RBS Group

Annual Results

For the year ended 31 December 2012

rbs.com

Contents

Forward-looking statements

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

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

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

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

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

Highlights

RBS reports a 2012 operating profit[1] of £3,462 million, up from £1,824 million in 2011
Core RBS 2012 operating profit £6,341 million versus £6,045 million in 2011
2012 Core return on tangible equity 10%
2012 pre-tax loss of £5,165 million, after £4,649 million accounting charge for improved own credit
Core Tier 1 ratio 10.3%, loan:deposit ratio 100%, Non-Core assets down to £57 billion

"RBS is four years into its recovery plan and good progress has been made. We are a much smaller, more focused and stronger bank. Our target is for 2013 to be the last big year of restructuring. There will be important work still to do, but an increasingly sound base from which to work. As the spotlight shifts to the 'new RBS' post restructuring, we are determined that it will show a leading UK bank striving to be a really good bank. By serving customers well RBS can become one of the most respected, valued and stable of banks. That is our goal."

Stephen Hester, Group Chief Executive

Highlights

Rebuilding financial resilience

- RBS has made good progress on the safety and soundness agenda at the heart of its five year recovery plan:
  - Funded assets were down £107 billion in 2012 to £870 billion, driven by Non-Core and Markets.
  - Risk-weighted assets decreased by £48 billion to £460 billion, with £21 billion Q4 reduction.
  - Core Tier 1 ratio of 10.3%, up from 9.7% in 2011[2].
  - Strong and liquid balance sheet, with loan book now 100% funded by customer deposits.
  - Short-term wholesale funding down a further £60 billion in 2012 to £42 billion, covered 3.5 times by the Group's high quality liquid asset portfolio.
- RBS's strengthening credit profile has been recognised in traded debt markets, with CDS spreads more than halving over the course of 2012 and secondary bond spreads tightening by more than 340 basis points. This strengthening resulted in a 2012 accounting charge for improved own credit of £4,649 million, compared with a credit of £1,914 million in 2011.
- Loan impairment provision balances were raised to £21.3 billion, increasing coverage of risk elements in lending to 52%, compared with 49% in 2011.
- Risk-weighted assets were 53% of funded assets at 31 December 2012, above the average of peers in the UK and Europe. The Group absorbed £44 billion of regulatory RWA increases in 2012.

Significant improvement in operating performance in 2012

- Group operating profit[1] in 2012 was £3,462 million, almost double 2011's result, with a steady improvement in Core and a 32% reduction in Non-Core losses.
- Core operating profit totalled £6,341 million, up 5% from 2011, with Retail & Commercial down 6%, reflecting weaker income, but Markets improving by 68%.
  - Income was down 4%, driven by UK Retail and International Banking.

Significant improvement in operating performance in 2012 (continued)

- Expenses decreased by 4%, with continuing benefits from the cost reduction programme launched in 2009 and a 6,600 reduction in Core staffing levels.
- Impairment charge declined by 13% to £3,056 million, with improved credit trends in UK Retail and US Retail & Commercial coupled with stabilisation, though still at elevated levels, in Core Ulster Bank.

- Non-Core operating losses were £2,879 million, £1,342 million lower than 2011, mainly driven by a significant fall in impairments in the Ulster Bank and other real estate portfolios.

Milestones towards recovery

- RBS passed a number of significant milestones in 2012 as it moved towards becoming a stable, capital-generative business capable of providing outstanding service to its customers.
    - Resumption of coupon payments on hybrid capital instruments.
    - Exit from the UK Government Asset Protection Scheme with no claims made.
    - Repayment in full of remaining Special Liquidity Scheme and Credit Guarantee Scheme funding.
    - Successful flotation of Direct Line Group.
    - Relaunch of the sale process for 315 profitable branches required to be sold under the EC State Aid agreement.
    - Restructuring of the Markets business with balance sheet and capital intensity reduced further.
    - Over £200 billion of Non-Core funded assets taken off the balance sheet since 2008.

Working through legacy conduct issues

- 2012 has brought significant challenges as RBS has continued to work through the conduct issues resulting from past failings while seeking to lay the foundations for changes to bring about a healthier and more sustainable culture and do its part to enable the banking industry to rebuild reputation. These conduct issues have had a material financial impact on the Group, in addition to reputational damage.
- On 6 February 2013, RBS reached agreement with the Financial Services Authority, the US Department of Justice and the Commodity Futures Trading Commission in relation to the setting of LIBOR and other trading rates, including financial penalties of £381 million. The Group continues to co-operate with other bodies in this regard and expects it will incur some additional financial penalties.
- A further £450 million charge was taken in Q4 in relation to Payment Protection Insurance (PPI) claims. This strengthened the cumulative provision for PPI to £2.2 billion, from which £1.3 billion in redress had been paid by 31 December 2012.
- In Q2 2012 RBS provided £50 million for the redress it expected to offer retail classified clients who had been sold structured collar products. Following the Financial Services Authority's announcement of its pilot review findings and redress framework, a further charge of £650 million has been booked in Q4 2012 to meet the additional costs of redress to the broader SME customer set who bought other simpler interest rate hedging products, largely in the period 2001-2008 when interest rates were significantly higher.

Continuing commitment to customers in challenging times

- RBS is committed to serving its customers well and helping them realise their ambitions. We strive to earn their trust by focusing on their needs and delivering excellent service.
- In 2012, the Group served its core customer base of 33 million, three quarters of it in the UK.
- RBS has maintained its support for UK households and businesses by ensuring that credit remains appropriately available. In 2012 the Group:
  - Offered more than £58 billion of loans and facilities to UK businesses, of which more than £30 billion was to SMEs, and renewed £27 billion of overdrafts including £8 billion for SMEs.
  - Advanced £16 billion of UK home loans, including £3 billion to first time buyers.
  - Accounted for 36% of all SME lending, compared with its overall customer market share of 24%.

Outlook

We expect the economic and regulatory challenges present in 2011 and 2012 to continue into 2013. Growth prospects in the UK, the Group's most important market, remain subdued, while a degree of macro-economic risk persists in the Eurozone and more generally within the global economy.

We will continue to focus on maintaining a strong balance sheet and further improving our capital position. Our funding and liquidity positions are very strong, providing capacity for Core loan growth if demand is there as we move through 2013.

Against this backdrop, Retail & Commercial performance is expected to be stable or improve, primarily as a result of gently declining impairments within Ulster Bank and good cost control. Group net interest margins are expected to be broadly stable, improving slightly over the course of the year. Markets-related income is, as ever, difficult to forecast but we expect lower income in 2013 as a result of reduced balance sheet and associated restructuring.

Non-Core continues to make good progress and we are confident of achieving our asset reduction target for 2013. The overall loss is expected to decline somewhat compared with 2012.

Below the line itemised charges are expected to be lower than in 2012.

Having made strong progress, RBS is targeting for the most important restructuring actions to be substantially complete by the end of 2013, with the Group thereby positioned to be a cleaner and better performing bank in future years.

Notes:

(1) Operating profit before tax, own credit adjustments, Asset Protection Scheme, Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs, regulatory fines, sovereign debt impairment, interest rate hedge adjustments on impaired available-for-sale sovereign debt, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bank levy, bonus tax, write-down of goodwill and other intangible assets and RFS Holdings minority interest and includes the results of Direct Line Group on a managed basis, which are included in discontinued operations in the statutory results ('operating profit'). Statutory operating loss before tax was £5,165 million (2011 - £1,190 million) for the year ended 31 December 2012.

(2) Excluding Asset Protection Scheme relief.

Contacts

For analyst enquiries:

Richard O'Connor	Head of Investor Relations	+44 (0) 20 7672 1758

For media enquiries:

Group Media Centre		+44 (0) 131 523 4205

Results presentation

RBS will be hosting a presentation for analysts and investors, available via a live webcast and audio call.

The details are as follows:

Date:	Thursday 28 February 2013
Time:	9.30 am UK time
Webcast:	www.rbs.com/results
Dial in details:	International – +44 (0) 1452 568 172 UK Free Call – 0800 694 8082 US Toll Free – 1 866 966 8024

Slides

Slides accompanying this presentation will be available on www.rbs.com/results

Financial supplement

A financial supplement containing income and balance sheet information for the last nine quarters will be available on www.rbs.com/results

Presentation of information

The financial information on pages 7 to 77, prepared using the Group's accounting policies, shows the underlying performance of the Group on a managed basis which excludes certain one-off and other items. Information is provided in this form to give a better understanding of the results of the Group's operations. Group operating profit on this basis excludes:

- own credit adjustments;
- Asset Protection Scheme (APS);
- Payment Protection Insurance (PPI) costs;
- Interest Rate Hedging Products (IRHP) redress and related costs;
- regulatory fines;
- sovereign debt impairment;
- interest rate hedge adjustments on impaired available-for-sale sovereign debt;
- amortisation of purchased intangible assets;
- integration and restructuring costs;
- gain/(loss) on redemption of own debt;
- strategic disposals;
- bank levy;
- bonus tax;
- write-down of goodwill and other intangible assets; and
- RFS Holdings minority interest (RFS MI).

and includes the results of Direct Line Group on a managed basis, which are included in discontinued operations in the statutory results.

Statutory results

The condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related notes presented on pages 78 to 139 inclusive are on a statutory basis. Reconciliations between the managed basis and statutory basis are included in Appendix 1.

Disposal groups

Since 2011, the assets and liabilities relating to the RBS England and Wales and NatWest Scotland branch-based businesses, along with certain SME and corporate activities across the UK ('UK branch-based businesses'), were classified within Disposal groups. Santander's withdrawal from the sale in October 2012 has led the Group to conclude that a sale within 12 months is unlikely; accordingly the balance sheet at 31 December 2012 does not classify the assets and liabilities of the UK branch-based businesses within Disposal groups. IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' does not permit restatement on reclassification.

Discontinued operations

The Group sold the first tranche (34.7%) of the share capital of Direct Line Insurance Group plc (DLG) in October 2012 via an Initial Public Offering, consistent with the plan to cede control by the end of 2013. In accordance with IFRS 5, DLG has been recognised as a discontinued operation with consequent changes to the presentation of comparative information. The assets and liabilities relating to DLG are included in Disposal groups as at 31 December 2012.

Restatements

Divisional reorganisation and Group reporting changes

During the year, details of a divisional reorganisation and certain Group reporting changes were announced. These are discussed below. Comparative data have been restated to reflect these changes.

Organisational change

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

Revised allocation of Group Treasury costs

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

Revised divisional return on equity ratios

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

Fair value of own debt and derivative liabilities

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

Share consolidation

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

Summary consolidated income statement
for the period ended 31 December 2012

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Net interest income	**11,695**	12,689	2,842	2,873	3,076
Non-interest income (excluding insurance net premium income)	**10,374**	10,764	1,999	2,653	1,664
Insurance net premium income	**3,718**	4,256	919	932	981
Non-interest income	**14,092**	15,020	2,918	3,585	2,645
Total income (1)	**25,787**	27,709	5,760	6,458	5,721
Operating expenses (2)	**(14,619)**	(15,478)	(3,119)	(3,639)	(3,644)
Profit before insurance net claims and impairment losses	**11,168**	12,231	2,641	2,819	2,077
Insurance net claims	**(2,427)**	(2,968)	(606)	(596)	(529)
Operating profit before impairment losses (3)	**8,741**	9,263	2,035	2,223	1,548
Impairment losses (4)	**(5,279)**	(7,439)	(1,454)	(1,176)	(1,692)
Operating profit/(loss) (3)	**3,462**	1,824	581	1,047	(144)
Own credit adjustments	**(4,649)**	1,914	(220)	(1,455)	(472)
Asset Protection Scheme	**(44)**	(906)	-	1	(209)
Payment Protection Insurance costs	**(1,110)**	(850)	(450)	(400)	-
Interest Rate Hedging Products redress and related costs	**(700)**	-	(700)	-	-
Regulatory fines	**(381)**	-	(381)	-	-
Sovereign debt impairment	**-**	(1,099)	-	-	(224)
Amortisation of purchased intangible assets	**(178)**	(222)	(32)	(47)	(53)
Integration and restructuring costs	**(1,550)**	(1,064)	(620)	(257)	(478)
Gain/(loss) on redemption of own debt	**454**	255	-	(123)	(1)
Strategic disposals	**113**	(104)	(16)	(23)	(82)
Bank levy	**(175)**	(300)	(175)	-	(300)
Write-down of goodwill and other intangible assets	**(518)**	(11)	(518)	-	(11)
Other items	**(20)**	(203)	(2)	(1)	(2)
Operating loss including the results of Direct Line Group discontinued operations	**(5,296)**	(766)	(2,533)	(1,258)	(1,976)
Direct Line Group discontinued operations (5)	**131**	(424)	334	(82)	(63)
Operating loss before tax	**(5,165)**	(1,190)	(2,199)	(1,340)	(2,039)
Tax (charge)/credit	**(469)**	(1,127)	(46)	(10)	213
Loss from continuing operations	**(5,634)**	(2,317)	(2,245)	(1,350)	(1,826)
(Loss)/profit from discontinued operations, net of tax					
- Direct Line Group	**(184)**	301	(351)	62	36
- Other	**12**	47	6	5	10
(Loss)/profit from discontinued operations, net of tax	**(172)**	348	(345)	67	46
Loss for the period	**(5,806)**	(1,969)	(2,590)	(1,283)	(1,780)
Non-controlling interests	**123**	(28)	107	(3)	(18)
Other owners' dividends	**(288)**	-	(114)	(98)	-
Loss attributable to ordinary and B shareholders	**(5,971)**	(1,997)	(2,597)	(1,384)	(1,798)

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

Core summary consolidated income statement for the period ended 31 December 2012

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Net interest income	**11,451**	12,041	2,789	2,794	2,977
Non-interest income (excluding insurance net premium income)	**10,330**	10,510	2,084	2,682	2,050
Insurance net premium income	**3,718**	3,970	919	932	972
Non-interest income	**14,048**	14,480	3,003	3,614	3,022
Total income (1)	**25,499**	26,521	5,792	6,408	5,999
Operating expenses (2)	**(13,675)**	(14,183)	(2,912)	(3,427)	(3,330)
Profit before insurance net claims and impairment losses	**11,824**	12,338	2,880	2,981	2,669
Insurance net claims	**(2,427)**	(2,773)	(606)	(596)	(590)
Operating profit before impairment losses (3)	**9,397**	9,565	2,274	2,385	2,079
Impairment losses (4)	**(3,056)**	(3,520)	(751)	(752)	(941)
Operating profit (3)	**6,341**	6,045	1,523	1,633	1,138
Key metrics					
Core performance ratios					
- Net interest margin	**2.16%**	2.16%	2.16%	2.15%	2.07%
- Cost:income ratio (6)	**59%**	60%	56%	59%	62%
- Return on equity	**9.8%**	10.4%	9.1%	9.7%	7.6%
- Adjusted earnings/(loss) per ordinary and B share (7)	**18.3p**	6.1p	1.8p	6.1p	(5.3p)
- Adjusted earnings per ordinary and B share assuming a normalised tax rate of 24.5% (2011 - 26.5%) (7)	**41.9p**	41.0p	10.3p	10.3p	7.6p

Notes:

(1) Excluding own credit adjustments, Asset Protection Scheme, gain on redemption of own debt, strategic disposals and RFS Holdings minority interest, and including Direct Line Group, which is classified as a discontinued operation on a statutory basis.

(2) Excluding PPI costs, IRHP redress and related costs, regulatory fines, amortisation of purchased intangible assets, integration and restructuring costs, bank levy, bonus tax, write-down of goodwill and other intangible assets and RFS Holdings minority interest, and including Direct Line Group, which is classified as a discontinued operation on a statutory basis.

(3) Operating profit/(loss) before tax, own credit adjustments, Asset Protection Scheme, PPI costs, IRHP redress and related costs, regulatory fines, sovereign debt impairment, interest rate hedge adjustments on impaired available-for-sale sovereign debt, amortisation of purchased intangible assets, integration and restructuring costs, gain/(loss) on redemption of own debt, strategic disposals, bank levy, bonus tax, write-down of goodwill and other intangible assets and RFS Holdings minority interest, and includes the results of Direct Line Group, which is classified as a discontinued operation.

(4) Excluding sovereign debt impairment and related interest rate hedge adjustments and including Direct Line Group, which is classified as a discontinued operation on a statutory basis.

(5) Analysis provided in Note 12. Included within Direct Line Group discontinued operations are the managed basis divisional results of Direct Line Group (DLG), certain DLG related activities in Central items; and related one-off and other items including write-down of goodwill, integration and restructuring costs and strategic disposals.

(6) Cost:income ratio is based on total income and operating expenses as defined in (1) and (2) above and after netting insurance claims against income.

(7) Data for 2011 have been adjusted for the sub-division and one-for-ten consolidation of ordinary shares, which took effect in June 2012.

Analysis of results available on pages 18 to 29.

Results for the last nine quarters are available in the Group's Financial Supplement.

Summary consolidated balance sheet
at 31 December 2012

	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Net loans and advances to banks (1,2)	**29,168**	38,347	43,870
Net loans and advances to customers (1,2)	**430,088**	423,155	454,112
Reverse repurchase agreements and stock borrowing	**104,830**	97,935	100,934
Debt securities and equity shares	**172,670**	193,249	224,263
Other assets (3)	**133,636**	156,037	154,070
Funded assets	**870,392**	908,723	977,249
Derivatives	**441,903**	468,171	529,618
Total assets	**1,312,295**	1,376,894	1,506,867
Bank deposits (2,4)	**57,073**	58,127	69,113
Customer deposits (2,4)	**433,239**	412,712	414,143
Repurchase agreements and stock lending	**132,372**	142,565	128,503
Debt securities in issue	**94,592**	104,157	162,621
Settlement balances and short positions	**33,469**	46,989	48,516
Subordinated liabilities	**26,773**	25,309	26,319
Other liabilities (3)	**29,996**	50,842	57,616
Liabilities excluding derivatives	**807,514**	840,701	906,831
Derivatives	**434,333**	462,300	523,983
Total liabilities	**1,241,847**	1,303,001	1,430,814
Non-controlling interests	**2,318**	1,194	1,234
Owners' equity	**68,130**	72,699	74,819
Total liabilities and equity	**1,312,295**	1,376,894	1,506,867
Memo: Tangible equity (5)	**49,841**	53,157	55,217

Notes:
(1) Excludes reverse repurchase agreements and stock borrowing.
(2) Excludes disposal groups (see page 113).
(3) Includes disposal groups (see page 113).
(4) Excludes repurchase agreements and stock lending.
(5) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets.

For further details on the Balance Sheet refer to pages 80 to 82.

Comment

Philip Hampton, Group Chairman, letter to shareholders:

The plan to rebuild RBS from 2009 has been based on two primary elements. The first was to stabilise the company, making it safe so that it could stand on its own feet. The second was to focus our energies on serving customers well. We were clear that the plan would take time and that it would take five years and more for key aspects to be delivered.

Four years on, I am pleased to report that we made more progress in 2012, passing a number of important milestones. Perhaps the most significant was when, with our regulator's agreement, we exited the Asset Protection Scheme in October, the earliest date at which that was possible. We were able to do so because we have made RBS safer. Our Core Tier 1 capital ratio was 10.3% at the end of 2012, above our target, despite some large unplanned charges. The balance sheet is smaller, falling by a further £195 billion to £1,312 billion, as the run-down of Non-Core assets continued faster than we first planned. Our funding is more stable too, with the Group loan to deposit ratio at 100% or 90% in our Core business and our liquidity portfolio is 3.5x times short-term wholesale funding.

We have achieved all of this in the most testing economic environment for many decades. The UK economy is still smaller than before the crisis struck and the US economy is only slightly bigger. This weakness in the main economies where we operate was a headwind to our plans, and regulatory changes have further reduced our return on equity in some areas. In particular, lower returns from investment banking activities necessitated further restructuring.

Much of what RBS has accomplished since 2009 has been down to the hard work, professionalism and commitment of our people. I would like to thank every one who did their best for our customers in 2012.

However, it became painfully clear during the year that some of our employees had behaved in ways that do not represent the values of RBS. Their misconduct casts a shadow across our progress and the good work of many thousands in the Group. I have already spoken about the behaviour of some people in RBS in making LIBOR submissions. It was wrong. The RBS Board has acknowledged that there were serious shortcomings in our risk and control systems, and also in the integrity of a small group of our employees, and has taken action to ensure full and proper accountability.

At times like these, your Board and the senior management of the company have a duty to lead. Our response has been diligent and determined in tackling any hint of misconduct and other failings, past or present. Our job has been three-fold: to understand what had happened and why, to put it right and then to minimise the chance that such problems happen again.

The failure of one of our IT systems in June had unacceptable consequences for many of our customers in the UK and the Republic of Ireland. The Board Risk Committee has led a rigorous review of what went wrong. The Committee has sought to ensure that customers who were affected are appropriately compensated. It will continue to oversee the management of technology risks and lead our communication with customers, regulators and others when the investigations conclude. The response of our staff in branches, call centres and elsewhere in dealing with the problems we had caused to our customers was outstanding.

Philip Hampton, Group Chairman, letter to shareholders: (continued)

While these failings show our continuing need to improve our risk and control systems, they at times had a deeper cause. Some employees put their own interests well ahead of customers' and shareholders', ignoring the difference between right and wrong. Your Board expects our people to demonstrate the highest standards of personal and professional conduct. We know that our shareholders, our customers and others will hold us to high standards. It is a matter of great regret that the conduct and values of a very small number of our people fell so far short of what we expect.

That is why your Board is determined to ensure that RBS exemplifies the culture you would expect in a bank that serves customers well and makes an important contribution to the communities where we operate. It is why we have taken steps to manage more effectively what the industry now calls conduct risk. In short, this is the risk that the company is damaged because our people do not behave properly. The Board Risk Committee has supervised the development of our approach to conduct risk management. Together, the Board Risk Committee and Remuneration and Performance Committee have developed proposals that mean our reward policies will support good conduct.

As a Board, we are determined that RBS should be known in future for how we behave as well as for commercial success.

On LIBOR, IT and many other issues, my fellow directors have shouldered a considerable and growing burden of work. I wish to thank them for that and for their support throughout the year.

We know our future performance will be heavily influenced by economic conditions. Consensus forecasts for 2013 give some hope that this year will see a return to modest growth in the UK and continued, if moderate, expansion in the US. Compared with a year ago, the problems of the euro area appear less pressing though key challenges remain. Governments and central banks are now managing that crisis more effectively and they have started to put in place the financial infrastructure needed to sustain the euro. We are entitled to some confidence that the economic environment in 2013 will be better than at any time since the financial crisis struck in 2007.

We are delivering what we said we would do in our strategic plan. We have made RBS safer. It is much closer now to being in the good financial health that would allow shareholders to receive a dividend and the Government to start to sell its stake. The challenge that remains is to serve customers better and to do business in a way that makes you and us proud to be part of RBS.

Stephen Hester, Group Chief Executive, letter to shareholders:
RBS is four years into its recovery plan and good progress has been made. We are a much smaller, more focused and stronger bank. Our target is for 2013 to be the last big year of restructuring. There will be important work still to do, but an increasingly sound base from which to work. As the spotlight shifts to the 'new RBS' post restructuring, we are determined that it will show a leading UK bank striving to be a really good bank. By serving customers well RBS can become one of the most respected, valued and stable of banks. That is our goal.

2012 saw landmark achievements for RBS. It was also a chastening year. Along with the rest of the banking industry we faced significant reputational challenges as we worked with regulators to put right past mistakes. We are determined to overcome the cultural and reputational baggage of pre-crisis times with the same focus we have applied to the financial clean-up from that era.

Priorities
The Bank's purpose is to serve customers well. The better we do this the better the results will be for all our stakeholders over time.

We need to complete and sustain our return to a safe and conservative risk profile.

And these priorities need in turn to produce a sustainable result for shareholders, and to create the opportunity for taxpayer share sales.

If we make continued progress across these priorities, and do it in the right way, we can become a really good bank and serve our stakeholders and society well.

2009-2012 Report Card
During the last four years RBS has:

- Sustained its 33 million customer franchise in the face of substantial restructuring and other pressures. Lending balances to Core UK businesses and homeowners (excluding commercial real estate) were grown by 3% while the wider economy shrank by over 1%.
- Rebuilt financial resilience. RBS's huge restructuring process is moving successfully to its later stages. From their worst point, total assets are down £906 billion, short-term wholesale borrowing is £255 billion down. Risk concentrations are well down. Balance sheet leverage is reduced from 21x to 15x. In each case we are well ahead of original targets. And a Core Tier 1 capital ratio of 10.3% provides us some 3.5 times more capital per unit of equivalent risk than pre-crisis levels.
- Reached a loan to deposit ratio - perhaps the clearest indicator of a bank's funding prudence - of 1:1 from a worst point of 154%. Achieving this 'golden rule' of banking is a powerful symbol of our recovery.
- Produced £43 billion in pre-impairment profits from Core businesses. These have been used to self fund the majority of £52 billion of legacy losses, loan impairments, restructuring charges, regulatory costs and other clean-up items.

Stephen Hester, Group Chief Executive, letter to shareholders: (continued)

2012 Results

2012 saw landmark achievements in our restructuring plan. It saw sustained customer lending support. A 61% share price rise during the year (and 215% versus the January 2009 low point) underlined an improvement of investor belief in our future and that of the banking sector generally.

The critical task of financial stabilisation passed milestones as RBS recommenced preference share dividends, completed the repayment of all crisis liquidity facilities from public authorities and exited the UK Government £282 billion Asset Protection Scheme without making any claim under it. The notable flotation of Direct Line Group represented the third of four EU state aid conditions and offset the disappointment of Santander withdrawing from its agreed purchase of 315 branches from RBS.

Underlining this progress, RBS 5 year bonds traded at c.1% credit spreads compared to their wide levels earlier in the year of c.4.5%. The resultant own-credit accounting charge of £4.6 billion reflects this huge improvement in the perceived credit quality of RBS.

Core Bank operating profits were £6.3 billion of which Retail and Commercial businesses were £5.3 billion (excluding Ulster Bank) and Markets £1.5 billion. Non-Core losses declined again (32% to £2.9 billion) and Non-Core assets also fell ahead of target to £57 billion. We expect to slow the pace and cost of the remaining run-down once we hit the £40 billion asset target for the end of 2013. Exceptional charges in relation to Payment Protection Insurance claims, LIBOR settlements and interest rate hedging product redress, together with the own credit adjustment, resulted in a loss before tax of £5,165 million.

In a tough economic environment, most of the banking industry's ongoing businesses are running hard to stand still, and so it was at RBS. But the existing level of operating performance is essential to fund our historic clean-up with the moment coming ever closer when these costs are behind us and rewards flow directly once more to shareholders.

Reputation

Our industry faces a tough challenge rebuilding its reputation. 2012 was a wrenching year on that front as the cultural clean-up came to the fore which was always a companion to physical changes required from pre-crisis times.

Expectations are changing fast and even past ones have not been lived up to often enough. And the mistakes of some, grievous in cases, are tainting the efforts of the majority of bank staff. Most banks have past failings on a range of fronts. For RBS the two worst in the past year were LIBOR and our IT incident - quite different though they are.

There is no single solution or dramatic action able to address this problem. The best companies in the world in any industry develop, almost as part of their DNA, the consistent commitment to serve customers well and act accordingly. Our sights are set here. The facts and the culture that drives them will be established one piece at a time across many many issues. But we have no higher priority.

Stephen Hester, Group Chief Executive, letter to shareholders: (continued)

Strategy
The new RBS is a leading UK bank anchored in retail and commercial business lines. Our businesses are shaped around customer needs with substantial competitive strengths in their respective fields. Each unit is being retooled to provide improved and enduring performance and to meet new external challenges. We sustain strong capabilities internationally and in financial markets to support the needs of our customers and shareholders. Our businesses are managed to add value in their own right but to provide a stronger, more balanced and valuable whole through vital cross-business linkages.

The physical weaknesses uncovered by the financial crisis - of leverage, risk concentration and business stretch - are close to being fixed. RBS's total assets have already been reduced by £906 billion from their peak in 2008 - more than any other entity worldwide has achieved.

The principles behind this strategy are sound and working. But it will continue to evolve. A much slower economic recovery and tougher set of regulatory and policy pressures need to be absorbed. We have done this with more emphasis on customer service, balance sheet conservatism and while asking staff to do more with less during a period of significant change. Our business ambitions have been trimmed as a necessary reaction.

But whatever the outside conditions and evolution of strategy we are clear about the interrelated nature of our priorities. To serve customers well, run only prudent risk and reward shareholders over the longer term.

In this context we have set a new medium-term target for our Markets business, which is an important part of our service to corporate and institutional customers. We aim to further reduce its scale and scope, targeting capital consumption of £80 billion RWAs whilst sustaining the service provided to our customer base.

Additionally, the Board has decided it is now the right time to begin work on a partial flotation of Citizens, our US banking business, targeted probably at around 2 years from now. Citizens is a good business, serving around 5 million customers in the north east of the United States where it is has a strong market position. It has been substantially improved since 2009 and a local public listing will help to highlight its growing value. This provides a positive opportunity for Citizens and its 14,700 employees, as well as being a sensible move for RBS as a whole.

People
The banking industry has come down to earth hard. While a more balanced global economy has clear merits, the changes, pressures and adjustments asked of our people remain high. And successful results are vital for the many who rely on us. The engagement, dedication and professionalism of RBS employees remains outstanding and has much to be commended.

Concluding remarks
RBS is coming through an immense and wrenching restructuring. Much has been achieved and that should underpin our energy for what remains. Much is already good about our Core business, how it serves customers, how it performs. Our ambition is to be a really good bank - for all our stakeholders. Simple to say. A lot still to do. Many will benefit from our achieving that goal.

I thank our staff and all our stakeholders for their continued support in this effort.

Supporting our UK customers

Over the last four years, RBS has increased Core lending (excluding commercial real estate) to UK businesses and homeowners by 3%[1], maintaining its support for its UK customers despite the wider economy shrinking by more than 1%. The Bank's restructuring plan was designed from the start to ensure strong capital and funding availability to support the flow of credit to the UK real economy, with deleveraging concentrated on the Group's Non-Core, Markets and commercial real estate exposures.

In 2012 RBS:

- Offered more than £58 billion of loans and facilities to UK businesses, of which more than £30 billion was to SMEs.
- Renewed £27 billion of UK business overdrafts, including £8 billion for SMEs.
- Advanced £16 billion of UK home loans, including £3 billion to first time buyers.
- Accounted for 36% of all SME lending, compared with overall customer market share of 24%[2].
- Grew net advances in its Lombard asset finance business by 8%, with advances to the manufacturing sector up 66%, and increased invoice finance advances by 4%.
- Successfully restructured over 857 UK companies, helping to preserve 163,000 UK jobs.

Lending demand in most sectors remained subdued in 2012, given the flat economy, particularly among smaller businesses, many of which have concentrated on repaying existing loans. Overall SME loan applications were down 19% from 2011 and were weaker in Q4, down 25% from Q4 2011. However, RBS has taken opportunities to expand lending in sectors where demand has been stronger, with lending to SMEs in the healthcare sector increasing by 18% in 2012. Lending to SMEs in the education sector was also up 8%.

RBS continues to accept over 90% of all SME credit applications it receives. In common with other members of the Business Finance Taskforce, RBS has established an independently reviewed process for SME customers to appeal against credit decisions. RBS accounts for only 6% of customer appeals in the first year reviewed by the independent external reviewer, well below its market share, and only 20% of decisions were overturned on appeal, compared with 40% for the industry as a whole.

Many customers have reduced their drawings on the credit facilities already available to them. Overdraft utilisation fell to 43% at the end of 2012 from 45% in 2011, leaving £4 billion of SME overdraft facilities available but not drawn. A further £35 billion of undrawn loans and facilities remained available to mid and large corporates. Drawn lending has fallen fastest in the large corporate segment, where clients have taken advantage of favourable capital market conditions to substitute bond finance for bank debt. RBS helped UK companies, universities and housing associations to raise £44 billion through bond issues in 2012.

RBS has sought to support its customers by using the Bank of England's Funding for Lending Scheme (FLS), which was opened for drawings in August, to encourage credit demand. The Group offered lower interest rates and waived arrangement fees on £1.7 billion of SME loans in H2 2012, benefiting over 11,000 SMEs. The average price of SME loans dropped from 4.27% to 3.93% in H2 2012 following the introduction of the FLS. RBS has also been the leading lender in the Government's Enterprise Finance Guarantee Scheme, accounting for 40% of all EFG loans to date, well in excess of its SME market share and half as much again as its nearest competitor.

Supporting our UK customers (continued)

RBS also used FLS to support first time buyers, with around 4,000 homebuyers benefiting from cheaper rates on over £500 million of mortgages in H2 2012. At a Group level, excluding Non-Core and commercial real estate lending, total RBS FLS-eligible balances increased by £557 million over the first six months of the FLS. Core Lombard and RBS Invoice Finance balances, which are excluded from FLS statistics, grew by a further £471 million.

On a divisional basis, RBS's Core UK Corporate division saw total loans and advances decline by 3.3% in 2012. Excluding property, housebuilding and construction, UK Corporate's loans and advances increased by 0.3%.

In two areas the Group has the requirement to run down high risk and non-strategic exposures: those in its Non-Core division and its excessive exposures to the real estate-related sector. Non-Core and commercial property balances, which are included within the scope of FLS, declined by £7.3 billion in 2012, with a decline of £2.3 billion recorded in Q4.

(1) 2008 Core balances used in the calculation are management estimates based on the 2009 Core/Non-Core split as Non-Core was not created and reported separately until 2009.
(2) Source: British Bankers' Association; RBS internal data; the Charterhouse UK Business Banking Survey, based on a sample of 16,594 businesses interviewed throughout 2012, weighted by region and turnover to be representative of businesses in Great Britain.

Progress versus Strategic plan

Key Measures	Worst point	2011	2012	Medium-term target
Value drivers		Core	**Core**	**Core**
• Return on equity (1)	(31%)(2)	10.4%	9.8%	>12%
• Cost:income ratio (3)	97%(4)	60%	59%	<55%
Risk measures		Group	**Group**	**Group**
• Core Tier 1 ratio	4%(5)	9.7%(6)	10.3%	>10%
• Loan:deposit ratio	154%(7)	108%	100%	c.100%
• Short-term wholesale funding (STWF)	£297bn(8)	£102bn	£42bn	<10% TPAs(9)
• Liquidity portfolio (10)	£90bn(8)	£155bn	£147bn	>1.5x STWF
• Leverage ratio (11)	28.7x(12)	16.9x	15.0x	<18x

Notes:
(1) Based on indicative Core attributable profit taxed at standard rates and Core average tangible equity per the average balance sheet (83% of Group tangible equity based on RWAs at 31 December 2012); (2) Group return on tangible equity for 2008; (3) Cost:income ratio net of insurance claims; (4) Year ended 31 December 2008; (5) As at 1 January 2008; (6) Core Tier 1 ratio excluding APS benefit of 90 basis points in 2011. (7) As at October 2008; (8) As at December 2008; (9) Third party assets (TPAs); (10) Eligible assets held for contingent liquidity purposes including cash, Government issued securities and other eligible securities with central banks; (11) Funded tangible assets divided by total Tier 1 capital; (12) As at June 2008.

Supporting our UK customers (continued)

RBS has transformed its funding and liquidity metrics over the first four years of its five year Strategic Plan. It has substantially reduced its dependence on short-term wholesale funding and simultaneously grown a large, high quality liquidity portfolio. This has enabled the Group to meet, and in some cases surpass its strategic funding and liquidity targets by the end of 2012:

- the loan:deposit ratio improved by 8% over the year, reaching the medium-term target of 100% by the year-end and 12 months ahead of management's original 2013 goal;
- short-term wholesale funding of £42 billion represented 5% of funded assets, versus the target of under 10%; and
- the £147 billion liquidity portfolio covered short-term wholesale funding balances 3.5 times, comfortably above the target of more than 1.5 times.

The Group also successfully improved capital resilience, increasing underlying Core Tier 1 capital levels following the exit from the Asset Protection Scheme.

With the safety and soundness agenda largely complete, RBS can now increase its focus on optimising its Core businesses to build an enduring and interconnected set of customer driven franchises which all earn sustainable returns greater than the Group's cost of capital from an appropriate cost base.

Analysis of results

Net interest income	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Quarter ended 31 December 2012 £m	Quarter ended 30 September 2012 £m	Quarter ended 31 December 2011 £m
Net interest income (1)	**11,689**	12,690	2,836	2,866	3,082
Average interest-earning assets (1)	**604,647**	662,222	577,423	587,291	664,613
Net interest margin					
- Group	**1.93%**	1.92%	1.95%	1.94%	1.84%
- Retail & Commercial (2)	**2.92%**	2.97%	2.92%	2.92%	2.90%
- Non-Core	**0.31%**	0.63%	0.29%	0.41%	0.42%

Notes:

(1) For further analysis and details of adjustments refer to pages 78 and 79.

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

Key points

Group net interest income trends matched the fall in the Group's balance sheet, reflecting the de-leveraging particularly in Non-Core. Net interest margin (NIM), despite very low interest rates and strong deposit competition, remained stable.

2012 compared with 2011

- Group net interest income declined by 8%, largely reflecting lower interest-earning asset balances.
- Average interest-earning assets fell by £58 billion to £605 billion, reflecting strong progress on the run-down of Non-Core and targeted asset reductions in International Banking. Unsecured balances also declined in UK Retail.
- Core NIM was stable at 2.16%, with the stronger balance sheet enabling a reduction in the size of the Group's liquidity buffer and offsetting a decline in R&C NIM.
- The fall in R&C NIM was predominantly driven by weaker deposit margins in UK Retail and International Banking and lower asset yields in US Retail & Commercial, partly offset by improved margins in Wealth.

Q4 2012 compared with Q3 2012

- Average interest-earning assets fell by £10 billion, with the continued run-down of Non-Core, a smaller investment portfolio in US Retail & Commercial, targeted loan portfolio reductions in International Banking and customer repayments in UK Corporate.
- Group NIM increased by 1 basis point to 1.95% as an improvement in Markets NIM due to lower reliance on external funding offset the lower Retail & Commercial balances.
- R&C NIM held flat as an uplift in UK Retail NIM of 7 basis points, with higher mortgage balances and lower funding costs, was offset by the effect of lower interest rates on UK deposit hedges in Wealth and lower asset yields in US Retail & Commercial.

Q4 2012 compared with Q4 2011

- R&C NIM increased by 2 basis points, reflecting targeted reductions in lower yielding assets in International Banking, mostly offset by lower deposit margin compression in UK Retail, UK Corporate and US Retail & Commercial.
- The fall in average interest-earning assets, principally arising from targeted reductions in Non-Core and International Banking, drove an 8% decrease in net interest income.

For details on the Group's average balance sheet refer to pages 83 and 85.

Analysis of results (continued)

Non-interest income	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Quarter ended 31 December 2012 £m	Quarter ended 30 September 2012 £m	Quarter ended 31 December 2011 £m
Net fees and commissions	**4,446**	4,924	1,051	1,062	1,017
Income from trading activities	**3,531**	3,313	567	769	242
Other operating income	**2,397**	2,527	381	822	405
Non-interest income (excluding insurance net premium income)	**10,374**	10,764	1,999	2,653	1,664
Insurance net premium income	**3,718**	4,256	919	932	981
Total non-interest income	**14,092**	15,020	2,918	3,585	2,645

Key points

Non-interest income trends reflected subdued customer volumes as economies and lending remained weak. Q4 2012 saw an uplift compared with a weak Q4 2011.

2012 compared with 2011

- Non-interest income was down 6% at £14,092 million with higher profits on available-for-sale bond disposals in Group Treasury more than offset by a 10% decline in net fees and commissions, largely due to a decline in UK Retail fees as a result of weaker consumer spending volumes, and lower insurance net premium income.
- Markets trading income was sustained, despite the significant reduction in trading assets through balance sheet management and optimisation.
- The decrease in other operating income included the impact of the disposal of RBS Aviation Capital in Q2 2012, which resulted in lower rental income in Non-Core.
- Insurance net premium income fell by 13%, primarily reflecting lower written premiums in Direct Line Group.

Q4 2012 compared with Q3 2012

- Income from trading activities declined by 26% due to a seasonal reduction in activity versus particularly favourable market conditions in Q3 2012, which led to a £419 million fall in Markets.
- Other operating income fell by £441 million largely due to higher losses on disposals in Non-Core and lower gains on available-for-sale bond disposals in Group Treasury of £187 million versus £325 million in Q3 2012.

Q4 2012 compared with Q4 2011

- Income from trading activities was up by £325 million, reflecting lower Non-Core trading losses and a £61 million increase in profits on disposal of available-for-sale bonds. Partly offsetting this was lower IPED and Currency income in Markets.
- Insurance net premium income was down by 6%, reflecting the flow through of lower written premiums across Motor, Home and International.

Analysis of results (continued)

Operating expenses	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Quarter ended 31 December 2012 £m	Quarter ended 30 September 2012 £m	Quarter ended 31 December 2011 £m
Staff expenses	**7,639**	8,163	1,439	1,943	1,781
Premises and equipment	**2,198**	2,278	573	552	575
Other	**3,248**	3,395	723	770	838
Administrative expenses	**13,085**	13,836	2,735	3,265	3,194
Depreciation and amortisation	**1,534**	1,642	384	374	450
Operating expenses	**14,619**	15,478	3,119	3,639	3,644
Insurance net claims	**2,427**	2,968	606	596	529
Staff costs as a % of total income	**30%**	29%	26%	30%	31%
Cost:income ratio - Core (1)	**59%**	60%	56%	59%	62%
Cost:income ratio - Group (1)	**63%**	63%	61%	62%	70%

Note:
(1) Cost:income ratio is based on total income and operating expenses and after netting insurance claims against income.

Key points

Since 2009, the Group has reduced its operating expenses by 16%, or £2.7 billion, with headcount down 22,500, while at the same time funding investment in rebuilding its customer, compliance and risk management infrastructure.

2012 compared with 2011

- Operating expenses fell by £859 million, or 6%, with staff costs also down 6% (but broadly stable as a percentage of total income) as headcount fell by 9,600 to 137,200. The decline in expenses was largely driven by Non-Core run-down and lower variable compensation (particularly in Markets), including variable compensation award reductions and clawbacks following the settlements reached with UK and US authorities in relation to attempts to manipulate LIBOR. The run-off of discontinued businesses in Markets and International Banking, following the restructuring announced in January 2012, and simplification of processes and headcount reduction in UK Retail also yielded cost benefits.
- Included in expenses in 2012 were £175 million costs associated with the technology incident and £160 million provision for various litigation and legacy conduct issues.
- Business Services costs were down 6% in the year, reflecting increased benefits from earlier cost saving programmes as a number of initiatives reached their full run rate. Technology Services costs were 8% lower and Corporate Services costs 6% lower. Headcount was 2% down on 2011.
- Insurance net claims decreased by 18% as lower volumes, higher reserve releases and improved claims experience more than offset an increase of £85 million in Home weather events claims.
- The Core cost:income ratio was broadly flat at 59%, reflecting the ongoing focus on cost control in an environment where income growth remained challenging.

Key points (continued)

Q4 2012 compared with Q3 2012

- Operating expenses were 14% lower in the quarter with significant falls in Markets, down 36% reflecting the reduction in variable compensation following the LIBOR settlements, and the full impact of headcount reductions over the year. International Banking expenses were down 16% primarily as a result of lower variable compensation. More broadly across the Group, a continued focus on costs saw lower expenses, mostly staff related, in the majority of other divisions.
- The Core cost:income ratio improved from 59% to 56% in the quarter as a 10% drop in income was more than offset by rigorous cost control, particularly through lower staff expenses.

Q4 2012 compared with Q4 2011

- The 14% decline in operating expenses was mainly driven by lower variable compensation following the LIBOR settlements. In addition, the restructuring of Markets and International Banking and further progress in the run-down of Non-Core drove expenses lower, with a significant proportion of this movement in staff expenses, through headcount reductions.
- Insurance net claims increased by 15%, predominantly reflecting the non-repeat of a reserve release on two specific products in Q4 2011.

Impairment losses	Year ended 31 December 2012 £m	Year ended 31 December 2011 £m	Quarter ended 31 December 2012 £m	Quarter ended 30 September 2012 £m	Quarter ended 31 December 2011 £m
Loan impairment losses	**5,315**	7,241	1,402	1,183	1,654
Securities impairment losses	**(36)**	198	52	(7)	38
Group impairment losses	**5,279**	7,439	1,454	1,176	1,692
Loan impairment losses					
- individually assessed	**3,169**	5,195	818	661	1,253
- collectively assessed	**2,196**	2,591	505	562	591
- latent	**(73)**	(545)	(80)	(40)	(190)
Customer loans	**5,292**	7,241	1,403	1,183	1,654
Bank loans	**23**	-	(1)	-	-
Loan impairment losses	**5,315**	7,241	1,402	1,183	1,654
Core	**2,995**	3,403	729	751	924
Non-Core	**2,320**	3,838	673	432	730
Group	**5,315**	7,241	1,402	1,183	1,654
Customer loan impairment charge as a % of gross loans and advances (1)					
Group	**1.2%**	1.5%	1.2%	1.0%	1.3%
Core	**0.7%**	0.8%	0.7%	0.7%	0.9%
Non-Core	**4.2%**	4.8%	4.8%	2.8%	3.7%

Note:

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

Key points

The Group's impairment losses, whilst still elevated due to Non-Core and Ulster Bank, continued to improve and move nearer to more normalised levels. Provision coverage increased further and remained strong.

2012 compared with 2011

- Loan impairment losses declined by £1,926 million to £5,315 million, primarily driven by a £1,518 million fall in Non-Core impairments, mostly in the Ulster Bank and commercial real estate portfolios.
- Core loan impairments were down £408 million, or 12%, largely due to lower default rates in UK Retail and an improved credit environment for US Retail & Commercial, which helped drive loan impairment reductions of £259 million and £165 million, respectively. Core Ulster Bank impairments stabilised, though still at a very high level (£1,364 million in 2012 versus £1,384 million in 2011).
- Loan impairments as a percentage of gross loans and advances improved by 30 basis points, principally reflecting the improved credit profile in Non-Core and the better US credit environment.
- Loan impairment provisions rose to £21.3 billion, increasing coverage of risk elements in lending to 52%, compared with 49% in 2011.

Key points (continued)

Q4 2012 compared with Q3 2012

- Core loan impairment losses fell by 3%, principally reflecting quality improvements and lower default rates in UK Retail. Non-Core impairments ticked upwards, largely as a result of a £200 million increase in Ulster Bank portfolio impairments, driving an increase of £219 million in Group loan impairments to £1,402 million.
- Loan impairments as a percentage of gross loans and advances increased by 20 basis points, as an increase in Non-Core was only partly offset by decreases in both UK Retail and Core Ulster Bank.

Q4 2012 compared with Q4 2011

- The £252 million fall in loan impairment losses was largely driven by a £57 million improvement in Non-Core impairments mainly in the UK Corporate and International Banking portfolios, partly offset by an increase in Ulster Bank. UK Retail impairments decreased by £98 million given lower default rates and higher recoveries, while US Retail & Commercial impairments fell by £34 million reflecting an improved credit environment.

For more details on the Group's exposures and provisioning please refer to pages 207 to 219 of the risk section.

Analysis of results (continued)

	Year ended		Quarter ended		
One-off and other items	**31 December 2012 £m**	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Asset Protection Scheme	**(44)**	(906)	-	1	(209)
Payment Protection Insurance costs	**(1,110)**	(850)	(450)	(400)	-
Interest Rate Hedging Products redress and related costs	**(700)**	-	(700)	-	-
Regulatory fines	**(381)**	-	(381)	-	-
Sovereign debt impairment (1)	**-**	(1,099)	-	-	(224)
Amortisation of purchased intangible assets	**(178)**	(222)	(32)	(47)	(53)
Integration and restructuring costs	**(1,550)**	(1,064)	(620)	(257)	(478)
Gain/(loss) on redemption of own debt	**454**	255	-	(123)	(1)
Strategic disposals**	**113**	(104)	(16)	(23)	(82)
Bank levy	**(175)**	(300)	(175)	-	(300)
Write-down of goodwill and other intangible assets	**(518)**	(11)	(518)	-	(11)
Other					
- Bonus tax	**-**	(27)	-	-	-
- Interest rate hedge adjustments on impaired available-for-sale sovereign debt	**-**	(169)	-	-	-
- RFS Holdings minority interest	**(20)**	(7)	(2)	(1)	(2)
	(4,109)	(4,504)	(2,894)	(850)	(1,360)
Own credit adjustments*	**(4,649)**	1,914	(220)	(1,455)	(472)
One-off and other items	**(8,758)**	(2,590)	(3,114)	(2,305)	(1,832)
* Own credit adjustments impact:					
Income from trading activities	**(1,813)**	293	(98)	(435)	(272)
Other operating income	**(2,836)**	1,621	(122)	(1,020)	(200)
Own credit adjustments	**(4,649)**	1,914	(220)	(1,455)	(472)
**Strategic disposals					
Gain/(loss) on sale and provision for loss on disposal of investments in:					
- RBS Aviation Capital	**189**	-	(8)	-	-
- Global Merchant Services	**-**	47	-	-	-
- Goodwill relating to UK branch-based businesses	**-**	(80)	-	-	(80)
- Other	**(76)**	(71)	(8)	(23)	(2)
	113	(104)	(16)	(23)	(82)

Note:

(1) In the second quarter of 2011, the Group recorded an impairment loss of £733 million in respect of its AFS portfolio of Greek government debt as a result of Greece’s continuing fiscal difficulties. In Q1 2012, as part of private sector involvement in the Greek government bail-out, the vast majority of this portfolio was exchanged for Greek sovereign debt and European Financial Stability Facility notes; the Greek sovereign debt received in the exchange was sold.

Key points

RBS continued to work hard in progressing its restructuring actions and in resolving legacy conduct issues. Management expects 2013 to be the final year of 'heavy lifting' in the Group's recovery plan, with a cleaner bank emerging in 2014.

The Group does not allocate one-off and other items to individual divisions. However, of the one-off and other items of significance, Payment Protection Insurance costs of £1.1 billion relate almost entirely to UK Retail; Interest Rate Hedging Products redress and costs of £700 million are divided equally between Markets and UK Corporate, and regulatory fines of £381 million relate solely to Markets. Markets accounts for c.45% and International Banking and UK Retail c.15% each of the total integration and restructuring costs of £1.55 billion.

2012 compared with 2011

- The continuing strengthening of RBS's credit profile resulted in a £4,649 million accounting charge in relation to own credit adjustment versus a gain of £1,914 million in 2011. This reflects a tightening of more than 340 basis points in the Group's cash market credit spreads over the year.
- To reflect current experience of Payment Protection Insurance complaints received, RBS increased its PPI provision by £1,110 million in 2012, bringing the cumulative charge taken to £2.2 billion, of which £1.3 billion (59%) in redress had been paid by 31 December 2012. The eventual cost is dependent upon complaint volumes, uphold rates and average redress costs. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different than the amount provided. The Group will continue to monitor the position closely and refresh its assumptions as more information becomes available. The Group expects a significant percentage of the cash outflows associated with this provision to have occurred by the end of 2013.
- In Q2 2012 RBS provided £50 million for the redress it expected to offer some small and medium-sized businesses classified as retail clients under FSA rules who had purchased structured collar products. On 31 January 2013 the FSA announced its findings following a pilot review of the sale of all interest rate hedging products, including vanilla hedging products, to clients classified as non-sophisticated, along with a framework for redress. As a result, a further charge of £650 million has been booked to meet the additional costs of redress to the broader SME customer set who bought these products, making a total of £700 million. The portfolio of interest rate hedging products under review comprises 5% structured collars, 78% vanilla hedging products and 17% vanilla caps. Of the interest rate hedging products sold, 74% were written in the period 2001-2008, when interest rates were significantly higher, with 46% of all sales to the real estate sector. Fewer than 10% of all cases were written with initial maturities longer than 10 years.

  Prior to the FSA review, RBS's sales processes had generally been found to be appropriate during the period, with 59 out of 62 adjudications by the Financial Ombudsman's Service in the bank's favour. This included 20 out of 20 adjudications relating to the disclosure of break costs. Two recent court cases also found in favour of RBS, including rulings on past sales processes and the adequacy of related disclosures.
- A charge of £381 million was recognised in 2012 in relation to penalties and fines relating to the setting of LIBOR and other rates.

Key points (continued)

2012 compared with 2011 (continued)

- Integration and restructuring costs of £1,550 million increased by £486 million versus £1,064 million in 2011, primarily driven by costs incurred in relation to the strategic restructuring of Markets and International Banking (M&IB) that took place during 2012.
- The Group recognised an impairment charge of £1.1 billion in 2011 in respect of available-for-sale Greek sovereign bonds. These bonds were sold in Q1 2012.
- The Asset Protection Scheme (APS) is accounted for as a derivative and movements in fair value are recorded each quarter. The fair value charge was £44 million in 2012 versus £906 million in 2011.

Q4 2012 compared with Q3 2012

- Integration and restructuring costs increased from £257 million to £620 million, largely due to higher asset write-offs of £135 million in relation to the restructuring of M&IB.
- A charge of £175 million was taken in Q4 2012 for the annual bank levy.
- The provision for PPI was increased by £450 million in Q4 2012 and £400 million in Q3 2012. The Group also increased its provision in respect of redress it expects to offer for interest rate hedging products by £700 million in Q4 2012. A charge of £381 million was recognised in Q4 2012 in relation to penalties and fines relating to the setting of LIBOR and other rates.
- A £394 million goodwill write-down was taken following the IPO of Direct Line Group in Q4 2012. The business is presented as a discontinued operation and its assets and liabilities are included in disposal groups on a statutory basis. A charge of £124 million was also taken for the write-off of intangible assets, principally as a result of exits from selective countries and lower revenue projections by Markets.

Q4 2012 compared with Q4 2011

- The own credit adjustment charge of £220 million was lower than the £472 million in Q4 2011, as a result of a relatively smaller tightening of spreads in Q4 2012 following significant tightening in the first three quarters of 2012.
- The Group exited the APS in October 2012. No APS charge was booked in Q4 2012, compared with a charge of £209 million in Q4 2011.

Capital resources and ratios	31 December 2012	30 September 2012	31 December 2011
Core Tier 1 capital	**£47bn**	£48bn	£46bn
Tier 1 capital	**£57bn**	£58bn	£57bn
Total capital	**£67bn**	£63bn	£61bn
Risk-weighted assets			
- gross	**£460bn**	£481bn	£508bn
- benefit of Asset Protection Scheme (APS)	**-**	(£48bn)	(£69bn)
Risk-weighted assets	**£460bn**	£433bn	£439bn
Core Tier 1 ratio (1)	**10.3%**	11.1%	10.6%
Core Tier 1 excluding capital relief provided by APS	**10.3%**	10.4%	9.7%
Tier 1 ratio	**12.4%**	13.4%	13.0%
Total capital ratio	**14.5%**	14.6%	13.8%

Note:

(1) The benefit of APS in the Core Tier 1 ratio was 71 basis points at 30 September 2012 and 90 basis points at 31 December 2011.

Key points

The Group remained well capitalised with the underlying Core Tier 1 ratio improving by 60 basis points in 2012 despite £44 billion of additional regulatory risk-weighted asset increases.

2012 compared with 2011

- The Group's Core Tier 1 ratio was 10.3% compared with 9.7% in 2011, excluding the effect of the APS. The Group's headline Core Tier 1 ratio in 2011 included 90 basis points of APS benefit.
- The Group's strengthened capital ratios largely reflect the significant reduction in risk profile, with gross risk-weighted assets down 9% to £460 billion, excluding the effect of the APS. The decline was principally driven by Non-Core (down £33 billion from disposals and portfolio run-off) and Markets (£19 billion lower reflecting continued focus on balance sheet management and risk reduction in the division).

Q4 2012 compared with Q3 2012

- The Core Tier 1 ratio was stable at 10.3%, excluding the effect of the APS.
- Risk-weighted assets fell by 4%, excluding the effect of the APS, with declines in Non-Core and Markets exposures outweighing the impact of regulatory uplifts principally affecting UK Corporate and International Banking.

For more details of the Group's capital resources refer to page to 155.

Balance sheet	31 December 2012	30 September 2012	31 December 2011
Funded balance sheet (1)	**£870bn**	£909bn	£977bn
Total assets	**£1,312bn**	£1,377bn	£1,507bn
Loans and advances to customers (2)	**£432bn**	£443bn	£474bn
Customer deposits (3)	**£434bn**	£435bn	£437bn
Loan:deposit ratio - Core (4)	**90%**	91%	94%
Loan:deposit ratio - Group (4)	**100%**	102%	108%
Tangible net asset value per ordinary and B share (5)	**446p**	476p	501p
Tier 1 leverage ratio (6)	**15.0x**	15.4x	16.9x
Tangible equity leverage ratio (7)	**5.8%**	5.9%	5.7%

Notes:
(1) Funded balance sheet represents total assets less derivatives; (2) Excluding reverse repurchase agreements and stock borrowing, and including disposal groups; (3) Excluding repurchase agreements and stock lending, and including disposal groups; (4) Net of provisions, including disposal groups and excluding repurchase agreements. Excluding disposal groups, the loan:deposit ratios of Core and Group at 31 December 2012 were 89% and 99% respectively (30 September 2012 - 91% and 103% respectively; 31 December 2011 - 94% and 110% respectively); (5) Tangible net asset value per ordinary and B share is total tangible equity divided by the number of ordinary shares in issue and the effect of convertible B shares. Data for 2011 have been adjusted for the sub-division and one-for-ten consolidation of ordinary shares, which took effect in June 2012. (6) Funded tangible assets divided by total Tier 1 capital; (7) Tangible equity leverage ratio is total tangible equity divided by total tangible assets (after netting derivatives).

Key points

2012 compared with 2011

- The £107 billion contraction in the Group's funded balance sheet to £870 billion was largely driven by reductions from disposals and run-off of £36 billion in Non-Core and £29 billion in Markets, following actions to optimise and de-risk the balance sheet. A further £17 billion of targeted portfolio reductions was achieved in International Banking.
- Loans and advances to customers declined by 9%, primarily as a result of Non-Core run-down of £23 billion and a £15 billion fall in International Banking, following targeted reductions to improve lending portfolio quality.
- Retail & Commercial customer deposits grew by £8 billion to £401 billion, with particularly strong growth in UK Retail following a successful savings campaign. Wholesale deposits were allowed to run-off, declining by £11 billion to leave Group customer deposits £3 billion lower at £434 billion.
- The Group's loan:deposit ratio improved from 108% in 2011 to 100% in 2012, reaching management's medium-term target. Lending is now fully funded by customer deposits, with a corresponding reduction in more volatile wholesale funding.
- Tangible net asset value per share (TNAV) declined by 11% during the year, largely reflecting the accounting charge for improved own credit of £4,649 million as RBS's strengthening credit profile was recognised in traded debt markets.

Q4 2012 compared with Q3 2012

- The funded balance sheet decreased by £39 billion, with Markets down £20 billion through seasonally lower levels of activity and good progress in the division's derisking strategy, a £8 billion reduction in Non-Core and a £5 billion fall in International Banking.
- The Group's loan:deposit ratio improved by 200 basis points to 100% as a result of lower loan balances in Non-Core, International Banking and UK Corporate while total deposits held steady.
- TNAV fell by 6% during the quarter primarily due to the attributable loss.

Details of the Group's loan:deposit mix are available on page 168.

Analysis of results - Funding & liquidity

Funding & liquidity metrics	31 December 2012	30 September 2012	31 December 2011
Short-term wholesale funding (1)	**£42bn**	£49bn	£102bn
Wholesale funding (1)	**£150bn**	£159bn	£226bn
Short-term wholesale funding as percentage of funded balance sheet	**5%**	5%	10%
Short-term wholesale funding as percentage of total wholesale funding	**28%**	31%	45%
Liquidity portfolio	**£147bn**	£147bn	£155bn
Liquidity portfolio as percentage of funded balance sheet	**17%**	16%	16%
Liquidity portfolio as percentage of short-term wholesale funding	**350%**	300%	152%
Net stable funding ratio	**117%**	117%	111%

Note:
(1) Excludes derivative collateral.

Key points

The Group has transformed its funding and liquidity metrics over the first four years of its five year strategic plan and now has a robust position.

2012 compared with 2011

- Short-term wholesale funding balances fell by £60 billion to £42 billion as the Group actively reduced its reliance on more volatile sources of funding. RBS was within its previously announced short-term wholesale funding target in 2012 as balances contracted to 5% of the funded balance sheet.
- The portfolio of high quality liquid assets reduced to £147 billion, reflecting the decline in short-term wholesale funding and a smaller balance sheet overall. RBS's liquidity profile remained very strong, with the liquidity portfolio covering short-term wholesale funding 3.5 times, exceeding the Group's medium-term target of 1.5 times.

Q4 2012 compared with Q3 2012

- The Group's short-term wholesale funding fell by £7 billion in line with the previously disclosed strategy to limit funding from wholesale markets.
- The liquidity portfolio was flat at £147 billion. Further targeted balance sheet reduction in the quarter raised the liquidity portfolio as a percentage of funded balance sheet by 1% to 17%.

Further analysis of the Group's liquidity portfolio is included on page 170.

Divisional performance

The operating profit/(loss)[(1)] of each division is shown below.

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Operating profit/(loss) before impairment losses by division					
UK Retail	**2,420**	2,809	606	605	649
UK Corporate	**2,634**	2,717	658	615	642
Wealth	**299**	273	95	73	86
International Banking	**705**	923	192	187	208
Ulster Bank	**324**	400	75	87	94
US Retail & Commercial	**845**	863	223	244	242
Retail & Commercial	**7,227**	7,985	1,849	1,811	1,921
Markets	**1,546**	937	161	289	(52)
Direct Line Group	**441**	454	113	109	125
Central items	**183**	189	151	176	85
Core	**9,397**	9,565	2,274	2,385	2,079
Non-Core	**(656)**	(302)	(239)	(162)	(531)
Group operating profit before impairment losses	**8,741**	9,263	2,035	2,223	1,548
Impairment losses/(recoveries) by division					
UK Retail	**529**	788	93	141	191
UK Corporate	**838**	793	234	247	236
Wealth	**46**	25	16	8	13
International Banking	**111**	168	37	12	56
Ulster Bank	**1,364**	1,384	318	329	327
US Retail & Commercial	**91**	326	23	21	65
Retail & Commercial	**2,979**	3,484	721	758	888
Markets	**37**	38	22	(6)	57
Central items	**40**	(2)	8	-	(4)
Core	**3,056**	3,520	751	752	941
Non-Core	**2,223**	3,919	703	424	751
Group impairment losses	**5,279**	7,439	1,454	1,176	1,692

Note:

(1) Operating profit/(loss) before own credit adjustments, Asset Protection Scheme, Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs, regulatory fines, sovereign debt impairment, interest rate hedge adjustments on impaired available-for-sale sovereign debt, amortisation of purchased intangible assets, integration and restructuring costs, gain/(loss) on redemption of own debt, strategic disposals, bank levy, bonus tax, write-down of goodwill and other intangible assets, RFS Holdings minority interest and includes the results of Direct Line Group on a managed basis, which are included in discontinued operations in the statutory results.

Divisional performance (continued)

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Operating profit/(loss) by division					
UK Retail	**1,891**	2,021	513	464	458
UK Corporate	**1,796**	1,924	424	368	406
Wealth	**253**	248	79	65	73
International Banking	**594**	755	155	175	152
Ulster Bank	**(1,040)**	(984)	(243)	(242)	(233)
US Retail & Commercial	**754**	537	200	223	177
Retail & Commercial	**4,248**	4,501	1,128	1,053	1,033
Markets	**1,509**	899	139	295	(109)
Direct Line Group	**441**	454	113	109	125
Central items	**143**	191	143	176	89
Core	**6,341**	6,045	1,523	1,633	1,138
Non-Core	**(2,879)**	(4,221)	(942)	(586)	(1,282)
Group operating profit/(loss)	**3,462**	1,824	581	1,047	(144)

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Total income by division					
UK Retail	**4,969**	5,508	1,230	1,242	1,309
UK Corporate	**4,723**	4,863	1,173	1,138	1,177
Wealth	**1,170**	1,104	285	292	280
International Banking	**2,122**	2,555	484	535	593
Ulster Bank	**845**	947	212	213	226
US Retail & Commercial	**3,091**	3,037	740	780	790
Retail & Commercial	**16,920**	18,014	4,124	4,200	4,375
Markets	**4,483**	4,415	641	1,042	692
Direct Line Group	**3,717**	4,072	918	899	923
Central items	**379**	20	109	267	9
Core	**25,499**	26,521	5,792	6,408	5,999
Non-Core	**288**	1,188	(32)	50	(278)
Total income	**25,787**	27,709	5,760	6,458	5,721

	Year ended		Quarter ended		
	31 December 2012 %	31 December 2011 %	31 December 2012 %	30 September 2012 %	31 December 2011 %
Net interest margin by division					
UK Retail	**3.58**	3.95	3.60	3.53	3.74
UK Corporate	**3.06**	3.06	2.97	2.99	3.02
Wealth	**3.73**	3.23	3.69	3.88	3.39
International Banking	**1.64**	1.73	1.62	1.70	1.64
Ulster Bank	**1.88**	1.87	1.93	1.92	1.87
US Retail & Commercial	**3.00**	3.06	2.92	2.99	3.04
Retail & Commercial	**2.92**	2.97	2.92	2.92	2.90
Non-Core	**0.31**	0.63	0.29	0.41	0.42
Group net interest margin	**1.93**	1.92	1.95	1.94	1.84

Divisional performance (continued)

	31 December 2012 £bn	30 September 2012 £bn	31 December 2011 £bn
Total funded assets by division			
UK Retail	**117.4**	116.7	114.5
UK Corporate	**110.2**	111.8	114.2
Wealth	**21.4**	21.4	21.6
International Banking	**53.0**	58.4	69.9
Ulster Bank	**30.6**	30.8	34.6
US Retail & Commercial	**71.8**	74.2	74.9
Retail & Commercial	**404.4**	413.3	429.7
Markets	**284.5**	304.4	313.9
Other (primarily Group Treasury)	**123.3**	125.1	139.1
Core	**812.2**	842.8	882.7
Non-Core	**57.4**	65.1	93.7
	869.6	907.9	976.4
RFS Holdings minority interest	**0.8**	0.8	0.8
Total	**870.4**	908.7	977.2

	31 December 2012 £bn	30 September 2012 £bn	Change	31 December 2011 £bn	Change
Risk-weighted assets by division					
UK Retail	**45.7**	47.7	(4%)	48.4	(6%)
UK Corporate	**86.3**	82.1	5%	79.3	9%
Wealth	**12.3**	12.3	-	12.9	(5%)
International Banking	**51.9**	49.7	4%	43.2	20%
Ulster Bank	**36.1**	35.1	3%	36.3	(1%)
US Retail & Commercial	**56.5**	56.7	-	59.3	(5%)
Retail & Commercial	**288.8**	283.6	2%	279.4	3%
Markets	**101.3**	108.0	(6%)	120.3	(16%)
Other	**5.8**	13.9	(58%)	12.0	(52%)
Core	**395.9**	405.5	(2%)	411.7	(4%)
Non-Core	**60.4**	72.2	(16%)	93.3	(35%)
Group before benefit of Asset Protection Scheme	**456.3**	477.7	(4%)	505.0	(10%)
Benefit of Asset Protection Scheme	**-**	(48.1)	(100%)	(69.1)	(100%)
Group before RFS Holdings minority interest	**456.3**	429.6	6%	435.9	5%
RFS Holdings minority interest	**3.3**	3.3	-	3.1	6%
Group	**459.6**	432.9	6%	439.0	5%

Divisional performance (continued)

Employee numbers by division (full time equivalents rounded to the nearest hundred)	**31 December 2012**	30 September 2012	31 December 2011
UK Retail	**26,000**	27,100	27,700
UK Corporate	**13,300**	13,100	13,600
Wealth	**5,300**	5,400	5,700
International Banking	**4,400**	4,600	5,400
Ulster Bank	**4,500**	4,700	4,200
US Retail & Commercial	**14,700**	14,600	15,400
Retail & Commercial	**68,200**	69,500	72,000
Markets	**11,200**	11,900	13,900
Direct Line Group	**14,200**	14,700	14,900
Group Centre	**6,800**	6,800	6,200
Core	**100,400**	102,900	107,000
Non-Core	**3,100**	3,300	4,700
	103,500	106,200	111,700
Business Services	**33,200**	33,300	34,000
Integration and restructuring	**500**	800	1,100
Group	**137,200**	140,300	146,800

UK Retail

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Income statement					
Net interest income	**3,990**	4,302	1,011	990	1,032
Net fees and commissions	**884**	1,066	202	231	242
Other non-interest income	**95**	140	17	21	35
Non-interest income	**979**	1,206	219	252	277
Total income	**4,969**	5,508	1,230	1,242	1,309
Direct expenses					
- staff	**(800)**	(839)	(187)	(196)	(200)
- other	**(372)**	(437)	(89)	(94)	(116)
Indirect expenses	**(1,377)**	(1,423)	(348)	(347)	(344)
	(2,549)	(2,699)	(624)	(637)	(660)
Operating profit before impairment losses	**2,420**	2,809	606	605	649
Impairment losses	**(529)**	(788)	(93)	(141)	(191)
Operating profit	**1,891**	2,021	513	464	458
Analysis of income by product					
Personal advances	**916**	1,089	228	230	276
Personal deposits	**661**	961	150	158	214
Mortgages	**2,367**	2,277	610	598	577
Cards	**863**	950	214	218	238
Other	**162**	231	28	38	4
Total income	**4,969**	5,508	1,230	1,242	1,309
Analysis of impairments by sector					
Mortgages	**92**	182	5	29	32
Personal	**307**	437	64	77	116
Cards	**130**	169	24	35	43
Total impairment losses	**529**	788	93	141	191
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	**0.1%**	0.2%	-	0.1%	0.1%
Personal	**3.5%**	4.3%	2.9%	3.5%	4.6%
Cards	**2.3%**	3.0%	1.7%	2.5%	3.0%
Total	**0.5%**	0.7%	0.3%	0.5%	0.7%

Key metrics

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
Performance ratios					
Return on equity (1)	**24.4%**	24.5%	27.2%	23.8%	22.8%
Net interest margin	**3.58%**	3.95%	3.60%	3.53%	3.74%
Cost:income ratio	**51%**	49%	51%	51%	50%

	31 December 2012 £bn	30 September 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross) (2)					
- mortgages	**99.1**	98.4	1%	95.0	4%
- personal	**8.8**	8.9	(1%)	10.1	(13%)
- cards	**5.7**	5.6	2%	5.7	-
	113.6	112.9	1%	110.8	3%
Loan impairment provisions	**(2.6)**	(2.7)	(4%)	(2.7)	(4%)
Net loans and advances to customers	**111.0**	110.2	1%	108.1	3%
Risk elements in lending (2)	**4.6**	4.6	-	4.6	-
Provision coverage (3)	**58%**	59%	(100bp)	58%	-
Customer deposits (2)	**107.6**	105.9	2%	101.9	6%
Assets under management (excluding deposits)	**6.0**	6.1	(2%)	5.5	9%
Loan:deposit ratio (excluding repos)	**103%**	104%	(100bp)	106%	(300bp)
Risk-weighted assets (4)	**45.7**	47.7	(4%)	48.4	(6%)

Notes:

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

(2) Includes businesses outlined for disposal: gross loans and advances to customers £7.6 billion (30 September 2012 - £7.6 billion; 31 December 2011 - £7.3 billion), risk elements in lending £0.5 billion (30 September 2012 and 31 December 2011 - £0.5 billion) and customer deposits £8.5 billion (30 September 2012 - £8.5 billion; 31 December 2011 - £8.8 billion).

(3) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.

(4) Divisional RWAs are based on using a long-term conservative average secured mortgage probability of default methodology rather than the current lower point in time basis required for Regulatory reporting.

Key points

Over the last four years UK Retail has undertaken stretching initiatives and undergone significant change in order to meet its goal to consistently improve the service it offers to its customers. Highlights in 2012 include:

- Continued progress on the RBS and NatWest Customer Charter commitments supporting our goal of becoming Britain's most helpful retail bank;
- Providing more than £500 million of cheaper mortgages through the Government's Funding for Lending Scheme (FLS), launched at the end of June 2012 and opened for drawings in August 2012, which represents 14% of all completions in the last quarter of 2012;
- Seeking and responding to customer feedback to enhance the retail mobile banking app which is used by more than two million customers to manage their money and complete over one million transactions every week;

Key points (continued)

- Increasing online banking webchat functionality to allow customers real-time access to an advisor, direct from their computer, who can answer queries and action basic account services 24 hours a day; and
- Continued to invest in simplifying processes to make it easier for customers to bank with us, including introducing more than 200 cash deposit machines and ATMs to further reduce queuing times in branches.

However, the business has also had setbacks in the year. Customers suffered from disruptions to payment systems in June. Throughout this time UK Retail staff worked tirelessly to deal quickly with the issues and provide full redress and compensation to customers affected. In addition, the provision relating to historic Payment Protection Insurance (PPI) mis-selling was increased by £1.1 billion in 2012, bringing total PPI expense to date to £2.2 billion. This expense is not included in operating profit. With the new UK conduct regulator examining many products and services along with associated disclosures and sales practices, there are likely to be further impacts to business practices and potential additional costs of redress. The business is actively working to ensure its products set and sales practices are appropriate.

Ross McEwan joined UK Retail as its new Chief Executive in September 2012 and spent considerable time engaging with customers and employees around the country and reviewing business processes and performance. With his management team, he has developed a range of initiatives, building upon existing efforts, which focus on simplifying processes and providing a better experience for all customers. Ultimately, with a lot of hard work, the goal is to be the best retail bank in the UK.

2012 compared with 2011

- Operating profit fell by 6% as a 10% decline in income was only partly offset by lower costs, down 6%, and improved impairment losses, down 33%.
- Mortgage balances grew by £4.1 billion with the share of new business at 10%, ahead of our stock level of 8%. Growth as a result of FLS was starting to appear by the end of the year as mortgage applications moved through the pipeline to completion. Deposit growth of 6% was in line with the market and drove a 300 basis point improvement in the loan:deposit ratio to 103%.
- Net interest income was down 7% due to weaker deposit margins and reduction in unsecured balances, partly offset by mortgage growth. Unsecured balances now represent 13% of total loans and advances to customers compared with 23% in 2008, following realignment of risk appetite and strong mortgage growth. Net interest margin declined as a result of lower rates on current account hedges and increased competition on savings rates in the early part of the year, partly offset by widening asset margins.
- Non-interest income was 19% lower mainly due to:
  - lower unauthorised overdraft fees as we continue to help customers manage their finances by providing mobile text alerts and further improving mobile banking functionality;
  - weak consumer confidence lowering spending and associated fees on cards; and
  - lower investment income as a result of weak customer demand and less advisor availability due to restructuring and retraining in preparation for regulatory changes in 2013.

Key points (continued)

2012 compared with 2011 (continued)

- Costs were down £150 million, 6%, driven by the ongoing simplification of processes across the business, lower headcount and lower FSCS levy.
- Impairment losses were £259 million or 33% lower, reflecting the continued benefit of risk appetite tightening in prior years and also a smaller unsecured loan book. Impairments as a percentage of loans and advances were 50 basis points versus 70 basis points in 2011.
- Risk-weighted assets continued to improve over the year as the portfolio mix adjusted, with increases in lower-risk secured mortgages, decreases in unsecured lending and further quality improvements across the book.

Q4 2012 compared with Q3 2012

- Operating profit of £513 million was up 11% mainly due to lower impairment losses.
- The loan:deposit ratio improved by 100 basis points to 103% due to deposit growth of £1.7 billion, driven by successful instant access and E-Saver savings campaigns along with higher levels of retention on bond maturities achieved through optimising pricing. Mortgage new business market share was strong at 10% with growth relating to the FLS which supported 14% of mortgage completions for first time buyers by the end of the year.
- Net interest income increased by £21 million, driven by higher mortgage income and improved internal funding of £12 million, partly offset by lower deposit margins due to lower rates on current account hedges. Net interest margin was 7 basis points higher.
- Total costs decreased by 2%, reflecting headcount reductions of 5% and ongoing efficiency savings.
- Impairment losses were 34% lower largely due to a provision adjustment of £22 million to reflect the delayed recognition of underlying quality improvements in the performing mortgage book. Accordingly, impairments as a percentage of loans and advances fell to 30 basis points. Lower default rates were also observed across all products.
- Risk-weighted assets fell by 4%, reflecting continued reductions in unsecured balances and small quality improvements across the portfolio.

Q4 2012 compared with Q4 2011

- Operating profit increased by 12%, reflecting lower costs and impairment losses, partly offset by a 6% decline in income largely driven by the low interest rate environment.
- Net interest income fell by 2% due to lower deposit margins and continued reductions in unsecured lending.
- Non-interest income was down 21%, due to the impact of weaker consumer confidence and more risk-averse customer behaviour on transactional fee, investment and advice income.
- Total costs decreased by 5%, driven by lower headcount, efficiency savings, and a lower FSCS levy.
- Impairment losses were down 51%, reflecting the continued benefit of risk appetite tightening in prior years driving lower default rates, together with higher recoveries and a provision adjustment of £22 million to reflect the delayed recognition of underlying quality improvements in the performing mortgage book.

UK Corporate

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Income statement					
Net interest income	**2,974**	3,092	717	729	758
Net fees and commissions	**1,365**	1,375	349	334	341
Other non-interest income	**384**	396	107	75	78
Non-interest income	**1,749**	1,771	456	409	419
Total income	**4,723**	4,863	1,173	1,138	1,177
Direct expenses					
- staff	**(928)**	(922)	(227)	(224)	(231)
- other	**(364)**	(390)	(99)	(91)	(99)
Indirect expenses	**(797)**	(834)	(189)	(208)	(205)
	(2,089)	(2,146)	(515)	(523)	(535)
Operating profit before impairment losses	**2,634**	2,717	658	615	642
Impairment losses	**(838)**	(793)	(234)	(247)	(236)
Operating profit	**1,796**	1,924	424	368	406
Analysis of income by business					
Corporate and commercial lending	**2,636**	2,643	672	613	623
Asset and invoice finance	**685**	660	176	176	169
Corporate deposits	**568**	694	87	141	171
Other	**834**	866	238	208	214
Total income	**4,723**	4,863	1,173	1,138	1,177
Analysis of impairments by sector					
Financial institutions	**15**	20	3	8	(2)
Hotels and restaurants	**52**	59	23	6	16
Housebuilding and construction	**143**	103	25	14	27
Manufacturing	**49**	34	10	20	13
Private sector education, health, social work, recreational and community services	**37**	113	2	(8)	81
Property	**252**	170	71	117	19
Wholesale and retail trade, repairs	**112**	85	47	16	29
Asset and invoice finance	**40**	38	10	10	14
Shipping	**82**	22	42	29	12
Other	**56**	149	1	35	27
Total impairment losses	**838**	793	234	247	236

UK Corporate (continued)

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Financial institutions	**0.3%**	0.3%	0.2%	0.6%	(0.1%)
Hotels and restaurants	**0.9%**	1.0%	1.6%	0.4%	1.0%
Housebuilding and construction	**4.2%**	2.6%	2.9%	1.6%	2.8%
Manufacturing	**1.0%**	0.7%	0.9%	1.7%	1.1%
Private sector education, health, social work, recreational and community services	**0.4%**	1.3%	0.1%	(0.4%)	3.7%
Property	**1.0%**	0.6%	1.1%	1.8%	0.3%
Wholesale and retail trade, repairs	**1.3%**	1.0%	2.2%	0.7%	1.3%
Asset and invoice finance	**0.4%**	0.4%	0.4%	0.4%	0.5%
Shipping	**1.1%**	0.3%	2.2%	1.5%	0.6%
Other	**0.2%**	0.6%	-	0.5%	0.4%
Total	**0.8%**	0.7%	0.9%	0.9%	0.9%

Key metrics

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
Performance ratios					
Return on equity (1)	**14.5%**	15.2%	13.2%	11.9%	13.0%
Net interest margin	**3.06%**	3.06%	2.97%	2.99%	3.02%
Cost:income ratio	**44%**	44%	44%	46%	45%

	31 December 2012 £bn	30 September 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross) (2)					
- financial institutions	**5.8**	5.1	14%	5.8	-
- hotels and restaurants	**5.6**	5.9	(5%)	6.1	(8%)
- housebuilding and construction	**3.4**	3.5	(3%)	3.9	(13%)
- manufacturing	**4.7**	4.7	-	4.7	-
- private sector education, health, social work, recreational and community services	**8.7**	8.8	(1%)	8.7	-
- property	**24.8**	26.0	(5%)	28.2	(12%)
- wholesale and retail trade, repairs	**8.5**	8.9	(4%)	8.7	(2%)
- asset and invoice finance	**11.2**	10.9	3%	10.4	8%
- shipping	**7.6**	7.7	(1%)	7.8	(3%)
- other	**26.7**	26.8	-	26.4	1%
	107.0	108.3	(1%)	110.7	(3%)
Loan impairment provisions	**(2.4)**	(2.4)	-	(2.1)	14%
Net loans and advances to customers	**104.6**	105.9	(1%)	108.6	(4%)
Total third party assets	**110.2**	111.8	(1%)	114.2	(4%)
Risk elements in lending (2)	**5.5**	5.5	-	5.0	10%
Provision coverage (3)	**45%**	43%	200bp	40%	500bp
Customer deposits (2)	**127.1**	126.8	-	126.3	1%
Loan:deposit ratio (excluding repos)	**82%**	84%	(200bps)	86%	(400bps)
Risk-weighted assets	**86.3**	82.1	5%	79.3	9%

Notes:

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

(2) Includes businesses outlined for disposal: loans and advances to customers £11.3 billion (30 September 2012 - £11.7 billion; 31 December 2011 - £12.2 billion), risk elements in lending £0.9 billion (30 September 2012 - £0.9 billion; 31 December 2011 - £1.0 billion) and customer deposits £13.0 billion (30 September 2012 - £12.9 billion; 31 December 2011- £13.0 billion).

(3) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.

Key points

During 2012, UK Corporate continued to support its customers and the UK economy and further demonstrated a commitment to the communities it operates in.

RBS was the first bank to support the Government's Funding for Lending Scheme (FLS). The division is using the FLS to stimulate loan demand through reduced interest rates for its customers. Since the scheme's launch, UK Corporate has supported over 11,000 SMEs with over £1.7 billion of allocated funds through FLS initiatives. In addition, UK Corporate is providing targeted support to manufacturers through its Manufacturing Fund. This has made £1 billion available to customers, facilitating investment in technology and innovation and freeing up working capital. UK Corporate launched a Carbon Reduction Fund which provides £200 million of ring-fenced funding for businesses undertaking energy-efficiency projects. The division has also supported its clients in accessing the corporate bond markets. Corporate clients raised a total of £19 billion of bonds in 2012.

Key points (continued)

Throughout the year, UK Corporate has also continued to invest in the service it delivers to its customers through:

- The introduction of a new enhanced telephony and online offering, Business Connect. This already supports over 170,000 small business customers, offering telephony access to experienced relationship managers from 8am to 8pm, in addition to its traditional branch and relationship manager network;
- New mobile banking apps that allow customers to manage multiple accounts, make payments and transfers, and view detailed statements. In 2012 over 70,000 users were using the app twice a day, transacting more than £700 million since launch; and
- Regional 'Great place to do business' events which bring investors, local authorities and prominent members of the community together to identify opportunities for stimulating growth in the community.

UK Corporate has invested significantly to further enhance the skills of its people. As part of improvements to its specialist sector propositions, the business is tailoring its industry leading accreditation programme with industry specific modules. The bespoke modules are endorsed by key sector bodies such as the National Farmers' Union.

UK Corporate was the first high street bank to support the Evening Standard and City Gateway apprenticeship initiative, hiring an initial 16 young people onto its scheme.

2012 compared with 2011

- With economic factors continuing to suppress business confidence, 2012 saw lower income and operating profit. Nonetheless, the business delivered a return on equity of 14.5%, slightly below the prior year and comfortably ahead of the cost of capital.
- Operating profit decreased by 7%, with income down 3% and increased impairments, up 6%, partially offset by a 3% decrease in costs.
- Net interest income was 4% lower, reflecting a 3% fall in lending volumes as loan repayments outstripped new lending, deposit margin compression due to strong competition and the continuation of low yields on current accounts. This was partially offset by improved asset margins and a 1% increase in deposit volumes.
- Non-interest income was broadly in line with 2011, with stable income from transaction services, asset finance, Markets revenue share and other lending fees.
- Total costs were down 3% due to tight control over direct discretionary expenditure combined with lower indirect costs as a result of operational savings, partially offset by increased investment expenditure.
- Core lending balances were up £200 million, excluding the property, housebuilding and construction sectors. The loan:deposit ratio decreased by 400 basis points, principally reflecting deposit growth and portfolio de-risking, particularly in commercial real estate. The Group took part in a number of Government initiatives, seeking responsibly to stimulate additional credit demand in the face of continued customer deleveraging and low business confidence levels.

Key points (continued)

2012 compared with 2011 (continued)

- Impairments increased by 6% with lower specific provisions, mainly in the SME business, more than offset by reduced levels of latent provision releases across the division (£44 million in 2012 versus £226 million in 2011). Impairments as a percentage of loans and advances edged up modestly to 80 basis points.
- Risk-weighted assets increased by 9% as regulatory changes to capital models during H2 2012 totalling £15 billion (primarily the implementation of the market-wide slotting approach on real estate and increases to default risk weights in other models) were partly offset by a fall in funded assets.
- Not reflected in operating results was UK Corporate's £350 million share of the provision for interest rate swap redress which relates to prior periods, mainly pre-2008.

Q4 2012 compared with Q3 2012

- Operating profit increased by £56 million, or 15%, as non-interest income, costs and impairments all improved.
- Net interest income declined by 2% largely due to tightening LIBOR spreads reducing deposit margins.
- Non-interest income increased by 11%, from higher revenue share from Markets hedging contracts and the non-repeat of a property-related fair value adjustment of £25 million in Q3 2012.
- Costs were 2% lower, reflecting a reduction in staff-related indirect expenses. This, combined with the increase in total income, improved the cost:income ratio by 200 basis points.
- Impairments improved by 5% with the non-repeat of a small number of significant individual provisions in Q3 2012.
- Core lending balances held steady at £79 billion, excluding the property, housebuilding and construction sectors.
- Risk-weighted assets increased by 5%, a result of ongoing impact of the changes to risk models.

Q4 2012 compared with Q4 2011

- Operating profit improved by 4% to £424 million, driven by a 4% reduction in costs, with total income and impairments remaining broadly flat. As a result, the cost:income ratio improved by 100 basis points.
- Net interest income decreased by 5%, primarily driven by compressed deposit margins and a lower loan portfolio, partially offset by improvements in asset margins.
- Non-interest income was up 9%, largely reflecting the non-repeat of derivative close-out costs associated with impaired assets of £12 million in Q4 2011, while Q4 2012 included higher gains on equity investments of £7 million.
- Impairments were flat with a reduction in specific and collectively assessed provisions offset by lower levels of latent provision releases.
- Lending balances (excluding the property, housebuilding and construction sectors) remained flat over the course of Q4 2012, compared with a 1% decline in Q4 2011.

Wealth

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Income statement					
Net interest income	**720**	645	178	185	168
Net fees and commissions	**366**	375	89	94	89
Other non-interest income	**84**	84	18	13	23
Non-interest income	**450**	459	107	107	112
Total income	**1,170**	1,104	285	292	280
Direct expenses					
- staff	**(424)**	(413)	(87)	(104)	(96)
- other	**(223)**	(195)	(50)	(57)	(43)
Indirect expenses	**(224)**	(223)	(53)	(58)	(55)
	(871)	(831)	(190)	(219)	(194)
Operating profit before impairment losses	**299**	273	95	73	86
Impairment losses	**(46)**	(25)	(16)	(8)	(13)
Operating profit	**253**	248	79	65	73
Analysis of income					
Private banking	**956**	902	230	237	232
Investments	**214**	202	55	55	48
Total income	**1,170**	1,104	285	292	280

Key metrics

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
Performance ratios					
Return on equity (1)	**13.7%**	13.1%	17.4%	14.3%	15.2%
Net interest margin	**3.73%**	3.23%	3.69%	3.88%	3.39%
Cost:income ratio	**74%**	75%	67%	75%	69%

	31 December 2012 £bn	30 September 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	**8.8**	8.7	1%	8.3	6%
- personal	**5.5**	5.5	-	6.9	(20%)
- other	**2.8**	2.8	-	1.7	65%
	17.1	17.0	1%	16.9	1%
Loan impairment provisions	**(0.1)**	(0.1)	-	(0.1)	-
Net loans and advances to customers	**17.0**	16.9	1%	16.8	1%
Risk elements in lending	**0.2**	0.2	-	0.2	-
Provision coverage (2)	**44%**	41%	300bp	38%	600bp
Assets under management (excluding deposits)	**28.9**	29.5	(2%)	30.9	(6%)
Customer deposits	**38.9**	38.7	1%	38.2	2%
Loan:deposit ratio (excluding repos)	**44%**	44%	-	44%	-
Risk-weighted assets	**12.3**	12.3	-	12.9	(5%)

Note:

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

(2) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.

Key points

2012 saw improved performance overall, with higher lending and deposit margins and volumes driving higher income.

In 2012 the Coutts businesses continued to focus on implementing and delivering the new divisional strategy outlined in 2011. The sale of Coutts' Latin American businesses and the completion of the rollout of Coutts global technology platform in the UK were tangible examples of this. By the end of the year the division had exited over 100 countries since the strategy was introduced and was serving clients in the remaining countries through one central operating platform, a clear demonstration of the division's commitment to its strategy.

In the UK, Q4 2012 saw the launch of Coutts' new Retail Distribution Review (RDR)-compliant advice proposition and products. Significant investment was made during 2012 to ensure clients would continue to receive the best service, advice and products based on their specific needs. One example of this was the introduction of seven new UK and global RDR-compliant multi-asset funds, allowing clients to continue to invest in a broad range of asset classes matched to their needs and risk appetites.

Clients in the UK also benefited from the launch of the Coutts Mobile service in October, offering clients greater choice and flexibility in the way they manage their banking needs electronically.

In the International business, the division further invested in Dubai, Singapore and Mumbai as it continued to embed its targeted growth strategy. Clients also benefited from enhancements to the collateralised lending programme, where higher lending limits and a greater number of currencies available has increased its relevance to clients.

2012 compared with 2011

- Operating profit increased by £5 million, or 2% to £253 million driven by higher income partially offset by increased expenses and impairment losses.
- Total income increased by £66 million, with net interest income up £75 million, largely driven by improvements in margins and strong divisional treasury income, particularly during H1 2012.
- Non-interest income fell by 2% as the gain from the disposal of the Latin American, Caribbean and African businesses was more than offset by a decline in fee income in the UK and lower investment volumes, driven by continued economic uncertainty.
- Expenses were £40 million or 5% higher at £871 million, with significant investment in change programmes, including the development of new products and services capability and the implementation of RDR in the UK.
- Expenses also increased as a result of client redress following a past business review into the sale of the ALICO Enhanced Variable Rate Fund announced in November 2011 and a Financial Services Authority fine of £8.75 million relating to Anti Money Laundering control processes.

Key points (continued)

2012 compared with 2011 (continued)

- Client assets and liabilities fell by 1% with a £2 billion decrease in assets under management, primarily reflecting low margin client outflows of £1.4 billion and the impact of client transfers following the disposal of the Latin American, Caribbean and African businesses. This fall was partially offset by increases in lending and deposit volumes.
- Impairment losses were £46 million, up £21 million, largely reflecting a small number of large specific impairments.

Q4 2012 compared with Q3 2012

- Operating profit was 22% higher, largely driven by lower expenses, partially offset by higher impairment losses and a small decline in income.
- Income fell by £7 million, or 2%, reflecting a fall in net interest income, as the effect of lower rates on UK deposit hedges more than offset increases in lending and deposit volumes.
- Expenses of £190 million were 13% lower, primarily due to a decrease in FSCS levies, reduced headcount and lower incentive costs.
- Client assets and liabilities remained broadly flat, as increases in lending, customer deposits and assets under management were offset by the client transfers resulting from the disposal of the Latin American, Caribbean and African businesses. Excluding these client transfers, client assets and liabilities grew by £0.6bn.
- Impairment losses increased by £8 million reflecting a small number of specific impairments in Coutts UK.

Q4 2012 compared with Q4 2011

- Operating profit increased by 8% as income increased by £5 million and expenses fell by £4 million.
- Net interest income increased by £10 million, primarily driven by improvements in lending and deposit margins and volumes. Net interest margin increased by 30 basis points. Non-interest income fell as a result of lower transaction and investment volumes.
- Expenses decreased by £4 million, or 2%, reflecting lower headcount and continued management of discretionary costs, partially offset by investment in strategic and regulatory projects.

International Banking

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Income statement					
Net interest income	**922**	1,199	201	227	293
Non-interest income	**1,200**	1,356	283	308	300
Total income	**2,122**	2,555	484	535	593
Direct expenses					
- staff	**(577)**	(706)	(105)	(132)	(160)
- other	**(162)**	(226)	(20)	(47)	(51)
Indirect expenses	**(678)**	(700)	(167)	(169)	(174)
	(1,417)	(1,632)	(292)	(348)	(385)
Operating profit before impairment losses	**705**	923	192	187	208
Impairment losses	**(111)**	(168)	(37)	(12)	(56)
Operating profit	**594**	755	155	175	152
Of which:					
Ongoing businesses	**602**	773	150	171	145
Run-off businesses	**(8)**	(18)	5	4	7
Analysis of income by product					
Cash management	**943**	940	205	224	241
Trade finance	**291**	275	70	76	67
Loan portfolio	**865**	1,265	207	228	257
Ongoing businesses	**2,099**	2,480	482	528	565
Run-off businesses	**23**	75	2	7	28
Total income	**2,122**	2,555	484	535	593
Analysis of impairments by sector					
Manufacturing and infrastructure	**42**	254	21	2	75
Property and construction	**7**	17	-	-	-
Transport and storage	**(3)**	11	1	-	-
Telecommunications, media and technology	**12**	-	3	-	-
Banks and financial institutions	**43**	(42)	-	12	-
Other	**10**	(72)	12	(2)	(19)
Total impairment losses	**111**	168	37	12	56
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	**0.3%**	0.3%	0.4%	0.1%	0.4%

Key metrics

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
Performance ratios (ongoing businesses)					
Return on equity (1)	**9.2%**	11.5%	8.3%	10.3%	9.1%
Net interest margin	**1.64%**	1.73%	1.62%	1.70%	1.64%
Cost:income ratio	**66%**	62%	61%	65%	64%

	31 December 2012 £bn	30 September 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross) (2)	**42.2**	47.3	(11%)	57.7	(27%)
Loan impairment provisions	**(0.4)**	(0.6)	(33%)	(0.8)	(50%)
Net loans and advances to customers	**41.8**	46.7	(10%)	56.9	(27%)
Loans and advances to banks	**4.7**	5.1	(8%)	3.4	38%
Securities	**2.6**	2.3	13%	6.0	(57%)
Cash and eligible bills	**0.5**	0.7	(29%)	0.3	67%
Other	**3.4**	3.6	(6%)	3.3	3%
Total third party assets (excluding derivatives mark-to-market)	**53.0**	58.4	(9%)	69.9	(24%)
Risk elements in lending	**0.4**	0.7	(43%)	1.6	(75%)
Provision coverage (3)	**93%**	92%	100bps	52%	4,100bps
Customer deposits (excluding repos)	**46.2**	41.7	11%	45.1	2%
Bank deposits (excluding repos)	**5.6**	6.5	(14%)	11.4	(51%)
Loan:deposit ratio (excluding repos and conduits)	**85%**	101%	(1,600bp)	103%	(1,800bp)
Risk-weighted assets	**51.9**	49.7	4%	43.2	20%

Notes:
(1) Divisional return on equity is based on divisional operating profit after tax, divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions), for the ongoing businesses.
(2) Excludes disposal groups.
(3) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Run-off businesses (1)					
Total income	**23**	75	2	7	28
Direct expenses	**(31)**	(93)	3	(3)	(21)
Operating (loss)/profit	**(8)**	(18)	5	4	7

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

Key points

International Banking was formed in January 2012 to create an integrated, client-focused business which serves RBS's large global customers' financing, risk management, trade finance, payments and cash management needs internationally.

Since its formation, the division has made significant progress in strengthening its balance sheet and making efficient use of resources. The loan portfolio decreased significantly due to strategic reduction initiatives and disciplined capital allocation. The division's liability composition also improved, with additional customer deposits raised in the final quarter and the strategic run-off of commercial paper and short-term bank deposits.

Performance in 2012 was restricted by macroeconomic pressures and additional regulatory requirements across the industry. Given these constraints, International Banking kept its focus on cost control throughout the year.

Despite these headwinds, the division was recognised externally for its efforts in serving its customers' needs, helping RBS Group gain awards such as:

- Top European investment grade corporate bond bookrunner (Dealogic).
- Number one cash management manager in the UK and number two in Europe (Euromoney Cash Management Survey).
- Quality Leader in Large Corporate Trade Finance in the UK, and number one for Large Corporate Trade Finance Penetration in the UK (Greenwich).

2012 compared with 2011

- Operating profit decreased by £161 million as a decline in income was only partially mitigated by lower expenses and impairment losses.
- Income was 17% lower:
  - Loan portfolio decreased by 32%, mainly due to a strategic reduction in assets, in order to allocate capital more efficiently, and the effect of portfolio credit hedging and lower corporate appetite for risk management activities.
  - Cash management was broadly in line with the previous year. Deposit margins declined following reductions in both three month LIBOR and five year fixed rates across Europe; however, this was offset by lower liquidity costs due to the strategic initiative to reduce short-term bank deposits.
  - Trade finance increased by 6% as a result of increased activity, particularly in Asia.
  - The restructuring in 2012 led to a reduction in activities undertaken in the division, which contributed to a decline in income.
- Expenses declined by £215 million, reflecting planned restructuring initiatives following the formation of the International Banking division. Savings were achieved through headcount reduction, run-off of discontinued businesses and a resulting decrease in infrastructure support costs. Revenue-linked expenses also fell in line with the decrease in income.
- Impairment losses decreased by £57 million with the non-repeat of a single name impairment.

Key points (continued)

2012 compared with 2011 (continued)

- Third party assets declined by 24%, with targeted reductions in the lending portfolio following a strategic reduction in assets.
- Customer deposits increased by 2%. Successful efforts to rebuild customer confidence following the Moody's credit rating downgrade and the Group technology incident in June 2012 outweighed economic pressures. This, coupled with the managed reduction in loans and advances to customers, improved the loan:deposit ratio to 85%.
- Bank deposits were down 51%, mainly as a result of lower short-term balances, reflecting a strategic initiative to reduce liquidity outflow risk.
- Risk-weighted assets increased by 20%, reflecting the impact of regulatory uplifts partially offset by successful mitigation through balance sheet reduction. Risk-weighted asset intensity in the loan book has increased significantly given the uplifts, which will result in strategic adjustments going forward.

Q4 2012 compared with Q3 2012

- Operating profit was down £20 million, or 11%, driven by higher impairment charges and lower income, partially offset by lower expenses.
- Income decreased by 10%:
    - Cash management decreased by 8%, driven by lower margins. Both three month LIBOR and five year fixed rates declined during the quarter.
    - Loan portfolio was down 9%, reflecting the ongoing strategic reduction in third party assets.
    - Trade finance declined by 8%, with lower volumes, particularly in Asia, compared with seasonally higher activity levels in the first three quarters of 2012.
- Total expenses declined by £56 million, or 16%, primarily associated with lower variable compensation.
- Third party assets fell by 9% as a result of continued capital efficiency discipline.
- Customer deposits increased by 11% through continued business focus to improve the net funding position.

Q4 2012 compared with Q4 2011

- Operating profit was up 2%, as the impact of lower income was absorbed by lower costs and lower impairment losses.
- Income decreased by 18%:
    - Cash management fell by 15% mainly due to margin compression. Payment fees were also lower reflecting a growth in electronic, lower-margin payments.
    - Loan portfolio was down 19% reflecting asset reduction and disciplined capital allocation.
    - Trade finance grew by 4% with an increase in funded assets, primarily in Asia.
- Expenses fell by £93 million, largely reflecting planned head count reduction and an increased focus on the management of discretionary expenses.

Ulster Bank

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Income statement					
Net interest income	**649**	736	161	163	177
Net fees and commissions	**145**	142	36	36	28
Other non-interest income	**51**	69	15	14	21
Non-interest income	**196**	211	51	50	49
Total income	**845**	947	212	213	226
Direct expenses					
- staff	**(211)**	(221)	(54)	(53)	(53)
- other	**(49)**	(67)	(14)	(12)	(15)
Indirect expenses	**(261)**	(259)	(69)	(61)	(64)
	(521)	(547)	(137)	(126)	(132)
Operating profit before impairment losses	**324**	400	75	87	94
Impairment losses	**(1,364)**	(1,384)	(318)	(329)	(327)
Operating loss	**(1,040)**	(984)	(243)	(242)	(233)
Analysis of income by business					
Corporate	**360**	435	85	85	98
Retail	**360**	428	93	93	101
Other	**125**	84	34	35	27
Total income	**845**	947	212	213	226
Analysis of impairments by sector					
Mortgages	**646**	570	135	155	133
Corporate					
- property	**276**	324	69	92	83
- other corporate	**389**	434	97	75	100
Other lending	**53**	56	17	7	11
Total impairment losses	**1,364**	1,384	318	329	327
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	**3.4%**	2.9%	2.8%	3.3%	2.7%
Corporate					
- property	**6.4%**	6.8%	6.4%	8.0%	6.9%
- other corporate	**5.0%**	5.6%	5.0%	4.1%	5.2%
Other lending	**3.8%**	3.5%	4.9%	2.2%	2.8%
Total	**4.2%**	4.1%	3.9%	4.1%	3.8%

Key metrics

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
Performance ratios					
Return on equity (1)	**(21.8%)**	(22.8%)	(20.9%)	(20.4%)	(20.7%)
Net interest margin	**1.88%**	1.87%	1.93%	1.92%	1.87%
Cost:income ratio	**62%**	58%	65%	59%	58%

	31 December 2012 £bn	30 September 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	**19.2**	18.9	2%	20.0	(4%)
- corporate					
- property	**4.3**	4.6	(7%)	4.8	(10%)
- other corporate	**7.8**	7.4	5%	7.7	1%
- other lending	**1.3**	1.3	-	1.6	(19%)
	32.6	32.2	1%	34.1	(4%)
Loan impairment provisions	**(3.9)**	(3.6)	8%	(2.7)	44%
Net loans and advances to customers	**28.7**	28.6	-	31.4	(9%)
Risk elements in lending					
- mortgages	**3.1**	2.9	7%	2.2	41%
- corporate					
- property	**1.9**	1.8	6%	1.3	46%
- other corporate	**2.3**	2.1	10%	1.8	28%
- other lending	**0.2**	0.2	-	0.2	-
Total risk elements in lending	**7.5**	7.0	7%	5.5	36%
Provision coverage (2)	**52%**	51%	100bp	50%	200bp
Customer deposits	**22.1**	20.3	9%	21.8	1%
Loan:deposit ratio (excluding repos)	**130%**	141%	(1,100bp)	143%	(1,300bp)
Risk-weighted assets	**36.1**	35.1	3%	36.3	(1%)
Spot exchange rate - €/£	**1.227**	1.256		1.196	

Notes:
(1) Divisional return on equity is based on divisional operating loss after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).
(2) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.

Key points

The challenging macroeconomic environment across the island of Ireland had a significant impact on Ulster Bank's financial performance for 2012. There were some emerging signs of improvement in the Republic of Ireland economy during Q4 2012, most notably in the availability of institutional funding, some stabilisation of residential property prices and continued economic growth, albeit modest.

While impairment levels remained elevated during 2012, net interest margin and expense management improved. Further progress was made on Ulster Bank's deposit gathering strategy with customer deposit balances increasing by 7% on a constant currency basis in Q4 2012, driving a significant reduction in the loan to deposit ratio.

Following the Group technology incident in June 2012, Ulster Bank made significant efforts to help customers who were affected, extending branch hours, tripling call centre staff and providing full redress.

Key points (continued)

2012 compared with 2011

- Operating loss increased by £56 million primarily reflecting a reduction in income driven by lower interest earning asset volumes.
- Total expenses fell by £26 million, reflecting the benefits of cost saving initiatives.
- Impairment losses remained elevated, as weak underlying credit metrics prevailed. Falling asset values throughout most of 2012 and high levels of unemployment coupled with weak domestic demand continued to depress the property market. The impairment charge for 2012 was driven by a combination of new defaulting customers and deteriorating security values. Risk elements in lending increased by £2 billion during the year reflecting continued difficult conditions in both the commercial and residential property sectors.
- The loan to deposit ratio improved from 143% to 130%, driven by a combination of deposit growth and a decrease in the loan book. At constant currency, the loan book decreased by 2% as a result of natural amortisation and limited new lending due to low levels of market demand. Retail and SME deposits increased by 8%; however, this was partly offset by outflows of wholesale balances driven by market volatility and the impact of a rating downgrade in H2 2011.

Q4 2012 compared with Q3 2012

- Operating loss was flat at £243 million as lower impairment losses were offset by increased expenses. The rise in expenses was primarily driven by a £10 million impairment charge on own property assets due to falling property values.
- Impairment losses improved by £11 million in the quarter largely due to a lower level of mortgage defaults. Residential property values showed some signs of stabilisation; however, mortgage arrears remained elevated.
- Customer deposits grew by 7% on a constant currency basis, primarily within the Corporate business with strong growth across all product categories. Loan balances remained broadly flat.

Q4 2012 compared with Q4 2011

- Operating loss increased by £10 million with lower income and higher expenses only partly offset by a £9 million decrease in impairment losses.
- Total income decreased by £14 million largely due to movements in exchange rates. In constant currency terms income decreased by 1%. Net interest margin increased by 6 basis points to 1.93%, primarily driven by a reduced stock of liquid assets.
- Expenses increased by £5 million, reflecting the impairment charge on own property assets.

US Retail & Commercial (£ Sterling)

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Income statement					
Net interest income	**1,948**	1,900	468	492	496
Net fees and commissions	**778**	841	193	195	199
Other non-interest income	**365**	296	79	93	95
Non-interest income	**1,143**	1,137	272	288	294
Total income	**3,091**	3,037	740	780	790
Direct expenses					
- staff	**(828)**	(838)	(181)	(207)	(216)
- other	**(526)**	(557)	(138)	(128)	(137)
- litigation settlement	**(88)**	-	-	-	-
Indirect expenses	**(804)**	(779)	(198)	(201)	(195)
	(2,246)	(2,174)	(517)	(536)	(548)
Operating profit before impairment losses	**845**	863	223	244	242
Impairment losses	**(91)**	(326)	(23)	(21)	(65)
Operating profit	**754**	537	200	223	177
Average exchange rate - US$/£	**1.585**	1.604	1.606	1.581	1.573
Analysis of income by product					
Mortgages and home equity	**541**	463	134	139	128
Personal lending and cards	**405**	442	103	101	100
Retail deposits	**860**	927	201	215	237
Commercial lending	**609**	584	154	144	148
Commercial deposits	**441**	416	103	111	110
Other	**235**	205	45	70	67
Total income	**3,091**	3,037	740	780	790
Analysis of impairments by sector					
Residential mortgages	**(1)**	28	2	(5)	4
Home equity	**95**	103	13	40	20
Corporate and commercial	**(77)**	55	(20)	(35)	8
Other consumer	**65**	61	24	21	21
Securities	**9**	79	4	-	12
Total impairment losses	**91**	326	23	21	65
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	**-**	0.5%	0.1%	(0.3%)	0.3%
Home equity	**0.7%**	0.7%	0.4%	1.2%	0.5%
Corporate and commercial	**(0.3%)**	0.2%	(0.3%)	(0.6%)	0.1%
Other consumer	**0.8%**	0.8%	1.2%	1.0%	1.1%
Total	**0.2%**	0.5%	0.2%	0.2%	0.4%

US Retail & Commercial (£ Sterling) (continued)

Key metrics

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
Performance ratios					
Return on equity (1)	**8.3%**	6.3%	9.0%	9.7%	8.0%
Adjusted return on equity (2)	**8.9%**	6.3%	9.0%	9.7%	8.0%
Net interest margin	**3.00%**	3.06%	2.92%	2.99%	3.04%
Cost:income ratio	**73%**	72%	70%	69%	69%
Adjusted cost:income ratio (2)	**71%**	72%	70%	69%	69%

	31 December 2012 £bn	30 September 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- residential mortgages	**5.8**	5.9	(2%)	6.1	(5%)
- home equity	**13.3**	13.6	(2%)	14.9	(11%)
- corporate and commercial	**23.8**	23.0	3%	22.9	4%
- other consumer	**8.4**	8.2	2%	7.7	9%
	51.3	50.7	1%	51.6	(1%)
Loan impairment provisions	**(0.5)**	(0.6)	(17%)	(0.7)	(29%)
Net loans and advances to customers	**50.8**	50.1	1%	50.9	-
Total third party assets	**72.5**	75.0	(3%)	75.8	(4%)
Investment securities	**12.0**	13.3	(10%)	15.2	(21%)
Risk elements in lending					
- retail	**0.8**	0.7	14%	0.6	33%
- commercial	**0.3**	0.3	-	0.4	(25%)
Total risk elements in lending	**1.1**	1.0	10%	1.0	10%
Provision coverage (3)	**48%**	55%	(700bp)	72%	(2,400bp)
Customer deposits (excluding repos)	**59.2**	59.8	(1%)	60.0	(1%)
Bank deposits (excluding repos)	**1.8**	3.8	(53%)	5.2	(65%)
Loan:deposit ratio (excluding repos)	**86%**	84%	200bp	85%	100bp
Risk-weighted assets	**56.5**	56.7	-	59.3	(5%)
Spot exchange rate - US$/£	**1.616**	1.614		1.548	

Notes:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).
(2) Excludes the litigation settlement and net gain on sale of Visa B shares in 2012.
(3) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.

Key points

- Sterling strengthened against the US Dollar, with the spot exchange rate at 31 December 2012 increasing by 4.4% compared with 31 December 2011.
- Performance is described in full in the US dollar-based financial statements set out on pages 55 to 58.

US Retail & Commercial (US Dollar)

	Year ended		Quarter ended		
	31 December 2012 $m	31 December 2011 $m	31 December 2012 $m	30 September 2012 $m	31 December 2011 $m
Income statement					
Net interest income	**3,087**	3,048	752	778	781
Net fees and commissions	**1,233**	1,350	311	306	314
Other non-interest income	**579**	473	126	149	148
Non-interest income	**1,812**	1,823	437	455	462
Total income	**4,899**	4,871	1,189	1,233	1,243
Direct expenses					
- staff	**(1,313)**	(1,344)	(292)	(327)	(339)
- other	**(833)**	(893)	(219)	(204)	(216)
- litigation settlement	**(138)**	-	-	-	-
Indirect expenses	**(1,274)**	(1,250)	(318)	(318)	(307)
	(3,558)	(3,487)	(829)	(849)	(862)
Operating profit before impairment losses	**1,341**	1,384	360	384	381
Impairment losses	**(145)**	(524)	(38)	(33)	(102)
Operating profit	**1,196**	860	322	351	279
Analysis of income by product					
Mortgages and home equity	**856**	744	215	219	202
Personal lending and cards	**643**	709	166	160	157
Retail deposits	**1,364**	1,487	323	340	373
Commercial lending	**965**	936	247	228	233
Commercial deposits	**698**	667	165	175	173
Other	**373**	328	73	111	105
Total income	**4,899**	4,871	1,189	1,233	1,243
Analysis of impairments by sector					
Residential mortgages	**(2)**	44	3	(8)	6
Home equity	**150**	165	21	64	31
Corporate and commercial	**(120)**	88	(31)	(55)	13
Other consumer	**104**	101	39	32	33
Securities	**13**	126	6	-	19
Total impairment losses	**145**	524	38	33	102
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	**-**	0.5%	0.1%	(0.3%)	0.3%
Home equity	**0.7%**	0.7%	0.4%	1.2%	0.5%
Corporate and commercial	**(0.3%)**	0.2%	(0.3%)	(0.6%)	0.1%
Other consumer	**0.8%**	0.8%	1.2%	1.0%	1.1%
Total	**0.2%**	0.5%	0.2%	0.2%	0.4%

Key metrics

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
Performance ratios					
Return on equity (1)	**8.3%**	6.3%	9.0%	9.7%	8.0%
Adjusted return on equity (2)	**8.9%**	6.3%	9.0%	9.7%	8.0%
Net interest margin	**3.00%**	3.06%	2.92%	2.99%	3.04%
Cost:income ratio	**73%**	72%	70%	69%	69%
Adjusted cost:income ratio (2)	**71%**	72%	70%	69%	69%

	31 December 2012 $bn	30 September 2012 $bn	Change	31 December 2011 $bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- residential mortgages	**9.4**	9.5	(1%)	9.4	-
- home equity	**21.5**	22.0	(2%)	23.1	(7%)
- corporate and commercial	**38.5**	37.2	3%	35.3	9%
- other consumer	**13.5**	13.1	3%	12.0	13%
	82.9	81.8	1%	79.8	4%
Loan impairment provisions	**(0.9)**	(0.9)	-	(1.1)	(18%)
Net loans and advances to customers	**82.0**	80.9	1%	78.7	4%
Total third party assets	**117.3**	121.0	(3%)	117.3	-
Investment securities	**19.5**	21.4	(9%)	23.5	(17%)
Risk elements in lending					
- retail	**1.3**	1.2	8%	1.0	30%
- commercial	**0.6**	0.5	20%	0.6	-
Total risk elements in lending	**1.9**	1.7	12%	1.6	19%
Provision coverage (3)	**48%**	55%	(700bp)	72%	(2,400bp)
Customer deposits (excluding repos)	**95.6**	96.6	(1%)	92.8	3%
Bank deposits (excluding repos)	**2.9**	6.2	(53%)	8.0	(64%)
Loan:deposit ratio (excluding repos)	**86%**	84%	200bp	85%	100bp
Risk-weighted assets	**91.3**	91.6	-	91.8	(1%)

Notes:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of monthly average of divisional RWAs, adjusted for capital deductions).
(2) Excludes the litigation settlement and net gain on sale of Visa B shares in 2012.
(3) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.

Key points

In Q1 2012, RBS Citizens implemented five strategic priorities to sharpen the division's back-to-basics strategy. The strategy is founded on the belief that building an engaged workforce which is focused on the customer experience and on being their primary banking partner, with an embedded culture of risk management, will position the franchise to deliver financial results consistent with a top performing regional bank.

Efforts in both the Consumer and Commercial businesses throughout 2012 were aligned with those priorities and our customers have acknowledged our efforts. According to a 2012 survey conducted by American Banker, RBS Citizens was ranked in the top ten of US banks for corporate reputation, an improvement of eight places from 2011.

Key points (continued)

Core Customer Commitments were implemented in Consumer Banking's branch network at the end of last year. Early indications show progress towards the Commitments' aim to enhance customer experience:

- At the end of 2012, 77% of customers surveyed externally were 'completely satisfied' or 'very satisfied', compared with the peer average of 71%.
- RBS Citizens' net promoter score, a measure of how likely customers are to recommend the bank, increased to 20% over the course of 2012 and was over ten percentage points above the peer average.

Consumer Banking further improved and expanded its distribution channels and product capabilities including the roll-out of intelligent deposit machines and the on-going build out of its mortgage capabilities, reaching the top 20 nationally for mortgage originations in 2012. The business made enhancements to its mobile banking services and subsequently its apps for both iPhone and Android were rated the 'best integrated apps' in the industry based on an analysis of consumer ratings conducted by Javelin Strategy & Research.

In 2012, Commercial Banking responded to client feedback, introducing its own core Client Commitments and developing a new Commercial Client on-boarding process to improve the way clients are welcomed to RBS Citizens.

Commercial Banking took further significant steps towards strengthening its customer proposition with a more streamlined, efficient and integrated service and product offering by integrating the Treasury Solutions, Foreign Exchange and Interest Rate Derivatives functions into Commercial Banking.

The business made good progress towards expanding its capital markets capabilities. At the end of 2012, RBS Citizens ranked #4 in the new capital markets business for middle market customers within the footprint, and ranked in the top ten nationally.

2012 compared with 2011

- US Retail & Commercial posted an operating profit of $1,196 million, up $336 million, or 39%, from 2011. Excluding the $138 million litigation settlement in Q1 2012 and the $62 million net gain on the sale of Visa B shares in Q2 2012, operating profit was up $412 million, or 48%, largely reflecting lower impairment losses due to an improved credit environment.
- Net interest income was up $39 million, or 1%, driven by targeted commercial loan growth, deposit pricing discipline and lower funding costs. This was partially offset by consumer loan run-off and lower asset yields reflecting prevailing economic conditions.
- Non-interest income was down $11 million, or 1%, reflecting a decline in debit card fees as a result of the Durbin Amendment legislation and lower securities gains and deposit fees. This was largely offset by strong mortgage banking fees of $109 million, up 71%, and the $75 million gross gain on the sale of Visa B shares.
- Loans and advances to customers were up $3.1 billion, or 4%, due to strong growth in commercial loan volumes.
- Customer deposits increased by 3% with strong growth achieved in checking balances. Consumer checking balances grew by 4% while small business checking balances grew by 8% over the year.

Key points (continued)

2012 compared with 2011 (continued)

- Excluding the $138 million litigation settlement, relating to a class action lawsuit regarding the way overdraft fees were assessed on customer accounts prior to 2010, and the $13 million litigation reserve associated with the sale of Visa B shares, and a one-off $33 million pension gain in Q4 2012, total expenses were down 1%, reflecting lower loan collection costs and the elimination of the Everyday Points rewards programme for consumer debit card customers, partially offset by higher operational losses.
- During the year, RBS Citizens offered former employees a one-time opportunity to receive the value of future pension benefits as a single lump sum payment. The transaction allowed RBS Citizens to partially de-risk its pension plan and future liability under the plan. A strong participant take-up rate of 60% enabled RBS Citizens to reduce its pension liability by 17% and recognise a $33 million accounting gain.
- Impairment losses were down $379 million, or 72%, reflecting an improved credit environment and lower impairments on securities. Loan impairments improved by $266 million driven primarily by commercial loan impairments. Impairments as a percentage of loans and advances fell to 20 basis points.

Q4 2012 compared with Q3 2012

- Operating profit of $322 million decreased by $29 million, or 8%, driven by lower income, partially offset by lower expenses.
- Net interest income was down $26 million, or 3%, due to lower asset yields and a smaller investment portfolio, partially offset by commercial loan growth.
- Non-interest income was down by $18 million, or 4%, driven by lower securities gains partially offset by higher commercial banking fee income.
- Total expenses were $20 million, or 2% lower reflecting the $33 million pension gain, partially offset by higher operational losses.
- Impairment losses increased $5 million, or 15%, reflecting higher impairments on securities. The credit environment remained broadly stable in the quarter.

Q4 2012 compared with Q4 2011

- Operating profit of $322 million increased by $43 million, or 15%, as lower impairment losses and expenses were partially offset by lower income.
- Net interest income was down $29 million, or 4%, driven by lower asset yields, partially offset by commercial loan growth and lower funding costs.
- Non-interest income was down $25 million, or 5%, due to lower securities gains and deposit fees, partially offset by strong mortgage banking and commercial banking fee income.
- Total expenses decreased by $33 million, or 4%, reflecting the pension gain and lower loan collection costs partially offset by higher operational losses.
- Impairment losses declined by $64 million, or 63%, reflecting an improved credit environment and lower impairments related to securities.

Markets

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Income statement					
Net interest income from banking activities	**113**	79	46	11	23
Net fees and commissions receivable	**318**	603	41	77	62
Income from trading activities	**3,912**	3,602	514	933	580
Other operating income (net of related funding costs)	**140**	131	40	21	27
Non-interest income	**4,370**	4,336	595	1,031	669
Total income	**4,483**	4,415	641	1,042	692
Direct expenses					
- staff	**(1,453)**	(1,963)	(93)	(393)	(354)
- other	**(721)**	(746)	(208)	(162)	(197)
Indirect expenses	**(763)**	(769)	(179)	(198)	(193)
	(2,937)	(3,478)	(480)	(753)	(744)
Operating profit/(loss) before impairment losses	**1,546**	937	161	289	(52)
Impairment (losses)/recoveries	**(37)**	(38)	(22)	6	(57)
Operating profit/(loss)	**1,509**	899	139	295	(109)
Of which:					
Ongoing businesses	**1,564**	943	135	300	(96)
Run-off businesses	**(55)**	(44)	4	(5)	(13)
Analysis of income by product					
Rates	**2,006**	1,474	399	390	396
Currencies	**757**	1,060	163	173	259
Asset backed products (ABP)	**1,318**	1,254	139	374	29
Credit markets	**862**	616	179	186	36
Investor products and equity derivatives	**224**	593	(66)	76	118
Total income ongoing businesses	**5,167**	4,997	814	1,199	838
Inter-divisional revenue share	**(691)**	(767)	(172)	(159)	(177)
Run-off businesses	**7**	185	(1)	2	31
Total income	**4,483**	4,415	641	1,042	692
Memo - Fixed income and currencies					
Rates/currencies/ABP/credit markets	**4,943**	4,404	880	1,123	720
Less: primary credit markets	**(568)**	(688)	(151)	(114)	(134)
Total fixed income and currencies	**4,375**	3,716	729	1,009	586

Key metrics

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
Performance ratios (ongoing businesses)					
Return on equity (1)	**10.0%**	6.1%	3.6%	7.8%	(2.4%)
Cost:income ratio	**64%**	77%	76%	72%	106%
Compensation ratio (2)	**32%**	42%	17%	37%	49%

	31 December 2012 £bn	30 September 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet (ongoing businesses)					
Loans and advances to customers (gross)	**29.8**	29.5	1%	31.5	(5%)
Loan impairment provisions	**(0.2)**	(0.2)	-	(0.2)	-
Net loans and advances to customers	**29.6**	29.3	1%	31.3	(5%)
Loans and advances to banks	**16.6**	22.4	(26%)	29.9	(44%)
Reverse repos	**103.8**	97.5	6%	100.4	3%
Securities	**92.4**	97.9	(6%)	108.1	(15%)
Cash and eligible bills	**30.2**	34.7	(13%)	28.1	7%
Other	**11.8**	22.4	(47%)	14.8	(20%)
Total third party assets (excluding derivatives mark-to-market)	**284.4**	304.2	(7%)	312.6	(9%)
Net derivative assets (after netting)	**21.9**	21.3	3%	37.0	(41%)
Provision coverage (3)	**77%**	75%	200bps	75%	200bps
Customer deposits (excluding repos)	**26.3**	34.3	(23%)	36.8	(29%)
Bank deposits (excluding repos)	**45.4**	42.9	6%	48.2	(6%)
Risk-weighted assets	**101.3**	108.0	(6%)	120.3	(16%)

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

	Year ended		Quarter ended		
Run-off businesses (1)	**31 December 2012 £m**	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Total income	**7**	185	(1)	2	31
Direct expenses	**(62)**	(229)	5	(7)	(44)
Operating (loss)/profit	**(55)**	(44)	4	(5)	(13)

Run-off businesses (1)	**31 December 2012 £bn**	30 September 2012 £bn	31 December 2011 £bn
Total third party assets (excluding derivatives mark-to-market)	**0.1**	0.2	1.3

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

Key points

During 2012, the economic environment was dominated by weak prospects for global growth and the uncertain outlook for Eurozone sovereign debt. However, positive central bank activity and a more stable credit environment resulted in marginally improved trading opportunities.

Against this backdrop, the division continued to focus on its strengths and client offering. In January 2012 RBS announced the creation of the Markets division and, at the same time, the exit of the cash equities and mergers & acquisitions businesses. Following further review in Q4 2012, the remaining Investor Products and Equity Derivatives (IPED) operation was moved into Rates to form a Derivative Product Solutions (DPS) business. In addition, Markets has also developed a range of measures to enhance its culture and control environment, focusing on improving both supervision and behaviours. Taken together, these actions reinforce Markets' commitment to put the client at the centre of everything we do and to focus resources on meeting client needs.

2012 compared with 2011

- Operating profit increased by 68% reflecting 2% growth in income and 20% decrease in direct expenses, most notably through a reduction in staff costs.
- Rates benefited from a strong trading performance, while losses incurred in managing counterparty exposures during the third quarter of 2011 were not repeated during 2012. Revenues for the year were up 36% to £2.0 billion.
- Currencies volumes were weak across the industry, although the Spot FX business minimised the impact on revenue. Options income was limited by further Eurozone uncertainty.
- Asset Backed Products continued to perform strongly as markets were sustained throughout the year by investors' search for yield. Revenues for the year were £1.3 billion, up 5% from a strong performance of £1.25 billion in 2011.
- A 40% increase in Credit Markets revenue to £862 million was driven by Flow Credit which, as a result of improved risk management and more benign market conditions, recorded good profitability compared with a loss in 2011. This was partially offset by weaker earnings from credit origination.
- The 62% decrease in IPED followed significantly weaker client volumes in key markets. The business has been restructured and rationalised. It will be reported within Rates going forward.
- The division focused on controlling costs throughout 2012, driving total expenses down by 16%. Lower staff expenses, down 26%, reflect lower headcount and lower levels of variable compensation, including reductions and clawbacks following the Group's LIBOR settlements reached on 6 February 2013, with the compensation ratio falling from 42% to 32%. Headcount reductions totalled 2,700 in the year, including that resulting from the exit of businesses announced in January. Other expenses fell by 3% as rigorous controls on discretionary expenditure and the exiting of product areas continued to take effect, partially offset by higher legal expenses.
- The reduction in third party assets reflected management action to optimise and de-risk the balance sheet, consistent with previously disclosed medium-term objectives.

Key points (continued)

2012 compared with 2011 (continued)

- The division reduced risk-weighted assets, successfully focusing on lowering risk and enhancing models whilst managing the requirement for greater prudence in the regulatory environment.
- Not reflected in Markets operating results in 2012 were the following items: £381 million for regulatory fines; £350 million for its share of the provision for interest rate swap redress; and approximately £700 million in restructuring costs associated with the strategic changes that took place during 2012.

Q4 2012 compared with Q3 2012

- A £156 million reduction in operating profit was driven by lower revenue, partially offset by lower staff expenses. The fall in revenue reflected a seasonal reduction in activity, compared with particularly favourable market conditions as a result of Central Bank announcements during Q3 2012.
- Flat yield curves limited opportunities for revenue generation in the Rates business; however, income was up 2% in the quarter.
- Income from Asset Backed Products decreased from high levels as volumes declined and asset prices stabilised following a sustained period of strong performance throughout 2012.
- Credit Markets benefited from increased levels of capital market issuance, although this was more than offset by lower income from Flow Credit Trading.
- The loss in IPED reflected declining client volumes and a weak trading performance, compounded by a revision to divisional funding policies (net impact of zero across the whole division).
- A limited number of impairments were incurred on securities in Asset Backed Products.
- Lower staff costs reflected lower variable compensation, following the Group's LIBOR settlements, and headcount reductions. An increase in other expenses was driven by higher legal costs during the period.
- Third party assets and risk-weighted assets were down by £20 billion and £7 billion respectively, reflecting lower levels of activity in Rates and Asset Backed Products in the quarter and a continued focus on balance sheet management and risk reduction.

Q4 2012 compared with Q4 2011

- Q4 2012 posted an operating profit of £139 million compared with a loss of £109 million in the same period last year. Although income was down in Q4 2012 this was more than offset by lower staff expenses and lower impairments.
- The Currencies business experienced lower levels of client activity and declining volatility.
- A more positive credit environment enabled greater income generation from Asset Backed Products and Credit Markets.
- Significantly lower staff expenses reflected lower variable compensation, following the Group's LIBOR settlements, and the full impact of headcount reductions made towards the end of 2011 and throughout 2012.

Direct Line Group

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Income statement					
Earned premiums	**4,044**	4,221	999	1,013	1,043
Reinsurers' share	**(326)**	(252)	(80)	(81)	(71)
Net premium income	**3,718**	3,969	919	932	972
Fees and commissions	**(430)**	(400)	(79)	(129)	(161)
Instalment income	**126**	138	32	32	33
Other income	**60**	100	14	16	19
Total income	**3,474**	3,807	886	851	863
Net claims	**(2,427)**	(2,772)	(606)	(596)	(589)
Underwriting profit	**1,047**	1,035	280	255	274
Staff expenses	**(338)**	(288)	(90)	(88)	(75)
Other expenses	**(387)**	(333)	(109)	(106)	(79)
Total direct expenses	**(725)**	(621)	(199)	(194)	(154)
Indirect expenses	**(124)**	(225)	-	-	(55)
	(849)	(846)	(199)	(194)	(209)
Technical result	**198**	189	81	61	65
Investment income	**243**	265	32	48	60
Operating profit	**441**	454	113	109	125
Analysis of income by product					
Personal lines motor excluding broker					
- own brands	**1,631**	1,742	395	416	425
- partnerships	**124**	209	31	31	34
Personal lines home excluding broker					
- own brands	**462**	471	115	116	119
- partnerships	**364**	363	94	88	81
Personal lines rescue and other excluding broker					
- own brands	**183**	181	46	46	46
- partnerships	**178**	125	47	42	(16)
Commercial	**322**	315	82	82	81
International	**315**	340	75	79	89
Other (1)	**(105)**	61	1	(49)	4
Total income	**3,474**	3,807	886	851	863

For the notes to this table refer to page 65.

Key metrics

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
In-force policies (000s)					
Personal lines motor excluding broker					
- own brands	**3,714**	3,787	3,714	3,762	3,787
- partnerships	**336**	320	336	332	320
Personal lines home excluding broker					
- own brands	**1,754**	1,811	1,754	1,777	1,811
- partnerships	**2,485**	2,497	2,485	2,514	2,497
Personal lines rescue and other excluding broker					
- own brands	**1,803**	1,844	1,803	1,816	1,844
- partnerships	**7,628**	7,307	7,628	7,955	7,307
Commercial	**466**	422	466	466	422
International	**1,462**	1,387	1,462	1,444	1,387
Other (1)	**50**	1	50	52	1
Total in-force policies (2)	**19,698**	19,376	19,698	20,118	19,376
Gross written premium (£m)					
Personal lines motor excluding broker					
- own brands	**1,494**	1,584	318	400	348
- partnerships	**136**	137	27	40	28
Personal lines home excluding broker					
- own brands	**455**	474	105	128	112
- partnerships	**534**	549	132	139	132
Personal lines rescue and other excluding broker					
- own brands	**177**	174	41	48	40
- partnerships	**176**	174	45	45	44
Commercial	**436**	435	103	103	102
International	**557**	570	138	113	142
Other (1)	**1**	1	-	(1)	2
Total gross written premium	**3,966**	4,098	909	1,015	950

For the notes to this table refer to page 65.

Key metrics (continued)

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
Performance ratios					
Return on tangible equity (3)	**11.7%**	10.3%	14.0%	12.9%	11.0%
Loss ratio (4)	**65%**	70%	66%	64%	61%
Commission ratio (5)	**12%**	10%	8%	14%	17%
Expense ratio (6)	**23%**	21%	22%	21%	22%
Combined operating ratio (7)	**100%**	101%	96%	99%	100%
Balance sheet					
Total insurance reserves - (£m) (8)	**8,066**	7,284	8,066	8,112	7,284

Notes:
(1) 'Other' predominantly consists of the personal lines broker business and from Q1 2012 business previously reported in Non-Core.
(2) Total in-force policies include travel and creditor policies sold through RBS Group. These comprise travel policies included in bank accounts e.g. Royalties Gold Account, and creditor policies sold with bank products including mortgage, loan and card payment protection.
(3) Return on tangible equity is based on annualised operating profit after tax divided by average tangible equity adjusted for dividend payments.
(4) Loss ratio is based on net claims divided by net premium income.
(5) Commission ratio is based on fees and commissions divided by net premium income.
(6) Expense ratio is based on expenses divided by net premium income.
(7) Combined operating ratio is the sum of the loss, commission and expense ratios.
(8) Consists of general and life insurance liabilities, unearned premium reserve and liability adequacy reserve.

Key points

In October 2012, the Group completed the successful initial public offering of Direct Line Group, selling 520.8 million of its existing ordinary shares. This represented 34.7% of the issued share capital, generating gross proceeds of £911 million.

During 2012, Direct Line Group made good progress despite competitive market conditions. The operating profit of £441 million was down £13 million compared with the previous year driven by lower investment returns, partially offset by an improved underwriting result.

A combined operating ratio (COR) of 100% represented an improvement of 100 basis points compared with 2011 driven predominantly by an improved loss ratio. The full year 2012 result included Home weather event claims of approximately £105 million versus £20 million in 2011, which was more than offset by £390 million of releases from reserves held against prior year claims across the portfolio. Of these releases, £68 million related to the run-off business where the impact on the income statement is broadly neutral. For Direct Line Group's ongoing operations, the current year attritional loss ratio improved by 1.6 percentage points which reflects actions taken to improve risk selection and the implementation of the claims transformation programme. In 2012 all categories within Direct Line Group made an operating profit.

Direct Line Group made further progress in executing its strategic plan with developments made in its pricing capability through the implementation of a new pricing model and rating engine across the Motor and Home divisions. The new claims management system introduced during 2011 is now operational for the majority of new Motor and Home claims. Benefits, including shorter settlement times for customers and improved legal case management, are being realised as a result of the improved claims process.

Key points (continued)

During 2012, a number of partnership agreements, including Nationwide Building Society and Sainsbury's Bank, were either renewed or extended. In addition, Direct Line Group signed an arm's length, five year distribution agreement with RBS Group for the continued provision, post divestment, of general insurance products to UK Retail customers.

Following launch on **compare**the**market**.com, Churchill and Privilege motor and home products are now available on all four major price comparison websites in the UK. This reinforces Direct Line Group's multi-channel distribution strategy.

Direct Line Group continues to focus on reducing operational costs, targeting the delivery of gross annual cost savings of £100 million in 2014 through overall improvements in operational efficiency including claims handling, continued efforts to simplify internal structures and better managing customer acquisition costs. Steps announced during the second half of the year included measures to reduce costs in central functions as well as the reduction of around 70 senior leadership roles across the organisation.

Roll-out of a new e-trading platform in Commercial began in Q3 2012 and was launched in January 2013. This new platform has been developed to aid with internal cost efficiency and provide new routes to market as well as to significantly improve the interface with brokers and customers.

International consolidated its direct market position in Italy and Germany with a total of 1.5 million in-force policies at the end of 2012. Gross written premium for 2012 was up 4% in local currency on 2011 and followed a period of strong growth in 2010 and 2011.

Direct Line Group further improved its capital efficiency following a number of initiatives including the consolidation of four underwriting entities into one. The combined entity, U K Insurance Limited, received inaugural credit ratings of 'A' from Standard and Poor's and 'A2' from Moody's. Direct Line Group also issued £500 million of Tier 2 debt and paid £1 billion of dividends to RBS Group.

Direct Line Group operates in an industry that is under a significant amount of scrutiny and is preparing for substantial regulatory change. Direct Line Group is actively engaging with major stakeholders throughout the ongoing debates surrounding referral and legal fees, the increase in whiplash claims and the implementation of the gender directive in order to help deliver the best possible outcome for its customers and shareholders.

Key points (continued)

Separation and divestment update
From 1 July 2012, Direct Line Group has operated on a substantially standalone basis with independent corporate functions and governance following the successful implementation of a comprehensive programme of separation initiatives. During 2012, these included launching a new corporate identity and the Direct Line Group Board became fully compliant with the UK Corporate Governance Code following further non-executive director appointments. New contracts of employment have been agreed and issued to staff, independent HR systems have been implemented and an arm's length transitional services agreement has been reached with RBS Group for residual services. In January 2013, it was announced that Capgemini would design, deliver and operate Direct Line Group's IT infrastructure.

The Group sold the first tranche of ordinary shares representing 34.7% of the share capital of Direct Line Group in October 2012 via an Initial Public Offering. This is consistent with the Group's plan to cede control of Direct Line Group by the end of 2013 and a step toward complete disposal by the end of 2014, as required by the European Commission. In accordance with IFRS 5, Direct Line Group has been recognised as a discontinued operation with consequent changes to the presentation of comparative information. The assets and liabilities relating to Direct Line Group are included in Disposal groups as of 31 December 2012. The Group has written down its investment in Direct Line Group at 31 December 2012 to 216 pence per share, the market value on that date, which resulted in a £394 million goodwill write-down.

A full year preliminary statement of results for Direct Line Insurance Group plc is available on the company website. A full Annual Report and Accounts will be available in March 2013.

2012 compared with 2011
- Operating profit of £441 million was £13 million, or 3% lower than 2011 as an improved technical result was more than offset by £22 million lower investment income.
- Gross written premium of £3,966 million was 3% lower, driven by the impact of de-risking in previous years and changes in the mix of the portfolio in Motor together with competitive market conditions in Home. International was also down reflecting adverse exchange rate movements.
- Total income of £3,474 million was £333 million, or 9% lower than prior year due to flow through of lower written premiums, increased commissions payable relating to business previously reported within Non-Core, the cessation of Tesco Personal Finance tariff income and lower supply chain income.
- Net claims of £2,427 million were £345 million, or 12% lower than 2011 reflecting lower exposure, higher releases of reserves from prior years and improved claims experience. The 2012 result includes approximately £105 million of Home weather event claims, significantly more than £20 million in 2011 under benign weather conditions.
- Expenses of £849 million were broadly flat. Staff expenses were £50 million, or 17% higher partly reflecting the transfer of some head office functions costs to Direct Line Group ahead of separation from RBS Group, together with additional staff recruited to provide services previously provided by RBS Group.

Key points (continued)

2012 compared with 2011 (continued)

- Investment income of £243 million was £22 million lower, primarily as a result of £27 million financing costs relating to the Tier 2 debt issued in April 2012 and lower reinvestment rates during 2012. This was mostly offset by higher realised gains arising from portfolio management initiatives, including those arising from business previously reported in Non-Core.
- Direct Line Group's reported Return on Tangible Equity was 11.7% in 2012. On a pro forma basis, assuming the capital management initiatives had taken place prior to the start of the year, the Return on Tangible Equity would have been 13.2%.

Q4 2012 compared with Q3 2012

- Operating profit of £113 million was £4 million, or 4% higher than prior quarter driven by a better technical result and partly offset by lower investment income.
- Total income of £886 million was £35 million, or 4% higher mainly driven by lower commissions following the settlement of Tesco Personal Finance reserves in Q3 2012.
- Net claims of £606 million were £10 million, or 2% higher due to lower releases of reserves from prior years particularly on the Tesco Personal Finance run-off business.
- Total expenses of £199 million were £5 million, or 3% higher due to timing of professional and other external fees.
- Investment income of £32 million was £16 million, or 33% lower than Q3 2012 due to lower realised gains following portfolio management initiatives earlier in the year.

Q4 2012 compared with Q4 2011

- Operating profit of £113 million was £12 million, or 10% lower than the same period in 2011. This was largely driven by lower investment income, partially offset by an improved technical result.
- Gross written premium of £909 million was £41 million, or 4% lower. This is primarily driven by Motor due to volume reduction and business mix changes.
- Total income of £886 million was £23 million, or 3% higher mainly due to lower commissions payable with the non-repeat of a profit share payment in Q4 2011 of £57 million. This was largely offset by a reduction in net premium income reflecting flow through of lower written premiums across Motor, Home and International.
- Net claims of £606 million were £17 million, or 3% higher due to the non-repeat of a one-off release from reserves on the Creditor book products made in Q4 2011 which was offset in fees and commissions. This was partially offset by favourable movements across the other products.
- Total expenses were £10 million, or 5% lower due to management actions taken to improve the cost base.
- Investment income of £32 million was £28 million, or 47% lower due to a decline in yields, lower assets under management, lower gains on disposal and the loss of property rental income. Q4 2012 also included £7 million of financing costs relating to the Tier 2 debt issued in April 2012.

Central items

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Central items not allocated	**143**	191	143	176	89

Funding and operating costs have been allocated to operating divisions based on direct service usage, the requirement for market funding and other appropriate drivers where services span more than one division.

Residual unallocated items relate to volatile corporate items that do not naturally reside within a division.

Key points

2012 compared with 2011

- Central items not allocated represented a credit of £143 million compared with £191 million in 2011.
- Significant central costs included the Group technology incident cost of £175 million, a £160 million provision for various litigation and legacy conduct issues, as well as unallocated Treasury costs of circa £390 million. VAT recoveries of £85 million and Group Pension fund adjustment of circa £50 million in 2011 were not repeated.
- Offsetting these costs, profits on Group Treasury available-for-sale bond disposals totalled £880 million compared with £516 million in 2011, as active management of the liquid assets portfolio as well as favourable market conditions enabled the Group to crystallise gains on some holdings.

Q4 2012 compared with Q3 2012

- Central items not allocated represented a credit of £143 million compared with £176 million in Q3 2012.
- The movement is driven by the gain of £187 million on available-for-sale bond disposals in Q4 2012, significantly below the £464 million gain recorded in Q3 2012. This was partially offset by the non-repeat of a £50 million provision for the Group technology incident and lower unallocated costs in Group Treasury.

Q4 2012 compared with Q4 2011

- Central items not allocated represented a credit of £143 million, an improvement of £54 million compared with Q4 2011, with gains on available-for-sale bond disposals £61 million higher than in the prior year period at £187 million.

Central items

Technology incident - costs of redress

The following table provides an analysis by division of the estimated costs of redress following the technology incident in June 2012. These costs are included in Central items above and include waiver of interest and other charges together with other compensation payments all of which are reported in expenses. 84% of these costs have been incurred as of 31 December 2012.

	Total £m
UK Retail	41
UK Corporate	24
International Banking	3
Ulster Bank	82
Group Centre	25
	175

Non-Core

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Income statement					
Net interest income	**346**	863	59	86	155
Net fees and commissions	**105**	(38)	28	17	(47)
Loss from trading activities	**(654)**	(721)	(50)	(203)	(407)
Insurance net premium income	**-**	286	-	-	9
Other operating income					
- rental income	**421**	743	47	73	163
- other (1)	**70**	55	(116)	77	(151)
Non-interest income	**(58)**	325	(91)	(36)	(433)
Total income	**288**	1,188	(32)	50	(278)
Direct expenses					
- staff	**(272)**	(375)	(52)	(69)	(82)
- operating lease depreciation	**(246)**	(347)	(51)	(43)	(91)
- other	**(163)**	(256)	(46)	(30)	(57)
Indirect expenses	**(263)**	(317)	(58)	(70)	(84)
	(944)	(1,295)	(207)	(212)	(314)
Operating loss before insurance net claims and impairment losses	**(656)**	(107)	(239)	(162)	(592)
Insurance net claims	**-**	(195)	-	-	61
Impairment losses	**(2,223)**	(3,919)	(703)	(424)	(751)
Operating loss	**(2,879)**	(4,221)	(942)	(586)	(1,282)

Note:

(1) Includes losses on disposals of £14 million (year ended 31 December 2011 - £127 million; quarter ended 31 December 2012 - £115 million; quarter ended 30 September 2012 - £42 million; quarter ended 31 December 2011 - £36 million).

Non-Core (continued)

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Analysis of income/(loss) by business					
Banking and portfolios	**40**	1,465	(111)	91	(142)
International businesses	**250**	411	29	60	92
Markets	**(2)**	(688)	50	(101)	(228)
Total income	**288**	1,188	(32)	50	(278)
Loss from trading activities					
Monoline exposures	**(205)**	(670)	(35)	21	(243)
Credit derivative product companies	**(205)**	(85)	1	(199)	(19)
Asset-backed products (1)	**101**	29	16	17	(22)
Other credit exotics	**(28)**	(175)	5	16	(8)
Equities	**(2)**	(11)	(5)	1	1
Banking book hedges	**(38)**	(1)	(2)	(14)	(36)
Other	**(277)**	192	(30)	(45)	(80)
	(654)	(721)	(50)	(203)	(407)
Impairment losses					
Banking and portfolios	**2,346**	3,833	723	433	714
International businesses	**56**	82	15	16	30
Markets	**(179)**	4	(35)	(25)	7
Total impairment losses	**2,223**	3,919	703	424	751
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) (2)					
Banking and portfolios	**4.2%**	4.9%	5.0%	2.8%	3.6%
International businesses	**5.1%**	3.7%	5.5%	4.5%	5.3%
Markets	**-**	(3.0%)	-	0.4%	(8.8%)
Total	**4.2%**	4.8%	4.8%	2.8%	3.7%

Notes:

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

(2) Includes disposal groups.

Non-Core (continued)

Key metrics

	Year ended		Quarter ended		
	31 December 2012	31 December 2011	31 December 2012	30 September 2012	31 December 2011
Performance ratios					
Net interest margin	**0.31%**	0.63%	0.29%	0.41%	0.42%
Cost:income ratio	**nm**	109%	nm	nm	nm
Adjusted cost:income ratio (1)	**nm**	130%	nm	nm	nm

	31 December 2012 £bn	30 September 2012 £bn	Change	31 December 2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross) (2)	**55.4**	61.6	(10%)	79.4	(30%)
Loan impairment provisions	**(11.2)**	(11.1)	1%	(11.5)	(3%)
Net loans and advances to customers	**44.2**	50.5	(12%)	67.9	(35%)
Total third party assets (excluding derivatives)	**57.4**	65.1	(12%)	93.7	(39%)
Total third party assets (including derivatives)	**63.4**	72.2	(12%)	104.7	(39%)
Risk elements in lending (2)	**21.4**	22.0	(3%)	24.0	(11%)
Provision coverage (3)	**52%**	50%	200bp	48%	400bp
Customer deposits (2)	**2.7**	3.3	(18%)	3.5	(23%)
Risk-weighted assets	**60.4**	72.2	(16%)	93.3	(35%)

nm = not meaningful

Notes:

(1) Adjusted cost:income ratio represents operating expenses expressed as a percentage of total income after netting insurance claims against income.

(2) Excludes disposal groups.

(3) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.

	31 December 2012 £bn	30 September 2012 £bn	31 December 2011 £bn
Gross customer loans and advances			
Banking and portfolios	**54.5**	60.4	77.3
International businesses	**0.9**	1.2	2.0
Markets	**-**	-	0.1
	55.4	61.6	79.4
Risk-weighted assets			
Banking and portfolios	**53.3**	60.5	64.8
International businesses	**2.4**	2.7	4.1
Markets	**4.7**	9.0	24.4
	60.4	72.2	93.3
Third party assets (excluding derivatives)			
Banking and portfolios	**51.1**	57.6	81.3
International businesses	**1.2**	1.9	2.9
Markets	**5.1**	5.6	9.5
	57.4	65.1	93.7

Third party assets (excluding derivatives)

Year ended 31 December 2012	31 December 2011 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	**31 December 2012 £bn**
Commercial real estate	31.5	(5.0)	(2.2)	0.1	(1.7)	(0.6)	**22.1**
Corporate	42.2	(7.3)	(9.8)	1.6	(0.4)	(0.8)	**25.5**
SME	2.1	(1.0)	(0.3)	0.2	-	-	**1.0**
Retail	6.1	(0.8)	(1.9)	0.1	(0.2)	(0.1)	**3.2**
Other	1.9	(1.3)	-	-	-	(0.1)	**0.5**
Markets	9.8	(1.0)	(3.9)	0.3	0.1	(0.2)	**5.1**
Total (excluding derivatives)	93.6	(16.4)	(18.1)	2.3	(2.2)	(1.8)	**57.4**
Markets - RBS Sempra Commodities JV	0.1	(0.1)	-	-	-	-	**-**
Total (1)	93.7	(16.5)	(18.1)	2.3	(2.2)	(1.8)	**57.4**

Quarter ended 31 December 2012	30 September 2012 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	31 December 2012 £bn
Commercial real estate	25.0	(1.4)	(1.2)	-	(0.5)	0.2	22.1
Corporate	29.0	(2.1)	(1.7)	0.3	(0.1)	0.1	25.5
SME	1.3	(0.2)	(0.1)	-	-	-	1.0
Retail	3.8	(0.2)	(0.3)	-	(0.1)	-	3.2
Other	0.4	0.1	-	-	-	-	0.5
Markets	5.6	0.1	(0.7)	0.1	-	-	5.1
Total (excluding derivatives)	65.1	(3.7)	(4.0)	0.4	(0.7)	0.3	57.4

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

Note:
(1) Disposals of £0.2 billion have been signed as at 31 December 2012 but are pending completion (30 September 2012 and 30 December 2011 - £0.2 billion).

Commercial real estate third party assets	**31 December 2012 £bn**	30 September 2012 £bn	31 December 2011 £bn
UK (excluding NI)	**8.9**	9.5	11.4
Ireland (ROI and NI)	**5.8**	6.2	7.7
Spain	**1.4**	1.5	1.8
Rest of Europe	**4.9**	6.3	7.9
USA	**0.9**	1.2	2.2
RoW	**0.2**	0.3	0.5
Total (excluding derivatives)	**22.1**	25.0	31.5

Non-Core (continued)

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Impairment losses by donating division and sector					
UK Retail					
Mortgages	**-**	5	-	-	-
Personal	**4**	(27)	-	1	(28)
Total UK Retail	**4**	(22)	-	1	(28)
UK Corporate					
Manufacturing and infrastructure	**19**	76	1	4	26
Property and construction	**88**	224	8	2	83
Transport	**16**	52	2	-	6
Financial institutions	**(38)**	5	(23)	(13)	1
Lombard	**48**	75	15	11	20
Other	**107**	96	53	37	21
Total UK Corporate	**240**	528	56	41	157
Ulster Bank					
Commercial real estate					
- investment	**288**	609	91	61	151
- development	**611**	1,552	256	93	77
Other corporate	**77**	173	16	10	15
Other EMEA	**7**	15	1	-	2
Total Ulster Bank	**983**	2,349	364	164	245
US Retail & Commercial					
Auto and consumer	**49**	58	19	10	7
Cards	**1**	(9)	(2)	(1)	1
SBO/home equity	**130**	201	22	46	33
Residential mortgages	**21**	16	4	10	2
Commercial real estate	**(12)**	40	(2)	(9)	14
Commercial and other	**(12)**	(3)	3	(8)	7
Total US Retail & Commercial	**177**	303	44	48	64
International Banking					
Manufacturing and infrastructure	**3**	57	3	(5)	42
Property and construction	**623**	752	96	205	241
Transport	**199**	(3)	51	1	10
Telecoms, media and technology	**32**	68	5	-	18
Banks and financial institutions	**(58)**	(98)	75	(19)	(31)
Other	**18**	(19)	8	(13)	29
Total International Banking	**817**	757	238	169	309
Other					
Wealth	**1**	1	-	1	-
Central items	**1**	3	1	-	4
Total Other	**2**	4	1	1	4
Total impairment losses	**2,223**	3,919	703	424	751

	31 December 2012 £bn	30 September 2012 £bn	31 December 2011 £bn
Gross loans and advances to customers (excluding reverse repurchase agreements) by donating division and sector			
UK Retail			
Mortgages	**-**	-	1.4
Personal	**-**	0.1	0.1
Total UK Retail	**-**	0.1	1.5
UK Corporate			
Manufacturing and infrastructure	**0.1**	0.1	0.1
Property and construction	**3.6**	3.9	5.9
Transport	**3.8**	4.0	4.5
Financial institutions	**0.2**	0.4	0.6
Lombard	**0.4**	0.5	1.0
Other	**4.2**	4.6	7.5
Total UK Corporate	**12.3**	13.5	19.6
Ulster Bank			
Commercial real estate			
- investment	**3.4**	3.5	3.9
- development	**7.6**	7.6	8.5
Other corporate	**1.6**	1.6	1.6
Other EMEA	**0.3**	0.3	0.4
Total Ulster Bank	**12.9**	13.0	14.4
US Retail & Commercial			
Auto and consumer	**0.6**	0.6	0.8
Cards	**-**	0.1	0.1
SBO/home equity	**2.0**	2.2	2.5
Residential mortgages	**0.4**	0.5	0.6
Commercial real estate	**0.4**	0.6	1.0
Commercial and other	**0.1**	-	0.4
Total US Retail & Commercial	**3.5**	4.0	5.4
International Banking			
Manufacturing and infrastructure	**3.9**	4.0	6.6
Property and construction	**12.3**	13.2	15.3
Transport	**1.7**	1.9	3.2
Telecoms, media and technology	**0.4**	1.2	0.7
Banks and financial institutions	**4.7**	5.3	5.6
Other	**3.7**	5.4	7.0
Total International Banking	**26.7**	31.0	38.4
Other			
Wealth	**-**	0.2	0.2
Central items	**-**	(0.2)	(0.2)
Total Other	**-**	-	-
Gross loans and advances to customers (excluding reverse repurchase agreements)	**55.4**	61.6	79.3

Key points

Non-Core third party assets fell to £57 billion, a reduction of £36 billion, or 39%, during the year and an overall reduction of £200 billion, or 78%, since the division was set up. This was achieved through a mixture of disposals, run-off and impairments. By the end of 2012, the Non-Core funded balance sheet was under 7% of the Group's funded balance sheet compared with 21% when the division was created. Non-Core remains on target to reach its third party asset target of c.£40 billion, a reduction of approximately 85% of its original portfolio, by the end of 2013.

2012 compared with 2011

- Third party assets declined by £36 billion, or 39%, largely reflecting disposals of £18 billion and run-off of £16 billion. The disposal of RBS Aviation Capital in Q2 2012 contributed c.£5 billion of this reduction.
- Risk-weighted assets were £33 billion lower, principally driven by disposals, run-off and restructuring of existing positions.
- An operating loss of £2,879 million was £1,342 million lower than 2011, principally due to lower impairments and expenses, partially offset by lower net interest income following run-off and disposals.
- Impairment losses fell by £1,696 million to £2,223 million, with £1,366 million of this reduction from the Ulster Bank portfolio and £269 million from the real estate portfolio.
- Income declined by £900 million as continued divestment and run-off reduced net interest income. Rental income was lower following the disposal of RBS Aviation Capital in Q2 2012.
- Expenses were £351 million lower, driven by reduced headcount and lower operating lease depreciation, principally following the disposal of RBS Aviation Capital.
- Headcount declined by 34% to 3,100 reflecting the divestment activity and run-off across the business.

Q4 2012 compared with Q3 2012

- Third party assets declined by £8 billion to £57 billion, driven by disposals of £4 billion and run-off of £4 billion.
- Risk-weighted assets fell by £12 billion to £60 billion, primarily driven by disposals, run-off and the restructuring of existing positions.
- Operating loss increased by £356 million to £942 million, principally due to a £279 million increase in impairments and £73 million additional disposal losses.
- Ulster Bank impairments increased by £200 million, partially offset by an improvement of £78 million in the real estate portfolio, with the remainder of the increase in impairments spread across the corporate and retail sectors.
- Losses on disposals totalled £115 million in the quarter on assets totalling £4 billion.

Q4 2012 compared with Q4 2011

- Q4 2012 operating loss was £942 million, an improvement of 27% principally due to reduced trading losses.
- Non-interest income improved significantly principally due to lower trading losses in 2012 as a result of improved market conditions and reduced exposure.
- Ongoing disposal activity reduced the balance sheet and headcount, resulting in lower net interest income, rental income and expenses.

Condensed consolidated income statement
for the period ended 31 December 2012

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Interest receivable	**18,530**	21,036	4,439	4,456	5,147
Interest payable	**(7,128)**	(8,733)	(1,666)	(1,647)	(2,161)
Net interest income	**11,402**	12,303	2,773	2,809	2,986
Fees and commissions receivable	**5,709**	6,379	1,374	1,400	1,589
Fees and commissions payable	**(834)**	(962)	(245)	(209)	(339)
Income from trading activities	**1,675**	2,701	474	334	(238)
Gain/(loss) on redemption of own debt	**454**	255	-	(123)	(1)
Other operating income	**(465)**	3,975	227	(252)	174
Non-interest income	**6,539**	12,348	1,830	1,150	1,185
Total income	**17,941**	24,651	4,603	3,959	4,171
Staff costs	**(8,076)**	(8,356)	(1,628)	(1,959)	(1,898)
Premises and equipment	**(2,232)**	(2,423)	(592)	(550)	(666)
Other administrative expenses	**(5,593)**	(4,436)	(2,506)	(1,193)	(1,149)
Depreciation and amortisation	**(1,802)**	(1,839)	(498)	(421)	(501)
Write-down of goodwill and other intangible assets	**(124)**	(80)	(124)	-	(80)
Operating expenses	**(17,827)**	(17,134)	(5,348)	(4,123)	(4,294)
Profit/(loss) before impairment losses	**114**	7,517	(745)	(164)	(123)
Impairment losses	**(5,279)**	(8,707)	(1,454)	(1,176)	(1,916)
Operating loss before tax	**(5,165)**	(1,190)	(2,199)	(1,340)	(2,039)
Tax (charge)/credit	**(469)**	(1,127)	(46)	(10)	213
Loss from continuing operations	**(5,634)**	(2,317)	(2,245)	(1,350)	(1,826)
(Loss)/profit from discontinued operations, net of tax					
- Direct Line Group (1)	**(184)**	301	(351)	62	36
- Other	**12**	47	6	5	10
(Loss)/profit from discontinued operations, net of tax	**(172)**	348	(345)	67	46
Loss for the period	**(5,806)**	(1,969)	(2,590)	(1,283)	(1,780)
Non-controlling interests	**123**	(28)	107	(3)	(18)
Preference share and other dividends	**(288)**	-	(114)	(98)	-
Loss attributable to ordinary and B shareholders	**(5,971)**	(1,997)	(2,597)	(1,384)	(1,798)
Basic and diluted loss per ordinary and B share from continuing operations (2)	**(53.7p)**	(21.3p)	(21.4p)	(13.1p)	(16.9p)
Basic and diluted loss per ordinary and B share from continuing and discontinued operations (2)	**(54.3p)**	(18.5p)	(23.4p)	(12.5p)	(16.6p)

Notes:
(1) Includes write-down of goodwill of £394 million in Q4 2012. Refer to Note 12 for further information.
(2) Data for 2011 have been adjusted for the sub-division and one-for-ten consolidation of ordinary shares.
(3) In the income statement above, one-off and other items as shown on page 24 are included in the appropriate captions. A reconciliation between the income statement above and the managed view income statement on page 7 is given in Appendix 1 to this announcement.

Condensed consolidated statement of comprehensive income for the period ended 31 December 2012

	Year ended		Quarter ended		
	31 December 2012 £m	31 December 2011 £m	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Loss for the period	**(5,806)**	(1,969)	(2,590)	(1,283)	(1,780)
Other comprehensive income					
Available-for-sale financial assets	**645**	2,258	(70)	124	(107)
Cash flow hedges	**1,006**	1,424	(126)	437	124
Currency translation	**(900)**	(440)	169	(573)	(117)
Actuarial losses on defined benefit plans	**(2,270)**	(581)	(2,270)	-	(581)
Other comprehensive (loss)/income before Tax	**(1,519)**	2,661	(2,297)	(12)	(681)
Tax credit/(charge)	**228**	(1,472)	575	(91)	(500)
Other comprehensive (loss)/income after tax	**(1,291)**	1,189	(1,722)	(103)	(1,181)
Total comprehensive loss for the period	**(7,097)**	(780)	(4,312)	(1,386)	(2,961)
Total comprehensive loss is attributable to:					
Non-controlling interests	**(116)**	(24)	(103)	-	(12)
Preference shareholders	**273**	-	99	98	-
Paid-in equity holders	**15**	-	15	-	-
Ordinary and B shareholders	**(7,269)**	(756)	(4,323)	(1,484)	(2,949)
	(7,097)	(780)	(4,312)	(1,386)	(2,961)

Key points

- The movement in available-for-sale financial assets during the year reflects net unrealised gains on high quality UK, US and German sovereign bonds.
- Cash flow hedging gains in the year largely result from reductions in Sterling swap rates. Cash flow hedging losses in the quarter reflect increases in Sterling and US dollar swap rates.
- Currency translation losses during the year are principally due to the strengthening of Sterling against both the US dollar, 4.4%, and the Euro, 2.6%. Currency translation gains during the quarter arose mainly from the 2.3% weakening of Sterling against the Euro.
- Actuarial losses on defined benefit plans reflect changes in assumptions, primarily due to a reduction in the discount rate in the UK, Eurozone and US dollar regions.

Condensed consolidated balance sheet
at 31 December 2012

	31 December 2012 £m	30 September 2012 £m	31 December 2011 £m
Assets			
Cash and balances at central banks	**79,290**	80,122	79,269
Net loans and advances to banks	**29,168**	38,347	43,870
Reverse repurchase agreements and stock borrowing	**34,783**	34,026	39,440
Loans and advances to banks	**63,951**	72,373	83,310
Net loans and advances to customers	**430,088**	423,155	454,112
Reverse repurchase agreements and stock borrowing	**70,047**	63,909	61,494
Loans and advances to customers	**500,135**	487,064	515,606
Debt securities	**157,438**	177,722	209,080
Equity shares	**15,232**	15,527	15,183
Settlement balances	**5,741**	15,055	7,771
Derivatives	**441,903**	468,171	529,618
Intangible assets	**13,545**	14,798	14,858
Property, plant and equipment	**9,784**	11,220	11,868
Deferred tax	**3,443**	3,480	3,878
Prepayments, accrued income and other assets	**7,820**	10,695	10,976
Assets of disposal groups	**14,013**	20,667	25,450
Total assets	**1,312,295**	1,376,894	1,506,867
Liabilities			
Bank deposits	**57,073**	58,127	69,113
Repurchase agreements and stock lending	**44,332**	49,222	39,691
Deposits by banks	**101,405**	107,349	108,804
Customer deposits	**433,239**	412,712	414,143
Repurchase agreements and stock lending	**88,040**	93,343	88,812
Customer accounts	**521,279**	506,055	502,955
Debt securities in issue	**94,592**	104,157	162,621
Settlement balances	**5,878**	14,427	7,477
Short positions	**27,591**	32,562	41,039
Derivatives	**434,333**	462,300	523,983
Accruals, deferred income and other liabilities	**14,801**	18,458	23,125
Retirement benefit liabilities	**3,884**	1,779	2,239
Deferred tax	**1,141**	1,686	1,945
Insurance liabilities	**-**	6,249	6,312
Subordinated liabilities	**26,773**	25,309	26,319
Liabilities of disposal groups	**10,170**	22,670	23,995
Total liabilities	**1,241,847**	1,303,001	1,430,814
Equity			
Non-controlling interests	**2,318**	1,194	1,234
Owners' equity*			
Called up share capital	**6,582**	6,581	15,318
Reserves	**61,548**	66,118	59,501
Total equity	**70,448**	73,893	76,053
Total liabilities and equity	**1,312,295**	1,376,894	1,506,867
* Owners' equity attributable to:			
Ordinary and B shareholders	**63,386**	67,955	70,075
Other equity owners	**4,744**	4,744	4,744
	68,130	72,699	74,819

Commentary on condensed consolidated balance sheet

Key points

- Total assets of £1,312.3 billion at 31 December 2012 were down £194.6 billion, 13%, compared with 31 December 2011. This was principally driven by a decrease in loans and advances to banks and customers led by Non-Core disposals and run-off, decreases in debt securities and the continuing reduction in the mark-to-market value of derivatives.
- Loans and advances to banks decreased by £19.4 billion, 23%, to £64.0 billion. Excluding reverse repurchase agreements and stock borrowing ('reverse repos'), down £4.7 billion, 12%, to £34.8 billion, bank placings declined £14.7 billion, 34%, to £29.2 billion.
- Loans and advances to customers declined £15.5 billion, 3%, to £500.1 billion. Within this, reverse repurchase agreements were up £8.6 billion, 14%, to £70.0 billion. Customer lending decreased by £24.0 billion, 5%, to £430.1 billion, or £22.6 billion to £451.2 billion before impairments. This reflected reductions in Non-Core of £22.6 billion, along with declines in International Banking, £14.3 billion, UK Corporate, £2.9 billion, Markets, £1.0 billion and Ulster Bank, £0.7 billion, together with the effect of exchange rate and other movements, £4.7 billion. These were partially offset by the transfer from disposal groups of £18.9 billion of customer balances relating to the UK branch-based businesses, together with underlying growth in UK Retail, £2.6 billion, US Retail & Commercial, £1.9 billion and Wealth, £0.2 billion.
- Debt securities were down £51.6 billion, 25%, to £157.4 billion, driven mainly by reductions within Markets and Group Treasury in holdings of UK and Eurozone government securities and financial institution bonds.
- Settlement balance assets and liabilities decreased £2.0 billion to £5.7 billion and £1.6 billion to £5.9 billion respectively reflecting the overall reduction in size of the balance sheet.
- Movements in the value of derivative assets, down £87.7 billion, 17%, to £441.9 billion, and liabilities, down £89.7 billion, 17%, to £434.3 billion, primarily reflect decreases in interest rate and credit derivative contracts, together with the effect of currency movements, with Sterling strengthening against both the US dollar and the Euro.
- Intangible assets decreased £1.3 billion, 9%, to £13.5 billion, primarily as a result write-down of the Direct Line Group goodwill, £0.4 billion, and the transfer of the remaining £0.5 billion of goodwill together with £0.2 billion of other intangible assets to assets of disposal groups at 31 December 2012.
- Property, plant and equipment decreased by £2.1 billion, 18%, to £9.8 billion driven largely by the disposal of investment property in Non-Core.
- The decrease in assets and liabilities of disposal groups, down £11.4 billion, 45%, to £14.0 billion, and £13.8 billion, 58%, to £10.2 billion respectively, primarily reflects the removal of the UK branch-based businesses from disposal groups following Santander's withdrawal from the purchase together with the disposal of RBS Aviation Capital in the second quarter. These were partly offset by the transfer to disposal groups of Direct Line Group at 31 December 2012.
- Deposits by banks decreased £7.4 billion, 7%, to £101.4 billion, with a decrease in inter-bank deposits, down £12.0 billion, 17%, to £57.1 billion. This was partly offset by an increase in repurchase agreements and stock lending ('repos'), up £4.6 billion, 12%, to £44.3 billion, improving the Group's mix of secured and unsecured funding.

Key points (continued)

- Customer accounts increased £18.3 billion, 4%, to £521.3 billion. Within this, repos decreased £0.8 billion, 1%, to £88.0 billion. Excluding repos, customer deposits were up £19.1 billion, 5%, at £433.2 billion, primarily reflecting the transfer from disposal groups of £21.5 billion of customer accounts relating to the UK branch-based businesses together with underlying increases in UK Retail, £6.0 billion, International Banking, £2.0 billion, US Retail & Commercial, £1.8 billion, UK Corporate, £0.8 billion, Ulster Bank, £0.7 billion and Wealth, £0.7 billion. This was partially offset by decreases in Markets, £9.7 billion and Non-Core, £0.9 billion, together with exchange and other movements £3.8 billion.
- Debt securities in issue decreased £68.0 billion, 42%, to £94.6 billion reflecting the maturity of the remaining notes issued under the UK Government's Credit Guarantee Scheme, £21.3 billion, the repurchase of bonds and medium term notes as a result of the liability management exercise completed in September 2012, £4.4 billion, and the continuing reduction of commercial paper and medium term notes in issue in line with the Group's strategy.
- Short positions were down £13.4 billion, 33%, to £27.6 billion mirroring decreases in debt securities.
- Retirement benefit liabilities increased by £1.6 billion, 73%, to £3.9 billion with net actuarial losses of £2.3 billion on the Group's defined benefit pension schemes, primarily arising from significant reductions in the real discount rates in the Sterling, Euro and US dollar currency zones. These were partially offset by the £0.6 billion excess of employer contributions paid over the current year pension charge.
- Insurance liabilities of £6.2 billion relating to Direct Line Group were transferred to liabilities of disposal groups at 31 December 2012.
- Subordinated liabilities increased by £0.5 billion, 2%, to £26.8 billion, primarily as a result of the net increase in dated loan capital. Issuances of £1.4 billion and redemptions of £0.3 billion were partly offset by a net decrease of £0.6 billion arising from the liability management exercise completed in March 2012, which consisted of redemptions of £3.4 billion offset by the issuance of £2.8 billion new loan capital.
- Non-controlling interests increased by £1.1 billion, 88%, to £2.3 billion predominantly due to the sale of 34.7% of the Group's investment in Direct Line Group during the fourth quarter.
- Owner's equity decreased by £6.7 billion, 9%, to £68.1 billion, driven by the £6.0 billion attributable loss for the year together with movements in foreign exchange reserves, £0.9 billion, the recognition of actuarial losses in respect of the Group's defined benefit pension schemes, net of tax, £1.9 billion, and other reserve movements of £0.2 billion. Partially offsetting these reductions were gains in available-for-sale reserves, £0.6 billion, and cash flow hedging reserves, £0.8 billion, share capital and reserve movements in respect of employee share schemes, £0.8 billion and other share issuances, £0.1 billion.

Average balance sheet

	Year ended		Quarter ended	
	31 December 2012 %	31 December 2011 %	31 December 2012 %	30 September 2012 %
Average yields, spreads and margins of the banking business				
Gross yield on interest-earning assets of banking business	**3.12**	3.24	3.11	3.07
Cost of interest-bearing liabilities of banking business	**(1.50)**	(1.63)	(1.51)	(1.44)
Interest spread of banking business	**1.62**	1.61	1.60	1.63
Benefit from interest-free funds	**0.31**	0.31	0.35	0.31
Net interest margin of banking business	**1.93**	1.92	1.95	1.94
Average interest rates				
The Group's base rate	**0.50**	0.50	0.50	0.50
London inter-bank three month offered rates				
- Sterling	**0.82**	0.87	0.53	0.72
- Eurodollar	**0.43**	0.33	0.32	0.42
- Euro	**0.53**	1.36	0.20	0.36

Average balance sheet (continued)

	Year ended 31 December 2012			Year ended 31 December 2011		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	**76,930**	**509**	**0.66**	73,825	697	0.94
Loans and advances to customers	**429,967**	**16,311**	**3.79**	466,888	17,979	3.85
Debt securities	**97,750**	**2,025**	**2.07**	121,509	2,749	2.26
Interest-earning assets - banking business (1,2,3,4)	**604,647**	**18,845**	**3.12**	662,222	21,425	3.24
Trading business (5)	**240,131**			278,975		
Non-interest earning assets	**585,594**			593,958		
Total assets	**1,430,372**			1,535,155		
Memo: Funded assets	**942,847**			1,075,717		
Liabilities						
Deposits by banks	**38,405**	**579**	**1.51**	64,114	977	1.52
Customer accounts	**334,151**	**3,496**	**1.05**	336,365	3,531	1.05
Debt securities in issue	**91,741**	**2,176**	**2.37**	162,208	3,520	2.17
Subordinated liabilities	**22,268**	**706**	**3.17**	23,571	598	2.54
Internal funding of trading business	**(9,148)**	**199**	**(2.18)**	(49,025)	109	(0.22)
Interest-bearing liabilities - banking business (1,2,3,4)	**477,417**	**7,156**	**1.50**	537,233	8,735	1.63
Trading business (5)	**248,647**			307,564		
Non-interest-bearing liabilities						
- demand deposits	**74,320**			66,404		
- other liabilities	**556,728**			548,915		
Owners' equity	**73,260**			75,039		
Total liabilities and owners' equity	**1,430,372**			1,535,155		

Notes:

(1) Interest receivable has been increased by nil (2011 - £5 million) and interest payable has been decreased by £15 million (2011 - £3 million) to exclude the RFS Holdings minority interest and increased by nil (2011 - £2 million) in respect of exceptional interest receivable. Related interest-earning assets and interest-bearing liabilities have also been adjusted.

(2) Interest receivable has been increased by £8 million (2011 - £8 million) and interest payable has been increased by £152 million (2011 - £150 million) to record interest on financial assets and liabilities designated as at fair value through profit or loss. Related interest-earning assets and interest-bearing liabilities have also been adjusted.

(3) Interest payable has been decreased by £138 million (2011 - £143 million) in respect of non-recurring adjustments.

(4) Interest receivable has been increased by £307 million (2011 - £374 million) and interest payable has been increased by £29 million (2011 - £2 million decrease) to include the discontinued operations of Direct Line Group. Related interest-earning assets and interest-bearing liabilities have been similarly adjusted.

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

(6) Interest income includes amounts (unwind of discount) recognised on impaired loans and receivables. The average balances of such loans are included in average loans and advances to banks and loans and advances to customers.