2012 | | 30 June 2012 | | 31 December 2011 | |
|------------------------------------|----------------------------|---------------------|----------------------------|---------------------|----------------------------|---------------------|
| | Quarterly average £m | Period end £m | Quarterly average £m | Period end £m | Quarterly average £m | Period end £m |
| Cash and balances at central banks | 72,734 | 72,563 | 87,114 | 71,890 | 89,377 | 69,932 |
| Central and local government bonds | 21,612 | 19,776 | 20,163 | 26,315 | 30,421 | 29,632 |

| | | | | | | |
|---|---------|---------|---------|---------|---------|---------|
| AAA rated governments and US agencies | | | | | | |
| AA- to AA+ rated governments (1) | 9,727 | 7,393 | 10,739 | 14,449 | 5,056 | 14,102 |
| governments rated below AA | 549 | 647 | 609 | 519 | 1,011 | 955 |
| local government | 1,523 | 988 | 2,546 | 1,872 | 4,517 | 4,302 |
| | 33,411 | 28,804 | 34,057 | 43,155 | 41,005 | 48,991 |
| Treasury bills | 54 | 750 | - | - | 444 | - |
| | 106,199 | 102,117 | 121,171 | 115,045 | 130,826 | 118,923 |
| Other assets (2) | | | | | | |
| AAA rated | 10,365 | 8,827 | 22,505 | 10,712 | 25,083 | 25,202 |
| below AAA rated and other high quality assets | 33,738 | 35,667 | 13,789 | 30,244 | 11,400 | 11,205 |
| | 44,103 | 44,494 | 36,294 | 40,956 | 36,483 | 36,407 |
| Total liquidity portfolio | 150,302 | 146,611 | 157,465 | 156,001 | 167,309 | 155,330 |

Notes:

- (1) Includes US government guaranteed and US government sponsored agencies.
(2) Includes assets eligible for discounting at central banks.

Key points

- The liquidity portfolio decreased by £9.4 billion to £146.6 billion in the quarter and exceeded the short-term wholesale funding by 3 times (30 June 2012 - 2.5 times).
- The proportion of the portfolio held in central and local government bonds decreased to circa 20% from circa 30% at 30 June 2012, following FSA consultation. Loans prepositioned with the central bank can also now be included within the liquidity buffer.
- FLS related treasury bills of £750 million are included within the liquidity buffer.

Risk and balance sheet management (continued)

Balance sheet management: Liquidity and funding risk (continued)

Net stable funding ratio

The table below shows the composition of the Group's net stable funding ratio (NSFR), estimated by applying the Basel III guidance issued in December 2010. The Group's NSFR will also continue to be refined over time in line with regulatory developments and related interpretations. It may also be calculated on a basis that may differ from other financial institutions.

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| | 30 September 2012 | | ASF (1) | | 31 December 2011 | | Weighting % |
|---|----------------------|------------|--------------|-------------|---------------------|-------------|----------------|
| | ASF (1) | | ASF (1) | | ASF (1) | | |
| | £bn | £bn | £bn | £bn | £bn | £bn | |
| Equity | 74 | 74 | 75 | 75 | 76 | 76 | 100 |
| Wholesale funding > 1 year | 111 | 111 | 119 | 119 | 124 | 124 | 100 |
| Wholesale funding < 1 year | 77 | - | 94 | - | 134 | - | - |
| Derivatives | 462 | - | 481 | - | 524 | - | - |
| Repurchase agreements | 143 | - | 128 | - | 129 | - | - |
| Deposits | | | | | | | |
| - retail and SME - more stable | 232 | 209 | 235 | 212 | 227 | 204 | 90 |
| - retail and SME - less stable | 32 | 26 | 29 | 23 | 31 | 25 | 80 |
| - other | 170 | 85 | 171 | 86 | 179 | 89 | 50 |
| Other (2) | 76 | - | 83 | - | 83 | - | - |
| Total liabilities and equity | 1,377 | 505 | 1,415 | 515 | 1,507 | 518 | |
| Cash | 80 | - | 79 | - | 79 | - | - |
| Inter-bank lending | 38 | - | 39 | - | 44 | - | - |
| Debt securities > 1 year | | | | | | | |
| - governments AAA to AA- | 71 | 4 | 70 | 4 | 77 | 4 | 5 |
| - other eligible bonds | 58 | 12 | 60 | 12 | 73 | 15 | 20 |
| - other bonds | 19 | 19 | 20 | 20 | 14 | 14 | 100 |
| Debt securities < 1 year | 30 | - | 38 | - | 45 | - | - |
| Derivatives | 468 | - | 486 | - | 530 | - | - |
| Reverse repurchase agreements | 98 | - | 98 | - | 101 | - | - |
| Customer loans and advances > 1 year | | | | | | | |
| - residential mortgages | 148 | 96 | 146 | 95 | 145 | 94 | 65 |
| - other | 144 | 144 | 151 | 151 | 173 | 173 | 100 |
| Customer loans and advances < 1 year | | | | | | | |
| - retail loans | 18 | 15 | 18 | 15 | 19 | 16 | 85 |
| - other | 132 | 66 | 140 | 70 | 137 | 69 | 50 |
| Other (3) | 73 | 73 | 70 | 70 | 70 | 70 | 100 |
| Total assets | 1,377 | 429 | 1,415 | 437 | 1,507 | 455 | |
| Undrawn commitments | 221 | 11 | 228 | 11 | 240 | 12 | 5 |
| Total assets and undrawn commitments | 1,598 | 440 | 1,643 | 448 | 1,747 | 467 | |
| Net stable funding ratio | 115% | | | 115% | | 111% | |

Notes:

(1) Available stable funding.

- (2) Deferred tax, insurance liabilities and other liabilities.
 (3) Prepayments, accrued income, deferred tax, settlement balances and other assets.

Key points

- The NSFR remained unchanged at 115% at 30 September 2012 compared with the half year position, but improved by 400 basis points from the 2011 year end position.
- In Q3 2012, reduced loan balances of £10 billion were largely offset by an £8 billion reduction in long-term funding.

Risk and balance sheet management (continued)

Risk management: Credit risk

Credit risk is the risk of financial loss due to the failure of a customer to meet its obligation to settle outstanding amounts. The quantum and nature of credit risk assumed across the Group's different businesses vary considerably, while the overall credit risk outcome usually exhibits a high degree of correlation with the macroeconomic environment.

Financial assets

The table below analyses the Group's financial asset exposures, both gross and net of offset arrangements.

| | Gross exposure | IFRS offset (1) | Balance sheet value | Other offset (2) | Exposure post offset |
|---------------------------------|----------------|-----------------|---------------------|------------------|----------------------|
| | £m | £m | £m | £m | £m |
| 30 September 2012 | | | | | |
| Cash balances at central banks | 80,122 | - | 80,122 | - | 80,122 |
| Reverse repos | 159,885 | (61,950) | 97,935 | (18,537) | 79,398 |
| Lending | 461,502 | - | 461,502 | (39,186) | 422,316 |
| Debt securities | 177,722 | - | 177,722 | - | 177,722 |
| Equity shares | 15,527 | - | 15,527 | - | 15,527 |
| Derivatives | 862,618 | (394,447) | 468,171 | (434,406) | 33,765 |
| Settlement balances | 21,760 | (6,705) | 15,055 | (2,539) | 12,516 |
| Other financial assets | 891 | - | 891 | - | 891 |
| Total excluding disposal groups | 1,780,027 | (463,102) | 1,316,925 | (494,668) | 822,257 |
| Total including disposal groups | 1,799,970 | (463,102) | 1,336,868 | (494,668) | 842,200 |
| Short positions | (32,562) | - | (32,562) | - | (32,562) |
| Net of short positions | 1,767,408 | (463,102) | 1,304,306 | (494,668) | 809,638 |

30 June 2012

| | | | | | |
|---------------------------------|-----------|-----------|-----------|-----------|----------|
| Cash balances at central banks | 78,647 | - | 78,647 | - | 78,647 |
| Reverse repos | 144,465 | (46,564) | 97,901 | (13,212) | 84,689 |
| Lending | 474,401 | - | 474,401 | (41,151) | 433,250 |
| Debt securities | 187,626 | - | 187,626 | - | 187,626 |
| Equity shares | 13,091 | - | 13,091 | - | 13,091 |
| Derivatives | 910,996 | (424,564) | 486,432 | (445,980) | 40,452 |
| Settlement balances | 21,644 | (6,332) | 15,312 | (3,090) | 12,222 |
| Other financial assets | 1,490 | - | 1,490 | - | 1,490 |
| Total excluding disposal groups | 1,832,360 | (477,460) | 1,354,900 | (503,433) | 851,467 |
| Total including disposal groups | 1,852,702 | (477,460) | 1,375,242 | (503,433) | 871,809 |
| Short positions | (38,376) | - | (38,376) | - | (38,376) |
| Net of short positions | 1,814,326 | (477,460) | 1,336,866 | (503,433) | 833,433 |

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

Risk and balance sheet management (continued)

Risk management: Credit risk: Financial assets (continued)

| | Gross exposure | IFRS offset (1) | Balance sheet value | Other offset (2) | Exposure post offset |
|---------------------------------|----------------|-----------------|---------------------|------------------|----------------------|
| 31 December 2011 | £m | £m | £m | £m | £m |
| Cash balances at central banks | 79,269 | - | 79,269 | - | 79,269 |
| Reverse repos | 138,539 | (37,605) | 100,934 | (15,246) | 85,688 |
| Lending | 497,982 | - | 497,982 | (41,129) | 456,853 |
| Debt securities | 209,080 | - | 209,080 | - | 209,080 |
| Equity shares | 15,183 | - | 15,183 | - | 15,183 |
| Derivatives | 1,074,109 | (544,491) | 529,618 | (478,848) | 50,770 |
| Settlement balances | 9,130 | (1,359) | 7,771 | (2,221) | 5,550 |
| Other financial assets | 1,309 | - | 1,309 | - | 1,309 |
| Total excluding disposal groups | 2,024,601 | (583,455) | 1,441,146 | (537,444) | 903,702 |
| Total including disposal groups | 2,045,134 | (583,455) | 1,461,679 | (537,444) | 924,235 |
| Short positions | (41,039) | - | (41,039) | - | (41,039) |
| Net of short positions | 2,004,095 | (583,455) | 1,420,640 | (537,444) | 883,196 |

Notes:

(1)

Relates to offset arrangements that comply with IFRS criteria and to transactions cleared through and novated to central clearing houses, primarily London Clearing House.

- (2) This reflects the amounts by which the Group's credit risk is reduced through arrangements such as master netting agreements and current account pooling. In addition, the Group holds collateral in respect of individual loans and advances. This collateral includes mortgages over property (both personal and commercial); charges over business assets such as plant, inventories and trade debtors; and guarantees of lending from parties other than the borrower. The Group also obtains collateral in the form of securities relating to reverse repo and derivative transactions.

Key points

- Financial asset exposures post offset arrangements, excluding disposal groups, decreased by £81 billion compared with 31 December 2011 (Q3 2012 - £29 billion) to £822 billion, reflecting the Group's focus on reducing its funded balance sheet, primarily in Non-Core and Markets.
- Reductions in lending (year-to-date - £35 billion; Q3 2012 - £11 billion), debt securities (year-to-date - £31 billion; Q3 2012 - £10 billion), derivatives (year-to-date - £17 billion; Q3 2012 - £7 billion) and reverse repos (year-to-date - £6 billion; Q3 2012 - £5 billion) were partially offset by higher seasonal settlement balances (year-to-date - £7 billion).
- Central and local government exposures decreased by £23 billion (Q3 2012 - £8 billion) principally in debt securities. This was driven by Markets continuing to de-risk and reduce its balance sheet, management of the Group Treasury liquidity portfolio as well as overall risk reductions in respect of eurozone exposures.
- Exposures to financial institutions were £25 billion lower (Q3 2012 - £11 billion), across securities, loans and derivatives, also reflecting Markets balance sheet management.
- Within lending:
 - UK Retail increased its lending to homeowners, principally in the first half of the year, including to first-time buyers, whilst unsecured lending balances fell.
 - UK Corporate reduced its Core commercial real estate lending by £2.4 billion (Q3 2012 - £0.6 billion), contributing to the decrease in Core property and construction exposure. The Core decrease was primarily offset by the transfer of £2 billion of social housing loans from Non-Core to Core in Q3 2012.
 - Non-Core continued to make significant progress on its balance sheet strategy and lending declined across the majority of sectors, principally property and construction, where commercial real estate lending decreased by £6.2 billion (Q3 2012 - £2.3 billion), reflecting repayments and sales.

Risk and balance sheet management (continued)

Risk management: Credit risk: Financial assets (continued)

Sector concentration

The table below analyses balance sheet financial assets by sector.

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| 30 September 2012 | Reverse repos £m | Lending | | | Securities | | | | Balance sheet value £m | Other offset £m | Exposure post offset £m |
|---------------------------------|------------------------|------------|----------------|-------------|------------|--------------|-------------------|-------------|---------------------------------|-----------------------|----------------------------------|
| | | Core £m | Non-Core £m | Total £m | Debt £m | Equity £m | Derivatives £m | Other £m | | | |
| Government (1) | 417 | 8,716 | 1,452 | 10,168 | 107,686 | - | 6,188 | 1,728 | 126,187 | (5,946) | 120,241 |
| Finance - banks | 34,026 | 38,017 | 447 | 38,464 | 11,304 | 1,899 | 356,371 | 80,122 | 522,186 | (367,864) | 154,322 |
| - other | 63,119 | 41,031 | 3,087 | 44,118 | 53,120 | 2,640 | 84,862 | 13,896 | 261,755 | (110,090) | 151,665 |
| - | - | 140,332 | 3,270 | 143,602 | - | - | - | - | 143,602 | (1) | 143,601 |
| Personal mortgages | | | | | | | | | | | |
| - unsecured | - | 30,265 | 1,119 | 31,384 | - | - | - | 53 | 31,437 | (17) | 31,420 |
| Property and construction | - | 45,283 | 32,455 | 77,738 | 954 | 614 | 4,694 | - | 84,000 | (2,762) | 81,238 |
| Manufacturing | 318 | 21,108 | 2,580 | 23,688 | 919 | 1,693 | 2,230 | 59 | 28,907 | (2,965) | 25,942 |
| Finance leases (2) | - | 8,808 | 4,645 | 13,453 | 40 | 2 | 44 | 2 | 13,541 | - | 13,541 |
| Retail, wholesale and repairs | - | 20,346 | 1,752 | 22,098 | 442 | 1,654 | 989 | - | 25,183 | (1,545) | 23,638 |
| Transport and storage | - | 14,536 | 3,970 | 18,506 | 495 | 271 | 3,822 | - | 23,094 | (516) | 22,578 |
| Health, education and leisure | 29 | 12,917 | 1,002 | 13,919 | 284 | 479 | 756 | - | 15,467 | (960) | 14,507 |
| Hotels and restaurants | - | 6,541 | 987 | 7,528 | 208 | 46 | 501 | 4 | 8,287 | (229) | 8,058 |
| Utilities | - | 5,143 | 1,563 | 6,706 | 1,353 | 668 | 3,128 | 16 | 11,871 | (1,020) | 10,851 |
| Other | 26 | 26,767 | 3,681 | 30,448 | 1,846 | 5,698 | 4,586 | 188 | 42,792 | (753) | 42,039 |
| Total gross of provisions | 97,935 | 419,810 | 62,010 | 481,820 | 178,651 | 15,664 | 468,171 | 96,068 | 1,338,309 | (494,668) | 843,641 |
| Provisions | - | (9,203) | (11,115) | (20,318) | (929) | (137) | - | - | (21,384) | n/a | (21,384) |
| Total excluding disposal groups | 97,935 | 410,607 | 50,895 | 461,502 | 177,722 | 15,527 | 468,171 | 96,068 | 1,316,925 | (494,668) | 822,257 |
| Disposal groups | - | 18,509 | 983 | 19,492 | 31 | 5 | 366 | 49 | 19,943 | - | 19,943 |
| Total including disposal groups | 97,935 | 429,116 | 51,878 | 480,994 | 177,753 | 15,532 | 468,537 | 96,117 | 1,336,868 | (494,668) | 842,200 |

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

Risk and balance sheet management (continued)

Risk management: Credit risk: Financial assets (continued)

Sector concentration (continued)

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| 31 December 2011 | Reverse repos £m | Lending | | | Securities | | | | Balance sheet value £m | Other offset £m | Exposure post offset £m |
|--------------------|------------------------|------------|----------------|-------------|------------|--------------|-------------------|-------------|---------------------------------|-----------------------|----------------------------------|
| | | Core £m | Non-Core £m | Total £m | Debt £m | Equity £m | Derivatives £m | Other £m | | | |
| Government (1) | 2,247 | 8,359 | 1,383 | 9,742 | 126,604 | - | 5,541 | 641 | 144,775 | (1,098) | 143,677 |
| Finance - banks | 39,345 | 43,374 | 619 | 43,993 | 16,940 | 2,219 | 400,261 | 79,269 | 582,027 | (407,457) | 174,570 |
| - other | 58,478 | 46,452 | 3,229 | 49,681 | 60,453 | 2,490 | 97,825 | 7,437 | 276,364 | (119,717) | 156,647 |
| - | | | | | | | | | | | |
| Personal mortgages | - | 138,509 | 5,102 | 143,611 | - | - | - | - | 143,611 | - | 143,611 |
| - | | | | | | | | | | | |
| unsecured | - | 31,067 | 1,556 | 32,623 | - | - | - | 52 | 32,675 | (7) | 32,668 |
| Property and | | | | | | | | | | | |
| construction | - | 45,485 | 40,736 | 86,221 | 623 | 228 | 5,545 | 1 | 92,618 | (2,413) | 90,205 |
| Manufacturing | 254 | 23,201 | 4,931 | 28,132 | 664 | 1,938 | 3,786 | 306 | 35,080 | (2,214) | 32,866 |
| Finance leases (2) | - | 8,440 | 6,059 | 14,499 | 145 | 2 | 75 | - | 14,721 | (16) | 14,705 |
| Retail, wholesale | | | | | | | | | | | |
| and repairs | - | 21,314 | 2,339 | 23,653 | 645 | 2,652 | 1,134 | 18 | 28,102 | (1,671) | 26,431 |
| Transport and | | | | | | | | | | | |
| storage | 436 | 16,454 | 5,477 | 21,931 | 539 | 74 | 3,759 | - | 26,739 | (241) | 26,498 |
| Health, education | | | | | | | | | | | |
| and leisure | - | 13,273 | 1,419 | 14,692 | 310 | 21 | 885 | - | 15,908 | (973) | 14,935 |
| Hotels and | | | | | | | | | | | |
| restaurants | - | 7,143 | 1,161 | 8,304 | 116 | 5 | 671 | - | 9,096 | (184) | 8,912 |
| Utilities | - | 6,543 | 1,849 | 8,392 | 1,530 | 554 | 3,708 | 30 | 14,214 | (450) | 13,764 |
| Other | 174 | 28,374 | 4,017 | 32,391 | 2,899 | 5,141 | 6,428 | 595 | 47,628 | (1,003) | 46,625 |
| Total gross of | | | | | | | | | | | |
| provisions | 100,934 | 437,988 | 79,877 | 517,865 | 211,468 | 15,324 | 529,618 | 88,349 | 1,463,558 | (537,444) | 926,114 |
| Provisions | - | (8,414) | (11,469) | (19,883) | (2,388) | (141) | - | - | (22,412) | n/a | (22,412) |
| Total excluding | | | | | | | | | | | |
| disposal groups | 100,934 | 429,574 | 68,408 | 497,982 | 209,080 | 15,183 | 529,618 | 88,349 | 1,441,146 | (537,444) | 903,702 |
| Disposal groups | - | 18,677 | 815 | 19,492 | - | 5 | 439 | 597 | 20,533 | - | 20,533 |
| Total including | | | | | | | | | | | |
| disposal groups | 100,934 | 448,251 | 69,223 | 517,474 | 209,080 | 15,188 | 530,057 | 88,946 | 1,461,679 | (537,444) | 924,235 |

Notes:

- (1) Comprises central and local government.
- (2) Includes instalment credit.

Risk and balance sheet management (continued)

Risk management: Credit risk: Financial assets (continued)

Debt securities

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The table below analyses debt securities by issuer and IFRS measurement classifications.

| | Central and local government | | | Banks £m | Other financial institutions £m | Corporate £m | Total £m | Of which ABS £m |
|--------------------------------|------------------------------|----------|-------------|-------------|--|-----------------|-------------|--------------------------|
| | UK £m | US £m | Other £m | | | | | |
| 30 September 2012 | | | | | | | | |
| Held-for-trading (HFT) | 5,506 | 19,039 | 34,905 | 2,460 | 23,468 | 2,169 | 87,547 | 21,363 |
| Designated as at fair value | 1 | - | 127 | 85 | 709 | 8 | 930 | 580 |
| Available-for-sale | 11,453 | 19,787 | 16,858 | 8,508 | 24,963 | 2,995 | 84,564 | 32,086 |
| Loans and receivables | 10 | - | - | 251 | 3,980 | 440 | 4,681 | 3,988 |
| Long positions | 16,970 | 38,826 | 51,890 | 11,304 | 53,120 | 5,612 | 177,722 | 58,017 |
| Of which US agencies | - | 6,187 | - | - | 24,183 | - | 30,370 | 28,820 |
| Short positions (HFT) | (830) | (11,233) | (15,156) | (1,590) | (1,591) | (1,032) | (31,432) | (86) |
| Available-for-sale | | | | | | | | |
| Gross unrealised gains | 1,232 | 1,259 | 1,084 | 101 | 719 | 122 | 4,517 | 763 |
| Gross unrealised losses | - | (1) | (38) | (702) | (1,295) | (16) | (2,052) | (1,989) |
| 31 December 2011 | | | | | | | | |
| Held-for-trading | 9,004 | 19,636 | 36,928 | 3,400 | 23,160 | 2,948 | 95,076 | 20,816 |
| Designated as at fair value | 1 | - | 127 | 53 | 457 | 9 | 647 | 558 |
| Available-for-sale | 13,436 | 20,848 | 25,552 | 13,175 | 31,752 | 2,535 | 107,298 | 40,735 |
| Loans and receivables | 10 | - | 1 | 312 | 5,259 | 477 | 6,059 | 5,200 |
| Long positions | 22,451 | 40,484 | 62,608 | 16,940 | 60,628 | 5,969 | 209,080 | 67,309 |
| Of which US agencies | - | 4,896 | - | - | 25,924 | - | 30,820 | 28,558 |
| Short positions (HFT) | (3,098) | (10,661) | (19,136) | (2,556) | (2,854) | (754) | (39,059) | (352) |
| Available-for-sale | | | | | | | | |
| Gross unrealised gains | 1,428 | 1,311 | 1,180 | 52 | 913 | 94 | 4,978 | 1,001 |
| | - | - | (171) | (838) | (2,386) | (13) | (3,408) | (3,158) |

Gross unrealised
losses

Risk and balance sheet management (continued)

Risk management: Credit risk: Financial assets: Debt securities (continued)

The table below analyses available-for-sale debt securities and related reserves, gross of tax.

| | 30 September 2012 | | | | 31 December 2011 | | | |
|------------------------------------|-------------------|----------|-----------------|-------------|------------------|----------|-----------------|-------------|
| | UK £m | US £m | Other (1) £m | Total £m | UK £m | US £m | Other (1) £m | Total £m |
| Central and local | | | | | | | | |
| government | 11,453 | 19,787 | 16,858 | 48,098 | 13,436 | 20,848 | 25,552 | 59,836 |
| Banks | 1,001 | 417 | 7,090 | 8,508 | 1,391 | 376 | 11,408 | 13,175 |
| Other financial institutions | 2,709 | 11,906 | 10,348 | 24,963 | 3,100 | 17,453 | 11,199 | 31,752 |
| Corporate | 1,207 | 735 | 1,053 | 2,995 | 1,105 | 131 | 1,299 | 2,535 |
| Total | 16,370 | 32,845 | 35,349 | 84,564 | 19,032 | 38,808 | 49,458 | 107,298 |
| Of which ABS | 3,533 | 15,823 | 12,730 | 32,086 | 3,659 | 20,256 | 16,820 | 40,735 |
| AFS reserves (gross) | 886 | 810 | (1,443) | 253 | 845 | 486 | (1,815) | (484) |

Note:

(1) Includes eurozone countries as detailed in the Country risk section of this report.

Key points

- Debt securities decreased by £31.4 billion or 15% during the nine months ended 30 September 2012, £22.7 billion in available-for-sale (AFS) across the Group and £7.5 billion of held-for-trading (HFT) positions within Markets reflecting a combination of de-risking strategies and active balance sheet management.
- HFT: The £7.5 billion decrease comprised £6.1 billion of central and local government, £0.9 billion of banks and £0.8 billion of corporate, partially offset by an increase of £0.3 billion of other financial institutions. A decrease in UK government bonds of £3.5 billion reflected maturities and disposals in line with Markets balance sheet management strategy. A reduction in other government

bonds principally French, Italian, Swiss and Japanese, was partially offset by moves to those issued by Denmark, Germany and the Netherlands.

AFS: decreased by £22.7 billion, comprising £11.7 billion of central and local government, £6.8 billion of other financial institutions and £4.7 billion of banks, partially offset by an increase of £0.5 billion of corporate bonds. UK Government bonds fell by £2.0 billion primarily due to disposals. Disposals from the Group Treasury liquidity portfolio resulted in lower government bonds, primarily German and French (£5.6 billion). Japanese government bonds fell by £2.0 billion reflecting reduced collateral requirements following a change in clearing status from direct (self-clearing) to agency in H1 2012. Bank bonds decreased by £4.7 billion of which £2.0 billion related to sales of Spanish covered bonds by Group Treasury and lower positions in Australian and German securities reflected the close out of positions and maturities, respectively.

Risk and balance sheet management (continued)

Risk management: Credit risk: Financial assets: Debt securities (continued)

The table below analyses debt securities by issuer and external ratings. Ratings are based on the lowest of Standard and Poor's, Moody's and Fitch.

| | Central and local government | | | Other financial | | | Total | Of which ABS | |
|----------------------|------------------------------|--------|--------|-----------------|--------------|-----------|---------|--------------|--------|
| | UK | US | Other | Banks | institutions | Corporate | | | |
| 30 September 2012 | £m | £m | £m | £m | £m | £m | £m | Total % | £m |
| AAA | 16,970 | 43 | 21,006 | 2,493 | 11,824 | 171 | 52,507 | 30 | 10,884 |
| AA to AA+ | - | 38,760 | 8,671 | 1,330 | 28,394 | 658 | 77,813 | 44 | 32,843 |
| A to AA- | - | 22 | 16,069 | 2,975 | 3,266 | 1,957 | 24,289 | 14 | 3,136 |
| BBB- to A- | - | - | 5,398 | 3,833 | 4,600 | 1,450 | 15,281 | 8 | 7,389 |
| Non-investment grade | - | - | 742 | 350 | 3,301 | 762 | 5,155 | 3 | 2,858 |
| Unrated | - | 1 | 4 | 323 | 1,735 | 614 | 2,677 | 1 | 907 |
| | 16,970 | 38,826 | 51,890 | 11,304 | 53,120 | 5,612 | 177,722 | 100 | 58,017 |
| 31 December 2011 | | | | | | | | | |
| AAA | 22,451 | 45 | 32,522 | 5,155 | 15,908 | 452 | 76,533 | 37 | 17,156 |
| AA to AA+ | - | 40,435 | 2,000 | 2,497 | 30,403 | 639 | 75,974 | 36 | 33,615 |
| A to AA- | - | 1 | 24,966 | 6,387 | 4,979 | 1,746 | 38,079 | 18 | 6,331 |
| BBB- to A- | - | - | 2,194 | 2,287 | 2,916 | 1,446 | 8,843 | 4 | 4,480 |
| Non-investment grade | - | - | 924 | 575 | 5,042 | 1,275 | 7,816 | 4 | 4,492 |
| Unrated | - | 3 | 2 | 39 | 1,380 | 411 | 1,835 | 1 | 1,235 |

22,451 40,484 62,608 16,940 60,628 5,969 209,080 100 67,309

Key points

- AAA rated debt securities decreased as France and Austria were downgraded to AA+ in the first half of the year and also reflected the Group's reduced holdings of UK government bonds. Additionally, certain Spanish covered bonds and the Dutch bond portfolio were downgraded during H1 2012.
- The decrease in A to AA- debt securities related to further downgrades of Italy and Spain to BBB+ and BBB- respectively in H1 2012, along with a downgrade of selected bank ratings.
- Non-investment grade and unrated debt securities accounted for 4% of the portfolio.

Risk and balance sheet management (continued)

Risk management: Credit risk (continued)

Problem debt management

The following tables analyse loans and advances to banks and customers (excluding reverse repos) and the related debt management measures and ratios by division.

Refer to pages 136 to 141 of the Group's 2011 Annual Report and Accounts for policies, methodologies and approaches to problem debt management.

| | Gross loans to | | Credit metrics REIL as a % | | | | Year-to-date | |
|---------------------------|----------------|-----------|----------------------------------|------------|-----------------------------------|---------------------------------|----------------------|------------------------|
| | Banks | Customers | REIL | Provisions | of gross loans to customers | Provisions as a % of REIL | Impairment charge | Amounts written-off |
| 30 September 2012 | £m | £m | £m | £m | % | % | £m | £m |
| UK Retail | 862 | 105,370 | 4,074 | 2,342 | 3.9 | 57 | 436 | 472 |
| UK Corporate Wealth | 900 | 96,603 | 4,579 | 1,921 | 4.7 | 42 | 604 | 389 |
| International Banking | 1,810 | 17,016 | 243 | 99 | 1.4 | 41 | 30 | 11 |
| Ulster Bank | 5,250 | 47,378 | 699 | 644 | 1.5 | 92 | 74 | 220 |
| US Retail & Commercial | 1,011 | 32,179 | 7,036 | 3,564 | 21.9 | 51 | 1,046 | 44 |
| | 371 | 50,701 | 1,057 | 327 | 2.1 | 31 | 64 | 298 |
| | 10,204 | 349,247 | 17,688 | 8,897 | 5.1 | 50 | 2,254 | 1,434 |

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| | | | | | | | | |
|---------------------------------|--------|---------|--------|--------|------|----|-------|-------|
| Retail & Commercial Markets | 22,542 | 29,523 | 393 | 306 | 1.3 | 78 | 12 | 23 |
| Direct Line Group and other | 5,271 | 3,023 | - | - | - | - | - | - |
| Core | 38,017 | 381,793 | 18,081 | 9,203 | 4.7 | 51 | 2,266 | 1,457 |
| Non-Core | 447 | 61,563 | 22,019 | 11,115 | 35.8 | 50 | 1,647 | 1,388 |
| Group | 38,464 | 443,356 | 40,100 | 20,318 | 9.0 | 51 | 3,913 | 2,845 |
| Total including disposal groups | 38,547 | 463,544 | 41,502 | 21,097 | 9.0 | 51 | 3,913 | 2,845 |

30 June 2012

| | | | | | | | | |
|---------------------------------|--------|---------|--------|--------|------|-----|-------|-------|
| UK Retail | 854 | 105,559 | 4,115 | 2,376 | 3.9 | 58 | 295 | 299 |
| UK Corporate Wealth | 884 | 98,108 | 3,938 | 1,845 | 4.0 | 47 | 357 | 218 |
| International Banking | 1,747 | 16,985 | 229 | 99 | 1.3 | 43 | 22 | 3 |
| Ulster Bank | 5,219 | 50,138 | 682 | 694 | 1.4 | 102 | 62 | 210 |
| US Retail & Commercial | 2,286 | 33,008 | 6,234 | 3,307 | 18.9 | 53 | 717 | 28 |
| | 232 | 52,239 | 1,022 | 340 | 2.0 | 33 | 43 | 192 |
| Retail & Commercial Markets | 11,222 | 356,037 | 16,220 | 8,661 | 4.6 | 53 | 1,496 | 950 |
| Direct Line Group and other | 23,614 | 30,398 | 345 | 283 | 1.1 | 82 | 19 | 41 |
| | 4,316 | 1,055 | - | - | - | - | - | - |
| Core | 39,152 | 387,490 | 16,565 | 8,944 | 4.3 | 54 | 1,515 | 991 |
| Non-Core | 403 | 67,653 | 23,088 | 11,353 | 34.1 | 49 | 1,215 | 934 |
| Group | 39,555 | 455,143 | 39,653 | 20,297 | 8.7 | 51 | 2,730 | 1,925 |
| Total including disposal groups | 39,643 | 475,624 | 41,106 | 21,078 | 8.6 | 51 | 2,730 | 1,925 |

Risk and balance sheet management (continued)

Risk management: Credit risk: Problem debt management (continued)

| Gross loans to Banks Customers | REIL Provisions | Credit metrics | | Year-to-date | |
|--------------------------------|-----------------|-------------------------------|---------------------------|-------------------|---------------------|
| | | REIL as a % of gross loans to | Provisions as a % of REIL | Impairment charge | Amounts written-off |

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customers

| 31 December 2011 | £m | £m | £m | £m | % | % | £m | £m |
|------------------------------------|--------|---------|--------|--------|------|----|-------|-------|
| UK Retail | 628 | 103,377 | 4,087 | 2,344 | 4.0 | 57 | 788 | 823 |
| UK Corporate Wealth | 806 | 98,563 | 3,988 | 1,623 | 4.0 | 41 | 790 | 658 |
| International | 2,422 | 16,913 | 211 | 81 | 1.2 | 38 | 25 | 11 |
| Banking | 3,411 | 57,728 | 1,632 | 851 | 2.8 | 52 | 168 | 125 |
| Ulster Bank | 2,079 | 34,052 | 5,523 | 2,749 | 16.2 | 50 | 1,384 | 124 |
| US Retail & Commercial | 208 | 51,562 | 1,007 | 455 | 2.0 | 45 | 248 | 373 |
| Retail & Commercial | 9,554 | 362,195 | 16,448 | 8,103 | 4.5 | 49 | 3,403 | 2,114 |
| Markets | 29,991 | 31,490 | 414 | 311 | 1.3 | 75 | - | 23 |
| Direct Line Group and other | 3,829 | 929 | - | - | - | - | - | - |
| Core | 43,374 | 394,614 | 16,862 | 8,414 | 4.3 | 50 | 3,403 | 2,137 |
| Non-Core | 619 | 79,258 | 23,983 | 11,469 | 30.3 | 48 | 3,838 | 2,390 |
| Group | 43,993 | 473,872 | 40,845 | 19,883 | 8.6 | 49 | 7,241 | 4,527 |
| Total including disposal groups | 44,080 | 494,068 | 42,394 | 20,674 | 8.6 | 49 | 7,241 | 4,527 |

Key points

- Total REIL including disposal groups decreased by £0.9 billion to £41.5 billion compared with 31 December 2011 as improvements in International Banking and Non-Core were partially offset by a number of corporate defaults in UK Corporate and the ongoing elevated levels of default in Ulster Bank. In Q3 2012, UK Corporate defaults resulted in a £0.6 billion increase in REIL. REIL represented 9.0% of gross loans to customers (30 June 2012 and 31 December 2011 - 8.6%).
- Provision coverage increased to 51% at 30 September 2012 and 30 June 2012 from 49% at 31 December 2011 and Core coverage increased slightly to 51%, but decreased in Q3 2012 reflecting low provision cases in Ulster Bank.
- Annualised impairment charge for the nine months to 30 September 2012 represented 1.13% of loans and advances to customers, compared with 1.47% for the year ended 31 December 2011, primarily reflecting a reduction in Non-Core impairments, particularly relating to exposures originating in Ulster Bank.
- The challenging economic backdrop continued to be reflected in Ulster Bank credit metrics with Core REIL increasing by £1.5 billion since 31 December 2011 (Q3 2012 - £0.8 billion), primarily within the mortgage and commercial real estate portfolio, to £7.0 billion and is now 21.9% of gross loans to customers. Impairments continue to outpace write-offs.

- Non-Core REIL decreased by £2.0 billion or 8% (Q3 2012 - £1.1 billion or 5%) reflecting a mixture of repayments and write-offs within UK Corporate, Markets and International Banking corporate portfolios.

Risk and balance sheet management (continued)

Risk management: Credit risk: Problem debt management (continued)

Key points (continued)

- Exposure to commercial real estate lending has decreased by £8.8 billion or 12% during 2012 (Q3 2012 - £3.3 billion or 5%) in line with the Group's reduction strategy, while the REIL as a percentage of gross loans to customers has increased by 200 basis points from 31 December 2011 to 32.6%. Commercial real estate lending metrics were as follows:

| | Total | | | Non-Core (1) | | |
|---|-------------------------|-----------------|------------------------|-------------------------|-----------------|------------------------|
| | 30 September 2012 | 30 June 2012 | 31 December 2011 | 30 September 2012 | 30 June 2012 | 31 December 2011 |
| Lending (gross) | £66.0bn | £69.3bn | £74.8bn | £28.0bn | £30.4bn | £34.3bn |
| Of which REIL | £21.5bn | £21.7bn | £22.9bn | £17.1bn | £18.1bn | £18.8bn |
| Provisions | £9.5bn | £9.4bn | £9.5bn | £8.1bn | £8.0bn | £8.2bn |
| REIL as a % of gross loans to customers | 32.6% | 31.3% | 30.6% | 61.2% | 59.5% | 54.8% |
| Provisions as a % of REIL | 44% | 43% | 42% | 47% | 44% | 44% |

Note:

- (1) Excludes property related lending to customers in other sectors managed by Real Estate Finance.

Ulster Bank is a significant contributor to Non-Core commercial real estate lending. For further information refer to the section on Ulster Bank Group (Core and Non-Core).

Risk elements in lending (REIL)

REIL are stated without giving effect to any security held that could reduce the eventual loss should it occur or to any provisions marked. The table below details the movement in REIL excluding disposal groups.

| Impaired loans | | | Other loans (1) | | | REIL | | |
|----------------|----|-------|-----------------|----|-------|----------|----|-------|
| Non-Core | | Total | Non-Core | | Total | Non-Core | | Total |
| £m | £m | £m | £m | £m | £m | £m | £m | £m |
| | | | | | | | | |

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| | | | | | | | | | |
|--|---------|---------|---------|---------|-------|---------|---------|---------|---------|
| At 1 January 2012 | 15,306 | 23,441 | 38,747 | 1,556 | 542 | 2,098 | 16,862 | 23,983 | 40,845 |
| Currency translation and other adjustments | (193) | (681) | (874) | 9 | (10) | (1) | (184) | (691) | (875) |
| Additions | 5,296 | 4,015 | 9,311 | 2,617 | 390 | 3,007 | 7,913 | 4,405 | 12,318 |
| Transfers | 232 | 118 | 350 | (289) | (67) | (356) | (57) | 51 | (6) |
| Disposals and restructurings | (656) | (786) | (1,442) | (131) | (7) | (138) | (787) | (793) | (1,580) |
| Repayments | (2,351) | (3,070) | (5,421) | (1,858) | (478) | (2,336) | (4,209) | (3,548) | (7,757) |
| Amounts written-off | (1,457) | (1,388) | (2,845) | - | - | - | (1,457) | (1,388) | (2,845) |
| At 30 September 2012 | 16,177 | 21,649 | 37,826 | 1,904 | 370 | 2,274 | 18,081 | 22,019 | 40,100 |

Note:

- (1) Accruing loans past due 90 days or more where an impairment event has taken place but no impairment provision has been recognised. This category is used for fully collateralised non-revolving credit facilities.

Risk and balance sheet management (continued)

Risk management: Credit risk: Problem debt management (continued)

Impairment provisions

The table below analyses impairment provisions in respect of loans and advances to banks and customers.

| | 30 September 2012 | | | 30 June 2012 | | | 31 December 2011 | | |
|--|-------------------|--------------------|-------------|--------------|--------------------|-------------|------------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | Total £m |
| Individually assessed | 2,910 | 9,953 | 12,863 | 2,797 | 10,071 | 12,868 | 2,674 | 9,960 | 12,634 |
| Collectively assessed | 4,893 | 648 | 5,541 | 4,785 | 676 | 5,461 | 4,279 | 861 | 5,140 |
| Latent loss | 1,284 | 513 | 1,797 | 1,244 | 605 | 1,849 | 1,339 | 647 | 1,986 |
| Loans and advances to customers | 9,087 | 11,114 | 20,201 | 8,826 | 11,352 | 20,178 | 8,292 | 11,468 | 19,760 |
| Loans and advances to banks | 116 | 1 | 117 | 118 | 1 | 119 | 122 | 1 | 123 |
| Total provisions | 9,203 | 11,115 | 20,318 | 8,944 | 11,353 | 20,297 | 8,414 | 11,469 | 19,883 |
| Provisions as a % of REIL | 51% | 50% | 51% | 54% | 49% | 51% | 50% | 48% | 49% |
| Customer provisions as a % of customer loans (1) | 2.5% | 18.0% | 4.5% | 2.4% | 16.7% | 4.4% | 2.2% | 14.4% | 4.2% |

Note:

(1) Includes disposal groups and excludes reverse repos.

Key points

- Within Core, individually assessed provisions increased by £236 million in the year-to-date (Q3 2012 - £113 million), driven by UK Corporate and Ulster Bank corporate portfolios where individual impairment charges continue to outpace the level of write-offs. This has been partially offset by lower individual provisions within International Banking mainly as a result of a material write-off on a single counterparty in H1 2012.
- The increase in the year-to-date Core collectively assessed provisions reflects further impairment charges taken within Ulster Bank's mortgage portfolio, due to elevated levels of non-performing assets and increasing mortgage loss rate.

Risk and balance sheet management (continued)

Risk management: Credit risk (continued)

Ulster Bank Group (Core and Non-Core)

Overview

At 30 September 2012, Ulster Bank Group accounted for 10.1% (30 June 2012 and 31 December 2011 - 10.1%) of the Group's total gross loans to customers and 8.4% (30 June 2012 - 8.5%; 31 December 2011 - 8.6%) of the Group's Core gross loans to customers. The impairment charge for the first nine months of 2012 was £1,659 million (Q3 2012 - £493 million), mainly driven by the residential mortgage and commercial real estate portfolios. Increased unemployment, austerity measures and economic uncertainty have in general affected both residential and commercial mortgage affordability and reduced real estate lease rentals, which, together with limited liquidity, have depressed asset values and reduced consumer spending with a consequent downward impact on mortgage, property and SME lending. The impairment charge for the first nine months of 2011 was significantly higher at £3,148 million (Q3 2011 - £608 million), reflecting substantial deterioration in development land values during the first half of 2011.

Core

The impairment charge for the first nine months of 2012 was £1,046 million (Q3 2012 - £329 million), with the mortgage sector accounting for £511 million, 49% (Q3 2012 - £155 million, 47%). The impairment charge for the corresponding period in 2011 was £1,057 million (Q3 2011 - £327 million), with the mortgage sector accounting for £437 million, 41% (Q3 2011 - £126 million, 39%).

Non-Core

The impairment charge for the first nine months of 2012 was £613 million (Q3 2012 - £164 million). The commercial real estate sector accounted for £552 million, 90% (Q3 2012 - £154 million, 94%), within which the development segment accounted for £355 million, 64% (Q3 2012 - £93 million, 60%).

The impairment charge for the corresponding period in 2011 was £2,091 million (Q3 2011 - £281 million). The commercial real estate sector accounted for £1,933 million, 92% (Q3 2011 - £236 million, 84%), within which the

development segment accounted for £1,475 million, 76% (Q3 2011 - £162 million, 69%).

Risk and balance sheet management (continued)

Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

| Sector analysis | Gross loans £m | REIL £m | Provisions £m | Credit metrics | | | Year-to-date | |
|------------------------|-------------------|------------|------------------|---|--------------------------------------|---|----------------------------|------------------------------|
| | | | | REIL as a % of gross loans to customers % | Provisions as a % of REIL % | Provisions as a % of gross loans % | Impairment charge £m | Amounts written-off £m |
| 30 September 2012 | | | | | | | | |
| Core | | | | | | | | |
| Mortgages | 18,861 | 2,887 | 1,377 | 15.3 | 48 | 7.3 | 511 | 9 |
| Commercial real estate | | | | | | | | |
| - investment | 3,627 | 1,493 | 543 | 41.2 | 36 | 15.0 | 169 | - |
| - development | 739 | 345 | 173 | 46.7 | 50 | 23.4 | 38 | 2 |
| Other corporate | 7,624 | 2,109 | 1,282 | 27.7 | 61 | 16.8 | 292 | 8 |
| Other lending | 1,328 | 202 | 189 | 15.2 | 94 | 14.2 | 36 | 25 |
| | 32,179 | 7,036 | 3,564 | 21.9 | 51 | 11.1 | 1,046 | 44 |
| Non-Core | | | | | | | | |
| Commercial real estate | | | | | | | | |
| - investment | 3,490 | 2,804 | 1,374 | 80.3 | 49 | 39.4 | 197 | 3 |
| - development | 7,581 | 7,168 | 4,416 | 94.6 | 62 | 58.3 | 355 | 73 |
| Other corporate | 1,591 | 1,214 | 696 | 76.3 | 57 | 43.7 | 61 | 7 |
| | 12,662 | 11,186 | 6,486 | 88.3 | 58 | 51.2 | 613 | 83 |
| Ulster Bank Group | | | | | | | | |
| Mortgages | 18,861 | 2,887 | 1,377 | 15.3 | 48 | 7.3 | 511 | 9 |
| Commercial real estate | | | | | | | | |
| - investment | 7,117 | 4,297 | 1,917 | 60.4 | 45 | 26.9 | 366 | 3 |
| - development | 8,320 | 7,513 | 4,589 | 90.3 | 61 | 55.2 | 393 | 75 |
| Other corporate | 9,215 | 3,323 | 1,978 | 36.1 | 60 | 21.5 | 353 | 15 |
| Other lending | 1,328 | 202 | 189 | 15.2 | 94 | 14.2 | 36 | 25 |
| | 44,841 | 18,222 | 10,050 | 40.6 | 55 | 22.4 | 1,659 | 127 |

Risk and balance sheet management (continued)

Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

| Sector analysis | | | | Credit metrics | | | Year-to-date | |
|------------------------|-------------------|------------|------------------|---|--------------------------------------|---|----------------------------|------------------------------|
| | Gross loans £m | REIL £m | Provisions £m | REIL as a % of gross loans to customers % | Provisions as a % of REIL % | Provisions as a % of gross loans % | Impairment charge £m | Amounts written-off £m |
| 30 June 2012 | | | | | | | | |
| Core | | | | | | | | |
| Mortgages | 19,172 | 2,561 | 1,242 | 13.4 | 48 | 6.5 | 356 | 11 |
| Commercial real estate | | | | | | | | |
| - investment | 3,715 | 1,117 | 481 | 30.1 | 43 | 12.9 | 91 | - |
| - development | 762 | 335 | 164 | 44.0 | 49 | 21.5 | 24 | - |
| Other corporate | 7,908 | 2,010 | 1,226 | 25.4 | 61 | 15.5 | 217 | 2 |
| Other lending | 1,451 | 211 | 194 | 14.5 | 92 | 13.4 | 29 | 15 |
| | 33,008 | 6,234 | 3,307 | 18.9 | 53 | 10.0 | 717 | 28 |
| Non-Core | | | | | | | | |
| Commercial real estate | | | | | | | | |
| - investment | 3,698 | 2,929 | 1,430 | 79.2 | 49 | 38.7 | 136 | 3 |
| - development | 7,683 | 7,212 | 4,374 | 93.9 | 61 | 56.9 | 262 | 37 |
| Other corporate | 1,619 | 1,136 | 656 | 70.2 | 58 | 40.5 | 51 | 7 |
| | 13,000 | 11,277 | 6,460 | 86.7 | 57 | 49.7 | 449 | 47 |
| Ulster Bank Group | | | | | | | | |
| Mortgages | 19,172 | 2,561 | 1,242 | 13.4 | 48 | 6.5 | 356 | 11 |
| Commercial real estate | | | | | | | | |
| - investment | 7,413 | 4,046 | 1,911 | 54.6 | 47 | 25.8 | 227 | 3 |
| - development | 8,445 | 7,547 | 4,538 | 89.4 | 60 | 53.7 | 286 | 37 |
| Other corporate | 9,527 | 3,146 | 1,882 | 33.0 | 60 | 19.8 | 268 | 9 |
| Other lending | 1,451 | 211 | 194 | 14.5 | 92 | 13.4 | 29 | 15 |
| | 46,008 | 17,511 | 9,767 | 38.1 | 56 | 21.2 | 1,166 | 75 |

Risk and balance sheet management (continued)

Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

| Sector analysis | Gross loans £m | REIL £m | Provisions £m | Credit metrics | | | Full year | |
|------------------------|-------------------|------------|------------------|---|--------------------------------------|---|----------------------------|------------------------------|
| | | | | REIL as a % of gross loans to customers % | Provisions as a % of REIL % | Provisions as a % of gross loans % | Impairment charge £m | Amounts written-off £m |
| 31 December 2011 | | | | | | | | |
| Core | | | | | | | | |
| Mortgages | 20,020 | 2,184 | 945 | 10.9 | 43 | 4.7 | 570 | 11 |
| Commercial real estate | | | | | | | | |
| - investment | 3,882 | 1,014 | 413 | 26.1 | 41 | 10.6 | 225 | - |
| - development | 881 | 290 | 145 | 32.9 | 50 | 16.5 | 99 | 16 |
| Other corporate | 7,736 | 1,834 | 1,062 | 23.7 | 58 | 13.7 | 434 | 72 |
| Other lending | 1,533 | 201 | 184 | 13.1 | 92 | 12.0 | 56 | 25 |
| | 34,052 | 5,523 | 2,749 | 16.2 | 50 | 8.1 | 1,384 | 124 |
| Non-Core | | | | | | | | |
| Commercial real estate | | | | | | | | |
| - investment | 3,860 | 2,916 | 1,364 | 75.5 | 47 | 35.3 | 609 | 1 |
| - development | 8,490 | 7,536 | 4,295 | 88.8 | 57 | 50.6 | 1,551 | 32 |
| Other corporate | 1,630 | 1,159 | 642 | 71.1 | 55 | 39.4 | 173 | 16 |
| | 13,980 | 11,611 | 6,301 | 83.1 | 54 | 45.1 | 2,333 | 49 |
| Ulster Bank Group | | | | | | | | |
| Mortgages | 20,020 | 2,184 | 945 | 10.9 | 43 | 4.7 | 570 | 11 |
| Commercial real estate | | | | | | | | |
| - investment | 7,742 | 3,930 | 1,777 | 50.8 | 45 | 23.0 | 834 | 1 |
| - development | 9,371 | 7,826 | 4,440 | 83.5 | 57 | 47.4 | 1,650 | 48 |
| Other corporate | 9,366 | 2,993 | 1,704 | 32.0 | 57 | 18.2 | 607 | 88 |
| Other lending | 1,533 | 201 | 184 | 13.1 | 92 | 12.0 | 56 | 25 |
| | 48,032 | 17,134 | 9,050 | 35.7 | 53 | 18.8 | 3,717 | 173 |

Risk and balance sheet management (continued)

Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

Key points

- Core REIL increased by £1,513 million or 27% to £7,036 million year-to-date at 30 September 2012 (Q3 2012 - £802 million or 13%) of which mortgages accounted for £703 million (Q3 2012 - £326 million) as a result of an increase in arrears.
- Core mortgage REIL as a percentage of gross mortgages was 15.3% at 30 September 2012 compared with 13.4% at 30 June 2012 and 10.9% at 31 December 2011, the trend reflecting continuing deterioration of macroeconomic factors. The number of properties repossessed in the first nine months of 2012 was 102 (Q3 2012 - 17), compared with 134 in the same period in 2011 (Q3 2011 - 36).
- Year-to-date, commercial real estate accounted for £534 million or 35% of the increase in total Core REIL (Q3 2012 - £386 million, 48%). The movement in the quarter was driven by a small number of restructuring arrangements for higher value real estate customers.
- The provision coverage ratio for total Core corporate portfolio increased during H1 2012 (from 51.6% at 31 December 2011 to 54.0%), reflecting additional impairment charges on the defaulted book due to further deterioration in collateral values. It then decreased to 50.6% in Q3 2012, mainly driven by three material newly defaulted customers with lower provision requirements (accounting for £294 million or 60% of the Q3 2012 increase in Core corporate REIL).
- At 30 September 2012 £2.1 billion (30 June 2012 - £1.9 billion; 31 December 2011 - £1.8 billion) of the mortgage book was on a forbearance arrangement.
- Non-Core REIL decreased by £425 million or 4% year-to-date to £11,186 million at 30 September 2012, reflecting lower defaults as well as recoveries and write-offs. At 30 September 2012, 61% (30 June 2012 - 64%; 31 December 2011 - 68%) of REIL was in Non-Core, of which the commercial real estate development portfolio accounted for 64%, broadly unchanged from the positions at 30 June 2012 and 31 December 2011.

Risk and balance sheet management (continued)

Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

Commercial real estate

The commercial real estate lending portfolio for Ulster Bank (Core and Non-Core) totalled £15.4 billion at 30 September 2012, of which £11.1 billion or 72% was in Non-Core. The geographic split of the total Ulster Bank Group commercial real estate portfolio remained similar to 31 December 2011, with 62.2% in the Republic of Ireland, 26.4% in Northern Ireland, 11.3% in the UK (excluding Northern Ireland) and 0.1% in Western Europe.

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| Exposure by geography | Investment | | Development | | Total £m |
|-----------------------|------------------|-------------------|------------------|-------------------|-------------|
| | Commercial £m | Residential £m | Commercial £m | Residential £m | |
| 30 September 2012 | | | | | |
| Ireland (ROI and NI) | 4,717 | 1,015 | 2,272 | 5,666 | 13,670 |
| UK (excluding NI) | 1,280 | 91 | 81 | 287 | 1,739 |
| RoW | 13 | 1 | 5 | 9 | 28 |
| | 6,010 | 1,107 | 2,358 | 5,962 | 15,437 |
| 30 June 2012 | | | | | |
| Ireland (ROI and NI) | 4,939 | 1,077 | 2,315 | 5,719 | 14,050 |
| UK (excluding NI) | 1,287 | 96 | 91 | 304 | 1,778 |
| RoW | 14 | - | 5 | 11 | 30 |
| | 6,240 | 1,173 | 2,411 | 6,034 | 15,858 |
| 31 December 2011 | | | | | |
| Ireland (ROI and NI) | 5,097 | 1,132 | 2,591 | 6,317 | 15,137 |
| UK (excluding NI) | 1,371 | 111 | 95 | 336 | 1,913 |
| RoW | 27 | 4 | - | 32 | 63 |
| | 6,495 | 1,247 | 2,686 | 6,685 | 17,113 |

Key points

- Commercial real estate remains the primary sector contributing to the Ulster Bank Group defaulted loan book. A further modest reduction in exposure to the sector was seen during the quarter, partly reflecting foreign exchange rate movements and continuing the Group's strategy to reduce concentration risk.
- The outlook for the property sector remains challenging. While there may be some signs of stabilisation in main urban centres, the outlook continues to be negative for secondary locations on the island of Ireland.
- A small number of additional larger exposures defaulted and were subject to restructuring during the third quarter. In particular, three customers with low provision coverage accounted for £294 million (60%) of the increase in Core corporate REIL in the third quarter.
- During the third quarter, Ulster Bank experienced further migration of commercial real estate exposures to its problem management framework, where various measures may be agreed to assist customers whose loans are performing but who are experiencing temporary financial difficulties. During the first nine months of 2012, performing loans of £55 million (each having exposures greater than £10 million) benefited from such measures.
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During the first nine months of 2012, impaired loans of £628 million with provisions of £181 million (for exposures greater than £10 million) were restructured and remained in the non-performing book at 30 September 2012.

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: 02 November 2012

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary