ROYAL BANK OF SCOTLAND GROUP PLC
Form 20-F
March 27, 2013

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 20-F

(Mark One)

o REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2012
OR

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

o SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

Commission file number: 001-10306

THE ROYAL BANK OF SCOTLAND GROUP plc
(Exact name of Registrant as specified in its charter)

United Kingdom
(Jurisdiction of incorporation)

RBS Gogarburn, PO Box 1000, Edinburgh EH12 1HQ, United Kingdom
(Address of principal executive offices)

Aileen Taylor, Group Secretary, Tel: +44 (0) 131 626 4099, Fax: +44 (0) 131 626 3081

PO Box 1000, Gogarburn, Edinburgh EH12 1HQ
(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
	New York Stock Exchange

American Depositary Shares, each representing 2 ordinary shares, nominal value £1 per share	New York Stock Exchange*
Ordinary shares, nominal value £1 per share	New York Stock Exchange
American Depositary Shares Series F, H, L, M, N, P, Q, R, S, T and	New York Stock Exchange
U each representing one Non-Cumulative Dollar Preference Share,	New York Stock Exchange
Series F, H, L, M, N, P, Q, R, S, T and U respectively	New York Stock Exchange
Senior Floating Rate Notes due 2013	New York Stock Exchange
3.400% Senior Notes due 2013	New York Stock Exchange
3.250% Senior Notes due 2014	New York Stock Exchange
3.950% Senior Notes due 2015	New York Stock Exchange
4.875% Senior Notes due 2015	New York Stock Exchange
4.375% Senior Notes due 2016	New York Stock Exchange
5.625% Senior Notes due 2020	New York Stock Exchange
6.125% Senior Notes due 2021	NYSE MKT
6.125% Subordinated Tier 2 Notes due 2022	NYSE MKT
2.550% Senior Notes due 2015	NYSE Arca
Structured HybrId Equity LinkeD Securities (SHIELDS) due	NYSE Arca
January 16, 2014 linked to the S&P 500 Index	NYSE Arca
Leveraged CPI Linked Securities due January 13, 2020	NYSE Arca
RBS US Large Cap TrendpilotTM Exchange Traded Notes due	NYSE Arca
December 7, 2040	NYSE Arca
RBS US Mid Cap TrendpilotTM Exchange Traded Notes due	NYSE Arca
January 25, 2041	NYSE Arca
RBS Gold TrendpilotTM Exchange Traded Notes due February 15,	NYSE Arca
2041	NYSE Arca
RBS Oil TrendpilotTM Exchange Traded Notes due September 13,	NYSE Arca
2041	NYSE Arca
RBS Global Big Pharma Exchange Traded Notes due October 25,	NYSE Arca
2041	
RBS NASDAQ-100® TrendpilotTM Exchange Traded Notes due December 13, 2041	
RBS China TrendpilotTM Exchange Traded Notes due April 18, 2042	
RBS US Large Cap Alternator Exchange Traded NotesTM due September 5, 2042	
RBS Rogers Enhanced Commodity Index Exchange Traded Notes due October 29, 2042	
RBS Rogers Enhanced Agriculture Exchange Traded Notes due October 29, 2042	
RBS Rogers Enhanced Energy Exchange Traded Notes due October 29, 2042	
RBS Rogers Enhanced Precious Metals Exchange Traded Notes due October 29, 2042	
RBS Rogers Enhanced Industrial Metals Exchange Traded Notes due October 29, 2042	

* Not for trading, but only in connection with the registration of American Depositary Shares representing such ordinary shares pursuant to the requirements of the Securities and Exchange Commission.

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2012, the close of the period covered by the annual report:

(Title of each class)	(Number of outstanding shares)
Ordinary shares of £1 each	6,070,765,155
B Shares	51,000,000,000
Dividend Access Share	1
11% cumulative preference shares	500,000
5½% cumulative preference shares	400,000
Non-cumulative dollar preference shares, Series F, H and L to U	209,609,154
Non-cumulative convertible dollar preference shares, Series 1	64,772
Non-cumulative euro preference shares, Series 1 to 3	2,044,418
Non-cumulative convertible sterling preference shares, Series 1	14,866
Non-cumulative sterling preference shares, Series 1	54,442

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

x Yes o No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

o Yes x No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

x Yes o No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

o Yes o No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x Accelerated filer o Non-Accelerated filer o

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

o U.S. GAAP

x International Financial Reporting Standards as issued by the International Accounting Standards Board

o Other

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.

o Item 17 o Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes x No

SEC Form 20-F cross reference guide

Presentation of information

In this document, and unless specified otherwise, the term ‘company’ or ‘RBSG’ means The Royal Bank of Scotland Group plc, ‘RBS’, ‘RBS Group’ or the ‘Group’ means the company and its subsidiaries, ‘the Royal Bank’ means The Royal Bank of Scotland plc and ‘NatWest’ means National Westminster Bank Plc.

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

Certain information in this report is presented separately for domestic and foreign activities. Domestic activities primarily consist of the UK domestic transactions of the Group. Foreign activities comprise the Group's transactions conducted through those offices in the UK specifically organised to service international banking transactions and transactions conducted through offices outside the UK.

The geographic analysis in the Business Review, including the average balance sheet and interest rates, changes in net interest income and average interest rates, yields, spreads and margins in this report have been compiled on the basis of location of office - UK and overseas. Management believes that this presentation provides more useful information on the Group's yields, spreads and margins of the Group's activities than would be provided by presentation on the basis of the domestic and foreign activities analysis used elsewhere in this report as it more closely reflects the basis on which the Group is managed. ‘UK’ in this context includes domestic transactions and transactions conducted through the offices in the UK which service international banking transactions.

The results, assets and liabilities of individual business units are classified as trading or non-trading based on their predominant activity. Although this method may result in some non-trading activity being classified as trading, and vice versa, the Group believes that any resulting misclassification is not material.

International Financial Reporting Standards
As required by the Companies Act 2006 and Article 4 of the European Union IAS Regulation, the consolidated financial statements of the Group are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (together ‘IFRS’). They also comply with IFRS as issued by the IASB.

RBS Holdings N.V. (formerly ABN AMRO Holding N.V.)
In 2007, RFS Holdings B.V., which was jointly owned by the Group, the Dutch State (successor to Fortis) and Santander (together, the “Consortium Members”) completed the acquisition of ABN AMRO Holding N.V.

On 1 April 2010, the businesses acquired by the Dutch State were transferred to ABN AMRO Group N.V., itself owned by the Dutch State. In connection with the transfer ABN AMRO Holding N.V. was renamed RBS Holdings N.V. and its banking subsidiary was renamed The Royal Bank of Scotland N.V. (“RBS N.V.”). Certain assets of RBS N.V. continue to be shared by the Consortium Members.

In October 2011, the Group completed the transfer of a substantial part of the UK activities of RBS N.V. to the Royal Bank pursuant to Part VII of the UK Financial Services and Markets Act 2000. Substantially all of the Netherlands and EMEA businesses were transferred in September 2012. Further transfers are expected to take place during 2013 but are subject to certain authorisations including regulatory approval where necessary. The Group now anticipates that the transfers in China will be completed at a later date.

Presentation of information continued

Non-GAAP financial information

The directors manage the Group's performance by class of business, before certain reconciling items, as is presented in the segmental analysis on pages 424 to 431 (the "managed basis"). Discussion of the Group's performance focuses on the managed basis as the Group believes that such measures allow a more meaningful analysis of the Group's financial condition and the results of its operations. These measures are non-GAAP financial measures. A body of generally accepted accounting principles such as IFRS is commonly referred to as 'GAAP'. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Reconciliations of these non-GAAP measures are presented throughout this document or in the segmental analysis on pages 424 to 431. These non-GAAP financial measures are not a substitute for GAAP measures. Furthermore, RBS has divided its operations into "Core" and "Non- Core". Certain measures disclosed in this document for Core operations and used by RBS management are non-GAAP financial measures as they represent a combination of all reportable segments with the exception of Non-Core. In addition, RBS has further divided parts of the Core business into "Retail & Commercial" consisting of the UK Retail, UK Corporate, Wealth, International Banking, Ulster Bank and US Retail & Commercial divisions. This is a non-GAAP financial measure. Lastly, the Basel III net stable funding ratio (see page 108) represents a non-GAAP financial measure given it is a metric that is not yet required to be disclosed by a government, governmental authority or self-regulatory organisation.

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 (IPO), 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.

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, prior year disclosures relating to or affected by numbers of ordinary shares or share price have been restated.

Glossary

A glossary of terms is provided on pages 494 to 501.

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’, ‘objectiv ‘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; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the US; the continuing economic crisis in Europe; competition and consolidation in the banking sector; political risks; the risk of full nationalisation of the Group and its UK bank subsidiaries; HM Treasury exercising influence over the operations of the Group and any proposed offer or sale of its interest affecting the price of securities issued by the Group; the extent of future write-downs and impairment charges caused by depressed asset valuations; deteriorations in borrower and counterparty credit quality; the value or effectiveness of any credit protection purchased by the Group; changes 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 required contributions to compensation schemes in respect of banks and other authorised financial services firms that are unable to meet their obligations to customers; pension fund shortfalls; the ability to access sufficient sources of capital, liquidity and funding when required; ineffective management of capital or changes to capital adequacy or liquidity requirements; changes in the credit ratings of the Group and the UK Government; the ability to access the contingent capital arrangements with HM Treasury and the conversion of the Contingent B Shares in accordance with their terms; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; 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; 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 the monetary and interest rate policies of central banks and other governmental and regulatory bodies; resolution procedures under current and proposed resolution and recovery schemes which may result in various actions being taken in relation to any securities of the Group; organisational restructuring in response to legislative and regulatory proposals in the United Kingdom (UK), European Union (EU) and United States (US); the implementation of recommendations made by the Independent Commission on Banking and their potential implications and equivalent EU and US legislation; litigation, government and regulatory investigations including investigations relating to the setting of LIBOR and other interest rates; changes to the valuation of financial instruments recorded at fair value; impairments of goodwill; the ability of the Group to generate sufficient future taxable profits to recover certain deferred tax assets; general operational risks; the Group's dependency on its information technology systems; employee misconduct; reputational risk; the ability of the Group to attract or retain senior management or other key employees; insurance claims; 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.

Business review

Description of business

Introduction

The Royal Bank of Scotland Group plc is the holding company of a large global banking and financial services group. Headquartered in Edinburgh, the Group operates in the United Kingdom, the United States and internationally through its principal subsidiaries, the Royal Bank and NatWest. Both the Royal Bank and NatWest are major UK clearing banks. In the United States, the Group's subsidiary RBS Citizens is a large commercial banking organisation. Globally, the Group has a diversified customer base and provides a wide range of products and services to personal, commercial and large corporate and institutional customers.

Following the placing and open offers in December 2008 and in April 2009, HM Treasury owned approximately 70.3% of the enlarged ordinary share capital of the company. In December 2009, the company issued a further £25.5 billion of new capital to HM Treasury. This new capital took the form of B shares, which do not generally carry voting rights at general meetings of ordinary shareholders but are convertible into ordinary shares and qualify as Core Tier 1 capital. Following the issuance of the B shares, HM Treasury's holding of ordinary shares of the company remained at 70.3% although its economic interest rose to 84.4%.

At 31 December 2012, HM Treasury’s holding in the company’s ordinary shares was 65.3% and its economic interest was 81.1%.

The Group had total assets of £1,312.3 billion and owners' equity of £68.1 billion at 31 December 2012. The Group's risk asset ratios at 31 December 2012, were a Total capital ratio of 14.5%, a Core Tier 1 capital ratio of 10.3% and a Tier 1 capital ratio of 12.4%.

Organisational structure and business overview

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 saw the reorganisation of the Group’s wholesale businesses into ‘Markets’ and ‘International Banking’ and the exit from and downsizing of selected activities. The changes ensure the wholesale businesses continue to deliver against the Group’s strategy.

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

Global Banking & Markets (GBM) and Global Transaction Services (GTS) divisions have been reorganised as follows:

- The ‘Markets’ business maintains its focus on fixed income, with strong positions in debt capital raising, securitisation, risk management, foreign exchange and rates. It will serve the corporate and institutional clients of all Group businesses.

- GBM's corporate banking business has been combined with the international businesses of the GTS arm into a new ‘International Banking’ unit and provides clients with a 'one-stop shop' access to the Group’s debt financing, risk management and payments services. This international corporate business will be self-funded through its stable corporate deposit base.

- The domestic small and mid-size corporates previously served by GTS are now managed within RBS's domestic corporate banking businesses in the UK, Ireland (Ulster Bank) and the US (US Retail & Commercial).

Our wholesale business retains its international footprint ensuring that it can serve our customers' needs globally. We believe that, despite current challenges to the sector, wholesale banking services can play a central role in supporting cross border trade and capital flows, financing requirements and risk management and we remain committed to this business.

The Group’s activities are organised on a divisional basis as follows:

UK Retail offers a comprehensive range of banking products and related financial services to the personal market. It serves customers through a number of channels including: the RBS and NatWest network of branches and ATMs in the United Kingdom, telephony, online and mobile. UK Retail remains committed to delivering ‘Helpful and Sustainable’ banking and to the commitments set out in its Customer Charter - the results of which are externally assessed and published every six months.

UK Corporate is a leading provider of banking, finance and risk management services to the corporate and SME sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, and also through telephone and internet channels. The product range includes asset finance through the Lombard brand.

Wealth provides private banking and investment services in the UK through Coutts & Co and Adam & Company, offshore banking through RBS International, NatWest offshore and Isle of Man Bank, and international private banking through Coutts & Co Ltd.

International Banking serves the world’s largest companies with a leading client proposition focused on financing, transaction services and risk management. International Banking serves as the delivery channel for Markets products to corporate clients and serves international subsidiaries of both International Banking and clients from UK Corporate, Ulster Bank and US Retail & Commercial through its international network.

Ulster Bank is a leading retail and commercial bank in Northern Ireland and the Republic of Ireland. It provides a comprehensive range of financial services through both its Retail Banking division, which provides loan and deposit products through a network of branches and direct channels, and its Corporate Banking division, which provides services to businesses and corporate customers.

US Retail & Commercial provides financial services primarily through the Citizens and Charter One brands. US Retail & Commercial is engaged in retail and corporate banking activities through its branch network in 12 states in the United States and through non-branch offices in other states.

The divisions discussed above are collectively referred to as Retail & Commercial.

Markets is a leading origination, sales and trading business across debt finance, fixed income, currencies and investor products. The division offers a unified service to the Group's corporate and institutional clients. The Markets' sales and research teams build strong ongoing client partnerships, provide market perspective and access, and work with the division's trading and structuring teams to meet the client's objectives across financing, risk management, investment, securitisation and liquidity.

Direct Line Group is a retail general insurer with leading market positions in the United Kingdom, a strong presence in the direct motor channel in Italy and Germany and a focused position in UK SME commercial insurance. The Group operates under highly recognised brands such as Direct Line and Churchill and is comprised of five primary segments: motor, home, rescue and other personal lines, commercial and international.

In the UK, Direct Line Group utilises a multi-brand, multi-product and multi-distribution channel business model that covers most major customer segments for personal lines general insurance. The Group also has a focused presence in the commercial market. The Group occupies leading market positions in terms of in-force policies and has the most highly recognised brands in the UK for personal motor and home insurance including Direct Line and Churchill. Other primary Direct Line Group brands include Privilege and Green Flag; NIG, a provider of insurance solutions to UK SMEs and Direct Line For Business ("DL4B"), the Group's direct commercial brand. The Group is also a major provider of insurance through a number of strategic partnerships. In Italy and Germany the Group operates under the Direct Line brand. It is planned for control of DLG to be ceded by the end of 2013.

Central Functions comprises Group and corporate functions, such as treasury, finance, risk management, legal, communications and human resources. The Centre manages the Group's capital resources and Group-wide regulatory projects and provides services to the operating divisions.

Non-Core division manages separately assets that the Group intends to run off or dispose of. The division contains a range of businesses and asset portfolios primarily from the legacy GBM businesses, higher risk profile asset portfolios including excess risk concentrations, and other illiquid portfolios. It also includes a number of other portfolios and businesses including regional markets businesses that the Group has concluded are no longer strategic.

Business Services supports the customer-facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services. Business Services drives efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group's purchasing power and is the Group's centre of excellence for managing large-scale and complex change. For reporting purposes, Business Services costs are allocated to the divisions above. It is not deemed a reportable segment.

Business divestments

To comply with the European Commission State aid requirements the Group agreed a series of restructuring measures to be implemented over a four year period from December 2009. These measures supplement the Strategic Plan previously announced by the Group. These include the divestment of Direct Line Insurance Group plc, the sale of 80.01% of the Group's Global Merchant Services business (completed in 2010) and the sale of substantially all of the RBS Sempra Commodities joint venture business (largely completed in 2010), as well as the divestment of the RBS branch-based business in England and Wales and the NatWest branches in Scotland, along with the direct SME customers across the UK.

In 2010, the Group reached agreement with Santander UK plc (‘Santander’) on the sale of certain UK branch-based businesses broadly comprising the RBS branch-based business in England and Wales and the NatWest branch-based business in Scotland, along with certain SME and corporate activities across the UK. However, in October 2012, the Group announced that it had received notification of Santander’s decision to pull out of its agreed purchase of these businesses. Santander's decision followed extensive work by both parties to separate the businesses into a largely standalone form and to prepare the businesses, customers and staff for transfer. RBS is continuing to work to fulfil its obligations to divest these businesses.

Also in October 2012, the Group sold via an initial public offering 520.8 million ordinary shares in Direct Line Insurance Group plc, representing 34.7% of the total issued share capital. This is consistent with the European Commission’s requirement to cede control by the end of 2013 and complete full divestment from the Group by the end of 2014.

Recent developments

Liability Management Exercise

In January 2013, The Royal Bank of Scotland plc completed a cash tender offer for approximately £2 billion principal amount of certain US Dollar, Euro, Sterling, Swiss Franc and Singapore Dollar denominated senior unsecured securities.

Markets & International Banking Executive changes

On 6 February 2013, the Group announced that John Hourican, Chief Executive, Markets & International Banking, will leave the Group once he has completed a handover of his responsibilities. With effect from 1 March 2013, Suneel Kamlani and Peter Nielsen will be co-heads of the Markets division and John Owen will continue to lead the International Banking division and will all report directly to the Group Chief Executive.

Sale of Direct Line Insurance Group plc ordinary shares

On 13 March 2013, the Group announced a further sale of its stake in Direct Line Insurance Group plc. The further sale resulted in RBS selling 251.4 million shares, raising gross proceeds of £505 million. The Group now holds 48.5% of the issued ordinary share capital of Direct Line Insurance Group plc.

Executive director

Joe MacHale will step down from the Board on 4 May 2013.

Business review continued

Competition

The Group faces strong competition in all the markets it serves. Banks' balance sheets have strengthened whilst loan demand remains subdued as many customers continue to delever and the UK economy has remained weak. Competition for retail deposits remains strong as institutions continue to target strong and diverse funding platforms for their balance sheets.

Competition for corporate and institutional customers in the UK and abroad is from UK banks and from large foreign universal banks that offer combined investment and commercial banking capabilities. In addition, the Group's Markets division faces strong competition from dedicated investment banks. In asset finance, the Group competes with banks and specialist asset finance providers, both captive and non-captive. In European and Asian corporate and institutional banking markets the Group competes with the large domestic banks active in these markets and with the major international banks.

In the small business banking market, the Group competes with other UK clearing banks, specialist finance providers and building societies.

In the personal banking segment, the Group competes with UK clearing banks and building societies, major retailers and life assurance companies. In the mortgage market, the Group competes with UK clearing banks and building societies. The ambitions of non-traditional players in the UK market remain strong, with new entrants active and potentially seeking to build their platforms by acquiring businesses made available through restructuring of incumbents. The Group distributes life assurance products to banking customers in competition with independent advisors and life assurance companies.

In the UK credit card market large retailers and specialist card issuers are active in addition to the UK banks. In addition to physical distribution channels, providers compete through direct marketing activity and the internet.

In Wealth Management, The Royal Bank of Scotland International competes with other UK and international banks to offer offshore banking services. Coutts and Adam & Company compete as private banks with UK clearing and private banks, and with international private banks. Competition in wealth management remains strong as banks maintain their focus on competing for affluent and high net worth customers.

Direct Line Group competes in personal lines insurance and, to a more limited extent, in commercial insurance. There is strong competition from a range of insurance companies which now operate telephone and internet direct sales businesses. Competition in the UK motor market remains intense, and price comparison internet sites now play a major role in the marketplace. These sites have extended their scope to home insurance and other lines. Direct Line Group also competes with local insurance companies in the direct motor insurance markets in Italy and Germany.

In Ireland, Ulster Bank competes in retail and commercial banking with the major Irish banks and building societies, and with other UK and international banks and building societies active in the market. The challenging conditions in the Irish economy persist and many of the domestic Irish banks have required State support and are engaged in significant restructuring actions.

In the United States, RBS Citizens competes in the New England, Mid-Atlantic and Mid-West retail and mid-corporate banking markets with local and regional banks and other financial institutions. The Group also competes in the US in large corporate lending and specialised finance markets, and in fixed-income trading and sales. Competition is principally with the large US commercial and investment banks and international banks active in the

US. The economic recovery in the US is proving weaker than expected and loan demand is weak in Citizens' markets.

Business review continued

Risk factors

Set out below is a summary of certain risks which could adversely affect the Group; it should be read in conjunction with the Risk and balance sheet management section of the Business review (pages 66 to 252). This summary should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. A fuller description of these and other risk factors is included on pages 459 to 471.

- The Group's businesses, earnings and financial condition have been and will continue to be negatively affected by global economic conditions, the instability in the global financial markets and increased competition and political risks including proposed referenda on Scottish independence and UK membership of the EU. Together with a perceived increased risk of default on the sovereign debt of certain European countries and unprecedented stresses on the financial system within the Eurozone, these factors have resulted in significant changes in market conditions including interest rates, foreign exchange rates, credit spreads, and other market factors and consequent changes in asset valuations.

- The actual or perceived failure or worsening credit of the Group's counterparties or borrowers and depressed asset valuations resulting from poor market conditions have adversely affected and could continue to adversely affect the Group.

- The Group's ability to meet its obligations' including its funding commitments depends on the Group's ability to access sources of liquidity and funding. The inability to access liquidity and funding due to market conditions or otherwise could adversely affect the Group's financial condition. Furthermore, the Group's borrowing costs and its access to the debt capital markets and other sources of liquidity depend significantly on its and the UK Government's credit ratings.

- The Group is subject to a number of regulatory initiatives which may adversely affect its business, including the UK Government's implementation of the final recommendations of the Independent Commission on Banking's final report on competition and possible structural reforms in the UK banking industry, the US Federal Reserve's proposal for applying US capital, liquidity and enhanced prudential standards to certain of the Group's US operations.

- The Group's business performance, financial condition and capital and liquidity ratios could be adversely affected if its capital is not managed effectively or as a result of changes to capital adequacy and liquidity requirements, including those arising out of Basel III implementation (globally or by European or UK authorities), or if the Group is unable to issue Contingent B Shares to HM Treasury under certain circumstances.

- As a result of the UK Government's majority shareholding in the Group it can, and in the future may decide to, exercise a significant degree of influence over the Group including on dividend policy, modifying or cancelling contracts or limiting the Group's operations. The offer or sale by the UK Government of all or a portion of its shareholding in the company could affect the market price of the equity shares and other securities and acquisitions of ordinary shares by the UK Government (including through conversions of other securities or further purchases of shares) may result in the delisting of the Group from the Official List.

- The Group or any of its UK bank subsidiaries may face the risk of full nationalisation or other resolution procedures and various actions could be taken by or on behalf of the UK Government, including actions in relation to any securities issued, new or existing contractual arrangements and transfers of part or all of the Group's businesses.

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The Group is subject to substantial regulation and oversight, and any significant regulatory or legal developments could have an adverse effect on how the Group conducts its business and on its results of operations and financial condition. In addition, the Group is, and may be, subject to litigation and regulatory investigations that may impact its business, results of operations and financial condition.

- The Group's ability to implement its Strategic Plan depends on the success of its efforts to refocus on its core strengths and its balance sheet reduction programme. As part of the Group's Strategic Plan and implementation of the State Aid restructuring plan agreed with the European Commission and HM Treasury, the Group is undertaking an extensive restructuring which may adversely affect the Group's business, results of operations and financial condition and give rise to increased operational risk.

- The Group could fail to attract or retain senior management, which may include members of the Group Board, or other key employees, and it may suffer if it does not maintain good employee relations.

- Operational and reputational risks are inherent in the Group's businesses.

- The value of certain financial instruments recorded at fair value is determined using financial models incorporating assumptions, judgements and estimates that may change over time or may ultimately not turn out to be accurate.

- The Group's insurance businesses are subject to inherent risks involving claims on insured events.

- Any significant developments in regulatory or tax legislation could have an effect on how the Group conducts its business and on its results of operations and financial condition, and the recoverability of certain deferred tax assets recognised by the Group is subject to uncertainty.

- The Group may be required to make contributions to its pension schemes and government compensation schemes, either of which may have an adverse impact on the Group's results of operations, cash flow and financial condition.

Business review continued

Key financials

for the year ended 31 December	2012 £m	2011 £m	2010 £m
Total income	17,941	24,651	26,622
Operating loss before tax	(5,165)	(1,190)	(154)
Loss attributable to ordinary and B shareholders	(5,971)	(1,997)	(1,125)
Cost:income ratio	99%	70%	66%
Basic and diluted loss from continuing operations per ordinary and B share (1)	(53.7p)	(21.3p)	(2.9p)

at 31 December		2012 £m	2011 £m	2010 £m
Funded balance sheet (2)		870,392	977,249	1,026,499
Total assets		1,312,295	1,506,867	1,453,576
Loans and advances to customers		500,135	515,606	555,260
Deposits		622,684	611,759	609,483
Owners' equity		68,130	74,819	75,132
Risk asset ratios	- Core Tier 1	10.3%	10.6%	10.7%
	- Tier 1	12.4%	13.0%	12.9%
	- Total	14.5%	13.8%	14.0%

Notes:

(1) Prior year data have been adjusted for the sub-division and one-for-ten consolidation of ordinary shares, which took effect in June 2012.

(2) Funded balance sheet represents total assets less derivatives.

Overview of results

The results of RFS Holdings B.V., the entity that acquired ABN AMRO, are fully consolidated in the Group’s financial statements. The interests of the State of the Netherlands and Santander in RFS Holdings are included in non-controlling interests. Legal separation of ABN AMRO Bank N.V. took place on 1 April 2010. As a result, RBS presents the interests of the Consortium Members in ABN AMRO as discontinued operations.

Business review continued

Summary consolidated income statement for the year ended 31 December 2012

	2012	2011	2010
	£m	£m	£m
Net interest income	11,402	12,303	13,782
Fees and commissions receivable	5,709	6,379	8,193
Fees and commissions payable	(834)	(962)	(1,892)
Other non-interest income	1,664	6,931	6,425
Insurance net premium income	—	—	114
Non-interest income	6,539	12,348	12,840
Total income	17,941	24,651	26,622
Operating expenses	(17,827)	(17,134)	(17,456)
Profit before insurance net claims and impairment losses	114	7,517	9,166
Insurance net claims	—	—	(85)
Impairment losses	(5,279)	(8,707)	(9,235)
Operating loss before tax	(5,165)	(1,190)	(154)
Tax charge	(469)	(1,127)	(703)
Loss from continuing operations	(5,634)	(2,317)	(857)
(Loss)/profit from discontinued operations, net of tax			
- Direct Line Group	(184)	301	(176)
- Other	12	47	(633)
(Loss)/profit from discontinued operations, net of tax	(172)	348	(809)
Loss for the year	(5,806)	(1,969)	(1,666)
Non-controlling interests	123	(28)	665
Other owners' dividends	(288)	—	(124)
Loss attributable to ordinary and B shareholders	(5,971)	(1,997)	(1,125)
Basic and diluted loss from continuing operations per ordinary and B share (1)	(53.7p)	(21.3p)	(2.9p)

Note:
(1) Prior year data have been adjusted for the sub-division and one-for-ten consolidation of ordinary shares, which took effect in June 2012.

Results summary
2012 compared with 2011
Operating loss before tax
Operating loss before tax for the year was £5,165 million compared with £1,190 million in 2011.

Total income
Total income decreased by 27% to £17,941 million in 2012, principally reflecting own credit adjustments partially offset by movements in the fair value of the Asset Protection Scheme (APS) and higher net gains on the redemption of own debt.

Net interest income
Net interest income declined by 7% to £11,402 million largely reflecting lower interest-earning asset balances. Group net interest margin (NIM) was up 3 basis points despite very low interest rates and strong deposit competition.

Non-interest income
Non-interest income decreased to £6,539 million from £12,348 million in 2011. This included movements in the fair value of the APS resulting in a £44 million charge (2011 - £906 million), net gain on redemption of own debt of £454 million (2011 - £255 million) and a loss on own credit adjustments of £4,649 million (2011 - £1,914 million gain). On a managed basis non-interest income decreased by £928 million in 2012 principally driven by lower net fees and commissions, largely due to weaker consumer spending volumes in the UK together with legislation changes in the US, and a fall in insurance net premium income, primarily due to lower written premiums in Direct Line Group.

The APS, which the Group exited from during the year, was accounted for as a credit derivative and movements in the fair value of the contract were recorded in income from trading activities. The APS fair value charge was £44 million in 2012 bringing the cumulative charge for the APS to £2.5 billion.

Liability management exercises undertaken by the Group during 2012 resulted in a net gain of £454 million (2011 - £255 million).

The continuing strengthening RBS's credit profile resulted in a £4,649 million accounting charge in relation to own credit adjustments versus a gain of £1,914 million in 2011. This reflected a tightening of more than 340 basis points in the Group's credit spreads over the year.

Operating expenses
Operating expenses increased to £17,827 million from £17,134 million in 2011. This included Payment protection Insurance (PPI) costs of £1,110 million (2011 - £850 million), Interest Rate Hedging Products redress and related costs of £700 million, regulatory fines of £381 million, integration and restructuring costs of £1,550 million compared with £1,059 million in 2011, bank levy of £175 million compared with £300 million in 2011 and write-down of goodwill and other intangible assets of £124 million, principally as a result of exits from selective countries and lower revenue projections by Markets. On a managed basis operating expenses fell by 6% to £14,619 million, with staff costs down 6% 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.

To reflect current experience of PPI complaints received, the Group increased its PPI provision by £1,110 million in 2012 compared with £850 million in 2011, bringing the cumulative charge taken to £2.2 billion, of which £1.3 billion (59%) in redress had been paid by 31 December 2012.

Following an industry-wide review conducted in conjunction with the Financial Services Authority, a charge of £700 million has been booked for redress in relation to certain interest-rate hedging products sold to small and medium-sized businesses classified as retail clients under FSA rules.

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.

Integration and restructuring costs of £1,550 million increased by £491 million versus £1,059 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 UK bank levy is based on the total chargeable equity and liabilities as reported in the balance sheet at the end of a chargeable period. The cost of the levy to the Group for 2012 was £175 million compared with £300 million in 2011.

Business review continued

Impairment losses
Impairment losses were £5,279 million, compared with £8,707 million in 2011, with Core impairments falling by £464 million and Non-Core by £1,696 million, mostly in the Ulster Bank and commercial real estate portfolios. There was also the non-repeat of the sovereign debt impairment in 2011. On a managed basis Impairment losses fell to £5,279 million from £7,439 million in 2011.

In 2011, the Group recorded an impairment loss of £1,099 million in respect of its AFS portfolio of Greek government debt. In 2012, 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.

Risk elements in lending represented 9.1% of gross loans and advances to customers excluding reverse repos at 31 December 2012 (2011 - 8.6%).

Provision coverage of risk elements in lending was 52% (2011 - 49%).

Tax
The tax charge for 2012 was £469 million (2011 - £1,127 million). The high tax charge in the year reflects profits in high tax regimes (principally US) and losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland), the reduction in the carrying value of deferred tax assets in Ireland in view of continuing losses, the reduction in the carrying value of deferred tax assets in Australia following the strategic changes to the Markets and International Banking businesses announced in January 2012 and the effect of the two reductions of 1% in the rate of UK corporation tax enacted in March 2012 and July 2012 on the net deferred tax balance.

Loss per share
Basic and diluted loss from continuing operations per ordinary and B share was 53.7p per share compared with 21.3p per share in 2011.

2011 compared with 2010
Operating loss before tax
Operating loss before tax for the year was £1,190 million compared with £154 million in 2010.

Total income
Total income decreased 7% to £24,651 million in 2011, principally reflecting own credit adjustments offset by lower net interest income, lower trading income in Markets and Non-Core, a fall in insurance net premium income, movements in the fair value of the APS and lower net gains on the redemption of own debt.

Net interest income
Net interest income fell 11% to £12,303 million largely driven by the run-off of balances and exit of higher margin, higher risk segments in Non-Core. Group NIM was 14 basis points lower, reflecting the cost of carrying a higher liquidity portfolio and by the impact of non-performing assets in the Non-Core division. However, R&C NIM was up 6 basis points, with strengthening asset margins in the first half of the year offsetting the impact of a competitive deposit market.

Non-interest income

Non-interest income decreased to £12,348 million from £12,840 million in 2010. This included movements in the fair value of the APS resulting in a £906 million charge (2010 - £1,550 million), gain on redemption of own debt of £255 million (2010 - £553 million) and a gain on movements in own credit adjustments of £1,914 million (2010 - £242 million gain). On a managed basis non-interest income decreased by £3,374 million in 2011 principally driven by lower trading income in Markets and Non-Core, and a fall in insurance net premium income. Volatile market conditions led to a reduction in Markets trading income, driven by the deterioration in global credit markets as sovereign difficulties in the eurozone grew. Non-Core trading losses increased by £690 million, reflecting costs incurred as part of the division's focus on reducing capital trading assets.

A gain on the movement in own credit adjustments of £1,914 million was recorded in 2011 as Group credit spreads widened. This compares with a smaller gain of £242 million in 2010.

The APS is accounted for as a credit derivative and movements in the fair value of the contract were recorded in income from trading activities. The APS fair value charge was £906 million in 2011. The cumulative charge for the APS was £2,456 million as at 31 December 2011.

Operating expenses
Operating expenses decreased to £17,134 million (2010 - £17,456 million) of which integration and restructuring costs were £1,059 million compared with £1,032 million in 2010. On a managed basis operating expenses fell by 7% to £15,478 million, driven by cost savings achieved as a result of the cost reduction programme and Non-Core run-off, largely reflecting the disposal of RBS Sempra and specific country exits. Staff costs fell 9% driven by lower Markets and International Banking variable compensation as a result of its decrease in revenues, and in Non-Core, given the impact of a 32% reduction in headcount and continues business disposals and country exits.

A charge of £850 million was booked in relation to PPI claims following the British Bankers' Association decision, in May 2011, not to appeal the findings of the Judicial Review.

Integration and restructuring costs remained broadly flat at £1,059 million, reflecting significant Markets restructuring in 2011.

The Finance Act 2011 introduced an annual bank levy in the UK. The levy is based on the total chargeable equity and liabilities as reported in the balance sheet at the end of a chargeable period. The cost of the levy to the Group for 2011 was £300 million.

Insurance net claims
Insurance claims were £85 million lower in 2011, reflecting the dissolution of the Group's bancassurance joint venture at the end of 2010.

Impairment losses
Impairment losses fell to £8,707 million from £9,235 million in 2010, with Core impairments falling by £260 million and Non-Core by £1,557 million, despite continuing challenges in Ulster Bank and corporate real estate portfolios. This was partially offset by impairments taken on the Group's available-for-sale bond portfolio, as a result of the decline in the value of Greek sovereign bonds. On a managed basis impairment losses fell to £7,439 million from £9,256 million in 2010.

An impairment of £1,099 million was taken on the Group's AFS bond portfolio in 2011 as a result of the decline in the value of Greek sovereign bonds. As of 31 December 2011, the bonds were marked at 21% of par value.

Risk elements in lending represented 8.6% of gross loans and advances to customers excluding reverse repos at 31 December 2011 (2010 - 7.3%).

Provision coverage of risk elements in lending was 49% (2010 - 47%).

Tax
The tax charge for 2011 was £1,127 million (2010 - £703 million). The high tax charge for the year reflects profits in high tax regimes (principally US) and losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland and the Netherlands) and the effect of the two reductions of 1% in the rate of UK corporation tax enacted in March 2011 and July 2011 on the net deferred tax balance.

Loss per share

Basic and diluted loss from continuing operations per ordinary and B share was 21.3p per share compared with 2.9p per share in 2010.

Business review continued

Analysis of results
Net interest income

	2012	2011	2010
	£m	£m	£m
Interest receivable (1)	18,530	21,036	22,352
Interest payable	(7,128)	(8,733)	(8,570)
Net interest income	11,402	12,303	13,782
Yields, spreads and margins of the banking business	%	%	%
Gross yield on interest-earning assets of the banking business (2)	3.13	3.23	3.29
Cost of interest-bearing liabilities of the banking business	(1.55)	(1.68)	(1.47)
Interest spread of the banking business (3)	1.58	1.55	1.82
Benefit from interest-free funds	0.34	0.34	0.21
Net interest margin of the banking business (4)	1.92	1.89	2.03
Gross yield (2)			
- Group	3.13	3.23	3.29
- UK	3.49	3.57	3.40
- Overseas	2.56	2.77	3.14
Interest spread (3)			
- Group	1.58	1.55	1.82
- UK	1.84	1.82	1.99
- Overseas	1.25	1.22	1.58
Net interest margin (4)			
- Group	1.92	1.89	2.03
- UK	2.04	2.04	2.17
- Overseas	1.74	1.69	1.84
The Royal Bank of Scotland plc base rate (average)	0.50	0.50	0.50
London inter-bank three month offered rates (average)			
- Sterling	0.82	0.87	0.70
- Eurodollar	0.43	0.33	0.34
- Euro	0.53	1.36	0.75

Notes:
(1) Interest income includes £565 million (2011 - £627 million; 2010 - £588 million) in respect of loan fees forming part of the effective interest rate of loans and receivables.
(2) Gross yield is the interest earned on average interest-earning assets of the banking book.
(3) Interest spread is the difference between the gross yield and the interest rate paid on average interest-bearing liabilities of the banking business.
(4) Net interest margin is net interest income of the banking business as a percentage of average interest-earning assets of the banking business.
(5) The analysis into UK and overseas has been compiled on the basis of location of office.
(6) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
(7)

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.

Business review continued

		2012			2011		
		Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets							
Loans and advances to banks	- UK	33,656	248	0.74	29,852	277	0.93
	- Overseas	40,342	245	0.61	41,716	403	0.97
Loans and advances to customers	- UK	277,321	11,326	4.08	293,777	11,970	4.07
	- Overseas	151,692	4,862	3.21	171,938	5,857	3.41
Debt securities	- UK	49,872	1,015	2.04	55,074	1,258	2.28
	- Overseas	40,077	834	2.08	58,027	1,271	2.19
Interest-earning assets	- UK	360,849	12,589	3.49	378,703	13,505	3.57
	- Overseas	232,111	5,941	2.56	271,681	7,531	2.77
Total interest-earning assets	- banking business (1)	592,960	18,530	3.13	650,384	21,036	3.23
	- trading business (6)	240,131			278,975		
Interest-earning assets		833,091			929,359		
Non-interest-earning assets		597,281			605,796		
Total assets		1,430,372			1,535,155		
Percentage of assets applicable to overseas operations		37.8%			40.2%		
Liabilities							
Deposits by banks	- UK	18,276	196	1.07	17,224	242	1.41
	- Overseas	20,200	404	2.00	47,371	740	1.56
Customer accounts: demand deposits	- UK	121,252	643	0.53	112,777	666	0.59
	- Overseas	35,087	210	0.60	43,177	483	1.12
Customer accounts: savings deposits	- UK	84,972	1,479	1.74	76,719	1,177	1.53
	- Overseas	26,989	133	0.49	25,257	130	0.51
Customer accounts: other time deposits	- UK	35,848	522	1.46	39,672	481	1.21
	- Overseas	23,776	504	2.12	33,971	594	1.75
Debt securities in issue	- UK	60,709	1,681	2.77	108,406	2,606	2.40
	- Overseas	22,294	342	1.53	42,769	765	1.79
Subordinated liabilities	- UK	15,609	435	2.79	16,874	470	2.79
	- Overseas	5,461	380	6.96	5,677	270	4.76
Internal funding of trading business	- UK	(21,140)	264	(1.25)	(40,242)	149	(0.37)
	- Overseas	11,992	(65)	(0.54)	(8,783)	(40)	0.46
Interest-bearing liabilities	- UK	315,526	5,220	1.65	331,430	5,791	1.75
	- Overseas	145,799	1,908	1.31	189,439	2,942	1.55
Total interest-bearing liabilities	- banking business	461,325	7,128	1.55	520,869	8,733	1.68
	- trading business (6)	248,647			307,564		

Interest-bearing liabilities		709,972	828,433
Non-interest-bearing liabilities:			
Demand deposits	- UK	46,420	46,495
	- Overseas	27,900	19,909
Other liabilities (2)		572,820	565,279
Owners' equity		73,260	75,039
Total liabilities and owners' equity		1,430,372	1,535,155
Percentage of liabilities applicable to overseas operations		33.9%	37.1%

For the notes to this table refer to page 14.

Business review continued

Average balance sheet and related interest continued

		2010		
		Average balance £m	Interest £m	Rate %
Assets				
Loans and advances to banks	- UK	20,334	207	1.02
	- Overseas	30,031	368	1.23
Loans and advances to customers	- UK	309,764	11,818	3.82
	- Overseas	195,822	6,894	3.52
Debt securities	- UK	60,209	1,253	2.08
	- Overseas	62,671	1,812	2.89
Interest-earning assets	- UK	390,307	13,278	3.40
	- Overseas	288,524	9,074	3.14
Total interest-earning assets	- banking business (1)	678,831	22,352	3.29
	- trading business (6)	276,330		
Interest-earning assets		955,161		
Non-interest-earning assets		717,043		
Total assets		1,672,204		
Percentage of assets applicable to overseas operations		44.1%		
Liabilities				
Deposits by banks	- UK	21,816	334	1.53
	- Overseas	59,799	999	1.67
Customer accounts: demand deposits	- UK	121,186	624	0.51
	- Overseas	39,127	607	1.55
Customer accounts: savings deposits	- UK	68,142	935	1.37
	- Overseas	25,587	213	0.83
Customer accounts: other time deposits	- UK	39,934	431	1.08
	- Overseas	43,996	914	2.08
Debt securities in issue	- UK	111,277	2,212	1.99
	- Overseas	72,175	1,065	1.48
Subordinated liabilities	- UK	19,442	398	2.05
	- Overseas	8,714	19	0.22
Internal funding of trading business	- UK	(41,451)	(140)	0.34
	- Overseas	(6,864)	(41)	0.60
Interest-bearing liabilities	- UK	340,346	4,794	1.41
	- Overseas	242,534	3,776	1.56
Total interest-bearing liabilities	- banking business	582,880	8,570	1.47
	- trading business (6)	293,993		
Interest-bearing liabilities		876,873		
Non-interest-bearing liabilities:				
Demand deposits	- UK	46,692		

	- Overseas	23,994
Other liabilities (2)		647,739
Owners' equity		76,906
Total liabilities and owners' equity		1,672,204
Percentage of liabilities applicable to overseas operations		41.3%

For the notes to this table refer to page 14.

Business review continued

Analysis of change in net interest income - volume and rate analysis
Volume and rate variances have been calculated based on movements in average balances over the period and changes in interest rates on average interest-earning assets and average interest-bearing liabilities. Changes due to a combination of volume and rate are allocated pro rata to volume and rate movements.

	2012 over 2011 Increase/(decrease) due to changes in:		
	Average volume £m	Average rate £m	Net change £m
Interest-earning assets			
Loans and advances to banks			
UK	32	(61)	(29)
Overseas	(13)	(145)	(158)
Loans and advances to customers			
UK	(673)	29	(644)
Overseas	(664)	(331)	(995)
Debt securities			
UK	(115)	(128)	(243)
Overseas	(376)	(61)	(437)
Total interest receivable of the banking business			
UK	(756)	(160)	(916)
Overseas	(1,053)	(537)	(1,590)
	(1,809)	(697)	(2,506)
Interest-bearing liabilities			
Deposits by banks			
UK	(14)	60	46
Overseas	505	(169)	336
Customer accounts: demand deposits			
UK	(48)	71	23
Overseas	78	195	273
Customer accounts: savings deposits			
UK	(133)	(169)	(302)
Overseas	(8)	5	(3)
Customer accounts: other time deposits			
UK	50	(91)	(41)
Overseas	200	(110)	90
Debt securities in issue			
UK	1,279	(354)	925
Overseas	325	98	423
Subordinated liabilities			
UK	35	—	35
Overseas	11	(121)	(110)
Internal funding of trading business			

UK	99	(214)	(115)
Overseas	13	12	25
Total interest payable of the banking business			
UK	1,268	(697)	571
Overseas	1,124	(90)	1,034
	2,392	(787)	1,605
Movement in net interest income			
UK	512	(857)	(345)
Overseas	71	(627)	(556)
	583	(1,484)	(901)

Business review continued

Analysis of change in net interest income - volume and rate analysis continued

	2011 over 2010 Increase/(decrease) due to changes in:		
	Average volume £m	Average rate £m	Net change £m
Interest-earning assets			
Loans and advances to banks			
UK	90	(20)	70
Overseas	124	(89)	35
Loans and advances to customers			
UK	(616)	768	152
Overseas	(825)	(212)	(1,037)
Debt securities			
UK	(111)	116	5
Overseas	(127)	(414)	(541)
Total interest receivable of the banking business			
UK	(637)	864	227
Overseas	(828)	(715)	(1,543)
	(1,465)	149	(1,316)
Interest-bearing liabilities			
Deposits by banks			
UK	67	25	92
Overseas	197	62	259
Customer accounts: demand deposits			
UK	47	(89)	(42)
Overseas	(58)	182	124
Customer accounts: savings deposits			
UK	(126)	(116)	(242)
Overseas	3	80	83
Customer accounts: other time deposits			
UK	3	(53)	(50)
Overseas	189	131	320
Debt securities in issue			
UK	58	(452)	(394)
Overseas	494	(194)	300
Subordinated liabilities			
UK	58	(130)	(72)
Overseas	9	(260)	(251)
Internal funding of trading business			
UK	(4)	(285)	(289)
Overseas	10	(11)	(1)
Total interest payable of the banking business			

UK	103	(1,100)	(997)
Overseas	844	(10)	834
	947	(1,110)	(163)
Movement in net interest income			
UK	(534)	(236)	(770)
Overseas	16	(725)	(709)
	(518)	(961)	(1,479)

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Business review continued

Non-interest income
The following tables reconcile the managed basis results (a non-GAAP financial measure) to the statutory basis results.

	2012	2011	2010
	£m	£m	£m
Fees and commissions receivable			
- managed basis	5,715	6,384	8,194
- Direct Line Group discontinued operations	(6)	(5)	—
- RFS Holdings minority interest	—	—	(1)
Statutory basis	5,709	6,379	8,193
Fees and commissions payable			
- managed basis	(1,269)	(1,460)	(2,211)
- Direct Line Group discontinued operations	436	498	319
- RFS Holdings minority interest	(1)	—	—
Statutory basis	(834)	(962)	(1,892)
Income from trading activities			
- managed basis	3,531	3,313	6,070
- own credit adjustments	(1,813)	293	(7)
- Asset Protection Scheme	(44)	(906)	(1,550)
- Direct Line Group discontinued operations	2	—	—
- RFS Holdings minority interest	(1)	1	4
Statutory basis	1,675	2,701	4,517
Gain on redemption of own debt - statutory basis	454	255	553
Other operating income			
- managed basis	2,397	2,527	1,213
- own credit adjustments	(2,836)	1,621	249
- integration and restructuring costs	—	78	—
- strategic disposals	113	(104)	171
- Direct Line Group discontinued operations	(138)	(147)	(124)
- RFS Holdings minority interest	(1)	—	(154)
Statutory basis	(465)	3,975	1,355
Non-interest income (excluding insurance net premium income)	6,539	12,348	12,726

Insurance net premium income			
- managed basis	3,718	4,256	5,128
- Direct Line Group discontinued operations	(3,718)	(4,256)	(5,014)
Statutory basis	—	—	114
Total non-interest income - managed basis	14,092	15,020	18,394
Total non-interest income - statutory basis	6,539	12,348	12,840

Non-interest income continued

2012 compared with 2011

Non-interest income was down 47% at £6,539 million primarily due to the accounting charge for improved own credit of £4,649 million compared with a credit of £1,914 million in 2011, partially offset by a lower fair value charge of £44 million compared with £906 million in 2011 on the APS. On a managed basis 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 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.

The APS, which the Group exited in October 2012, was accounted for as a credit derivative and movements in the fair value of the contract were recorded in income from trading activities. The APS fair value charge was £44 million in 2012 versus £906 million in 2011, bringing the cumulative charge for the APS to £2.5 billion.

Liability management exercises undertaken by the Group during 2012 resulted in a net gain of £454 million (2011 - £255 million).

Net fees and commissions fell by 10% largely due to a decline in UK Retail fees, as a result of weaker consumer spending volumes, and in Markets, primarily due to the run-off in the cash equity business.

Markets trading income was sustained, despite the significant reduction in trading assets following its restructuring early in 2012.

The decrease in other operating income predominantly reflected own credit adjustments and the disposal of RBS Aviation Capital in June 2012, which resulted in lower rental income in Non-Core partially offset by a lower fair value charge on the APS.

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 reflected a tightening of more than 340 basis points in the Group's cash market credit spreads over the year.

2011 compared with 2010

Non-interest income decreased by £492 million in 2011 principally driven by lower trading income in Markets and Non-Core, partially offset by a higher gain on movements in own credit adjustments. On a managed basis non-interest income decreased by £3,374 million in 2011 principally driven by lower trading income in Markets and Non-Core and a fall in insurance net premium income.

A gain on the movement in own credit adjustments of £1,914 million was recorded in 2011 as Group credit spreads widened. This compares with a smaller gain of £242 million in 2010.

The APS is accounted for as a credit derivative and movements in the fair value of the contract were recorded in income from trading activities. The APS fair value charge was £906 million in 2011. The cumulative charge for the APS was £2,456 million as at 31 December 2011.

In 2011, the Group redeemed certain mortgage backed debt securities in exchange for cash, resulting in gains totalling £255 million. This compared with a gain of £553 million in 2010 on a liability management exercise to redeem a number of Tier 1 and upper Tier 2 securities.

A charge of £850 million was booked in relation to PPI claims following the British Bankers' Association decision, in May 2011, not to appeal the findings of the Judicial Review.

Volatile market conditions led to a reduction in Markets trading income, driven by the deterioration in global credit markets as sovereign difficulties in the eurozone grew.

Non-Core trading losses increased by £690 million, reflecting costs incurred as part of the division's focus on reducing capital trading assets, with activity including the restructuring of monoline exposures, which mitigated both significant immediate and future regulatory uplifts in risk-weighted assets.

On a statutory basis insurance net premium income was reclassified to discontinued operations. On a managed basis insurance net premium income fell by 17% largely driven by Direct Line Group's exit from certain business segments, along with reduced volumes driven by the de-risking of the motor book. Insurance net premium income in Non-Core also decreased as legacy policies ran-off.

2010 results included £482 million of income recorded for GMS prior to its disposal in November 2010.

Business review continued

Operating expenses and insurance claims
The following tables reconcile the managed basis results (a non-GAAP financial measure) to the statutory basis results.

	2012	2011	2010
	£m	£m	£m
Staff costs			
- managed basis	7,639	8,163	8,956
- integration and restructuring costs	885	489	614
- bonus tax	—	27	99
- Direct Line Group discontinued operations	(447)	(322)	(292)
- RFS Holdings minority interest	(1)	(1)	2
Statutory basis	8,076	8,356	9,379
Premises and equipment			
- managed basis	2,198	2,278	2,276
- integration and restructuring costs	152	173	126
- Direct Line Group discontinued operations	(118)	(28)	(22)
- RFS Holdings minority interest	—	—	—
Statutory basis	2,232	2,423	2,380
Other administrative expenses			
- managed basis	3,248	3,395	3,716
- Payment Protection Insurance costs	1,110	850	—
- Interest Rate Hedging Products redress and related costs	700	—	—
- regulatory fines	381	—	—
- integration and restructuring costs	371	386	272
- bank levy	175	300	—
- Direct Line Group discontinued operations	(395)	(495)	(424)
- RFS Holdings minority interest	3	—	7
Statutory basis	5,593	4,436	3,571
Administrative expenses	15,901	15,215	15,330
Depreciation and amortisation			
- managed basis	1,534	1,642	1,762
- Direct Line Group discontinued operations	(52)	(36)	(25)
- amortisation of purchased intangible assets	178	222	369

- integration and restructuring costs	142	11	20
- RFS Holdings minority interest	—	—	(1)
Statutory basis	1,802	1,839	2,125
Write-down of goodwill and other intangible assets - statutory basis	124	80	1
Operating expenses	17,827	17,134	17,456
Insurance net claims			
- managed basis	2,427	2,968	4,783
- Direct Line Group discontinued operations	(2,427)	(2,968)	(4,698)
Statutory basis	—	—	85
Staff costs as a percentage of total income	45%	34%	35%

2012 compared with 2011
Operating expenses increased by £693 million, or 4% primarily due to charges resulting from legacy conduct issues partially offset by Non-Core run-down and run-off of exited businesses in Markets and International Banking, following the restructuring announced in January 2012. Simplification of processes and headcount reduction in UK Retail also yielded cost benefits. On a managed basis 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 bonus award reductions and clawbacks following the settlements reached with UK and US authorities in relation to attempted LIBOR manipulation.

Staff expenses were cut by 3%. On a managed basis staff costs were down 6%, as headcount fell by 9,600 to 137,200.

To reflect current experience of PPI 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 in redress had been paid by 31 December 2012.

On 31 January 2013, the Financial Services Authority announced the findings of its industry-wide review of the sale of Interest Rate Hedging Products to some small and medium-sized businesses that were classified as retail clients under FSA rules. As a result, RBS provided £700 million in 2012 to meet the costs of redress.

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.

2011 compared with 2010
Group expenses fell by 2% in 2011, driven by cost savings achieved as a result of the cost reduction programme and Non-Core run-off, largely reflecting the disposal of RBS Sempra and specific country exits, partially offset by PPI costs. On a managed basis Group expenses were 7% lower in 2011, driven by cost savings achieved as a result of the cost reduction programme and Non-Core run-off, largely reflecting the disposal of RBS Sempra and specific country exits.

Staff costs fell 11%, driven by lower Markets and International Banking discretionary compensation as a result of its decrease in revenues, and in Non-Core, given the impact of a 32% reduction in headcount and continued business disposals and country exits. On a managed basis staff costs fell 9%.

In May 2011, following the decision of the British Bankers' Association not to appeal the judgement of the judicial review, the Group recorded a provision of £850 million in respect of the costs of PPI redress.

The Group's cost reduction programme delivered cost savings with an underlying run rate of over £3 billion by the end of 2011.

Integration costs

	2012	2011	2010
	£m	£m	£m
Staff costs	—	38	210

Premises and equipment	(2)	6	3
Other administrative expenses	2	51	143
Depreciation and amortisation	—	11	20
	—	106	376

Note:
(1) Integration costs in 2011 excluded a £2 million charge included within net interest income and a loss of £3 million within other operating income in respect of integration activities.

2012 compared with 2011
Integration costs were nil compared with £106 million in 2011. Integration costs decreased primarily due to a reduction of RBS N.V. (formerly ABN AMRO) integration activity during the year.

2011 compared with 2010
Integration costs were £106 million compared with £376 million in 2010. Integration costs decreased primarily due to a reduction of RBS N.V. (formerly ABN AMRO) integration activity during the year.

Accruals in relation to integration costs are set out below.

	At 1 January 2012 £m	(Credit)/charge to income statement - continuing operations £m	Utilised during the year £m	At 31 December 2012 £m
Premises and equipment	11	(2)	—	9
Other administrative expenses	3	2	—	5
	14	—	—	14

Business review continued

Restructuring costs

	2012 (managed) £m	Discontinued operations £m	Continuing operations (statutory) £m	2011 (managed) £m	Discontinued operations £m	Continuing operations (statutory) £m	2010 (managed) £m	Discontinued operations £m	Continuing operations (statutory) £m
Staff costs	737	(37)	700	356	(14)	342	353	(12)	341
Premises and equipment	145	(4)	141	156	(1)	155	117	—	117
Other administrative expenses	270	(9)	261	276	(8)	268	104	(8)	96
Depreciation and amortisation	142	—	142	—	—	—	—	—	
	1,294	(50)	1,244	788	(23)	765	574	(20)	554

2012 compared with 2011
Restructuring costs were £1,244 million compared with £765 million in 2011. The increase was primarily driven by costs incurred in relation to the strategic restructuring of Markets and International Banking announced in January 2012. On a managed basis restructuring costs were £1,294 million compared with £788 million in 2011.

2011 compared with 2010
Restructuring costs were £765 million compared with £554 million in 2010. The increase is due to the number of Group restructuring projects increasing during the year. On a managed basis restructuring costs were £788 million compared with £574 million in 2010.

Accruals in relation to restructuring costs are set out below.

	At 1 January 2012 £m	Currency translation adjustments £m	Charge to income statement - continuing operations £m	Charge to income statement - discontinued operations £m	Utilised during the year £m	Transfer to disposal groups £m	At 31 December 2012 £m
Staff costs - redundancy	126	5	626	37	(336)	(24)	434
Staff costs - other	40	—	74	—	(3)	—	111
Premises and equipment	166	—	141	4	(22)	—	289
Other administrative expenses	110	(2)	261	9	(107)	(7)	264
Depreciation and amortisation	—	—	142	—	(142)	—	—
	442	3	1,244	50	(641)	(31)	1,067

Divestment costs

	2012 (managed)	Discontinued operations	Continuing operations (statutory)	2011 (managed)	Discontinued operations	Continuing operations (statutory)	2010 (managed)	Discontinued operations	Continuing operations (statutory)

	£m	£m	£m	£m	£m	£m	£m	£m	£m
Staff costs	148	(37)	111	95	(11)	84	51	—	51
Premises and equipment	9	(11)	(2)	11	—	11	6	—	6
Other administrative expenses	99	(37)	62	59	(9)	50	25	—	25
	256	(85)	171	165	(20)	145	82	—	82

2012 compared with 2011

Divestment costs were £171 million compared with £145 million in 2011 as the preparation for the European Commission mandated divestments continued throughout 2012. On a managed basis divestment costs were £256 million compared with £165 million in 2011.

2011 compared with 2010

Divestment costs of £145 million compared with £82 million in 2010 related to the European Commission mandated divestments. On a managed basis divestment costs were £165 million in 2011 compared wtih £82 million in 2010.

Accruals in relation to divestment costs are set out below.

	At 1 January 2012	Charge/(credit) to income statement - continuing operations	Charge to income statement - discontinued operations	Utilised during the year	Transfer to disposal groups	At 31 December 2012
	£m	£m	£m	£m	£m	£m
Staff costs - redundancy	45	47	37	(41)	(1)	87
Staff costs - other	1	64	—	(19)	—	46
Premises and equipment	—	(2)	11	(9)	—	—
Other administrative expenses	21	62	37	(43)	(4)	73
	67	171	85	(112)	(5)	206

Business review continued

Impairment losses

The following tables reconcile the managed basis results (a non-GAAP financial measure) to the statutory basis results.

	2012	2011	2010
	£m	£m	£m
New impairment losses	5,620	9,234	9,646
Less: recoveries of amounts previously written-off	(341)	(527)	(411)
Charge to income statement	5,279	8,707	9,235
Comprising:			
Loan impairment losses	5,315	7,241	9,144
Securities			
- managed basis	(36)	198	112
- sovereign debt impairment	—	1,099	—
- interest rate hedge adjustments on impaired available-for-sale sovereign debt	—	169	—
Direct Line Group discontinued operations	—	—	(21)
Statutory basis	(36)	1,466	91
Charge to income statement	5,279	8,707	9,235

2012 compared with 2011

Total impairment losses fell by £3,428 million, or 39%, to £5,279 million. Within this, 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 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.

2011 compared with 2010

Impairment losses decreased by 6% compared with 2010, driven largely by a £1,569 million reduction in Non-Core loan impairments, despite continuing challenges in Ulster Bank and corporate real estate portfolios. This was partially offset by impairments taken on the Group's available-for-sale bond portfolio, as a result of the decline in the value of Greek sovereign bonds. On a managed basis impairment losses decreased by 20% compared to 2010.

Retail & Commercial impairment losses fell by £227 million, driven by improving credit metrics in UK Retail and US Retail & Commercial partially offset by increases in Ulster Bank, largely reflecting a deterioration in credit metrics on the mortgage portfolio, and a single name provision in International Banking.

Total Core and Non-Core Ulster Bank impairment losses decreased by 4%, as the £223 million increase in Core Ulster Bank losses was more than offset by a decrease in losses recognised in Non-Core.

The Group held Greek government bonds with a notional amount of £1.45 billion. As a result of Greece's continuing fiscal difficulties, the Group recorded impairment charges on these bonds totalling £1,099 million during the year. These charges were recorded to write the bonds down to their market price as at 31 December 2011 (c.21% of notional).

Business review continued

Tax

	2012	2011	2010
	£m	£m	£m
Tax charge	(469)	(1,127)	(703)
	%	%	%
UK corporation tax rate	24.5	26.5	28.0
Effective tax rate	nm	nm	nm

nm = not meaningful

The actual tax charge differs from the expected tax credit computed by applying the standard rate of UK corporation tax as follows:

	2012	2011	2010
	£m	£m	£m
Expected tax credit	1,265	315	44
Sovereign debt impairment where no deferred tax asset recognised	—	(275)	—
Other losses in year where no deferred tax asset recognised	(511)	(530)	(450)
Foreign profits taxed at other rates	(383)	(417)	(517)
UK tax rate change impact	(149)	(112)	(83)
Unrecognised timing differences	59	(20)	11
Non-deductible goodwill impairment	—	(24)	(3)
Items not allowed for tax			
- losses on disposals and write-downs	(49)	(72)	(311)
- UK bank levy	(43)	(80)	—
- regulatory fines	(93)	—	—
- employee share schemes	(9)	(113)	(32)
- other disallowable items	(246)	(258)	(296)
Non-taxable items			
- gain on sale of RBS Aviation Capital	26	—	—
- gain on sale of Global Merchant Services	—	12	221
- gain on redemption of own debt	—	—	11
- other non-taxable items	104	242	341
Taxable foreign exchange movements	(1)	4	4
Losses brought forward and utilised	2	2	2
Reduction in carrying value of deferred tax asset in respect of losses in			
- Australia	(191)	—	—
- Ireland	(203)	—	—
Adjustments in respect of prior years	(47)	199	355
Actual tax charge	(469)	(1,127)	(703)

2012 compared with 2011

The high tax charge in 2012 reflects profits in high tax regimes (principally US) and losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally

Ireland), the reduction in the carrying value of deferred tax assets in Ireland in view of continuing losses, the reduction in the carrying value of deferred tax assets in Australia following the strategic changes to the Markets and International Banking businesses announced in January 2012, and the effect of the two reductions of 1% in the rate of UK corporation tax enacted in March 2012 and July 2012 on the net deferred tax balance.

2011 compared with 2010

The high tax charge in 2011 reflects profits in high tax regimes (principally US) and losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland and the Netherlands) and the effect of two reductions of 1% in the rate of UK corporation tax enacted in March 2011 and July 2011 on the net deferred tax balance.

Business review continued

Divisional performance

	2012	2011	2010
Operating profit/(loss) by division	£m	£m	£m
UK Retail	1,891	2,021	1,348
UK Corporate	1,796	1,924	1,893
Wealth	253	248	283
International Banking	594	755	1,311
Ulster Bank	(1,040)	(984)	(683)
US Retail & Commercial	754	537	349
Retail & Commercial	4,248	4,501	4,501
Markets	1,509	899	2,724
Direct Line Group	441	454	(295)
Central items	143	191	630
Core	6,341	6,045	7,560
Non-Core	(2,879)	(4,221)	(5,715)
Managed basis	3,462	1,824	1,845
Reconciling items			
Own credit adjustments	(4,649)	1,914	242
Asset Protection Scheme	(44)	(906)	(1,550)
Payment Protection Insurance costs	(1,110)	(850)	—
Interest Rate Hedging Products redress and related costs	(700)	—	—
Regulatory fines	(381)	—	—
Sovereign debt impairment	—	(1,099)	—
Interest rate hedge adjustments on impaired available-for-sale sovereign debt	—	(169)	—
Amortisation of purchased intangible assets	(178)	(222)	(369)
Integration and restructuring costs	(1,550)	(1,064)	(1,032)
Gain on redemption of own debt	454	255	553
Strategic disposals	113	(104)	171
Bank levy	(175)	(300)	—
Bonus tax	—	(27)	(99)
Write-down of goodwill and other intangible assets	(518)	(11)	(10)
RFS Holdings minority interest	(20)	(7)	(150)
Operating loss including the results of Direct Line Group discontinued operations	(5,296)	(766)	(399)
Direct Line Group discontinued operations*	131	(424)	245
Group	(5,165)	(1,190)	(154)

* 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 Non-Core, and related one-off and other items including write-down of goodwill, integration and restructuring costs and strategic disposals.

Business review continued

Impairment losses/(recoveries) by division	2012 £m	2011 £m	2010 £m
UK Retail	529	788	1,160
UK Corporate	838	793	767
Wealth	46	25	18
International Banking	111	168	86
Ulster Bank	1,364	1,384	1,161
US Retail & Commercial	91	326	519
Retail & Commercial	2,979	3,484	3,711
Markets	37	38	65
Central items	40	(2)	4
Core	3,056	3,520	3,780
Non-Core	2,223	3,919	5,476
Managed basis	5,279	7,439	9,256
Reconciling items			
Sovereign debt impairment	—	1,099	—
Interest rate hedge adjustments on impaired available-for-sale sovereign debt	—	169	—
Group	5,279	8,707	9,256

Net interest margin by division	2012 %	2011 %	2010 %
UK Retail	3.58	3.95	3.89
UK Corporate	3.06	3.06	2.89
Wealth	3.73	3.23	3.26
International Banking	1.64	1.73	1.92
Ulster Bank	1.88	1.87	2.03
US Retail & Commercial	3.00	3.06	2.82
Retail & Commercial	2.92	2.97	2.91
Non-Core	0.31	0.63	1.02
Group net interest margin	1.92	1.89	2.03

Risk-weighted assets by division	2012 £bn	2011 £bn	2010 £bn
UK Retail	45.7	48.4	48.8
UK Corporate	86.3	79.3	84.2
Wealth	12.3	12.9	12.5
International Banking	51.9	43.2	51.7
Ulster Bank	36.1	36.3	31.6
US Retail & Commercial	56.5	59.3	57.4
Retail & Commercial	288.8	279.4	286.2
Markets	101.3	120.3	110.3
Other	5.8	12.0	18.0
Core	395.9	411.7	414.5
Non-Core	60.4	93.3	153.7
Group before benefit of Asset Protection Scheme	456.3	505.0	568.2
Benefit of Asset Protection Scheme	—	(69.1)	(105.6)

Group before RFS Holdings minority interest	456.3	435.9	462.6
RFS Holdings minority interest	3.3	3.1	2.9
Group	459.6	439.0	465.5

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Divisional performance continued
Employee numbers at 31 December
(full time equivalents rounded to the nearest hundred)

	2012	2011	2010
UK Retail	26,000	27,700	28,200
UK Corporate	13,300	13,600	13,200
Wealth	5,300	5,700	5,200
International Banking	4,400	5,400	5,300
Ulster Bank	4,500	4,200	4,200
US Retail & Commercial	14,700	15,400	15,900
Retail & Commercial	68,200	72,000	72,000
Markets	11,200	13,900	15,700
Direct Line Group	14,200	14,900	14,500
Central items	6,800	6,200	4,700
Core	100,400	107,000	106,900
Non-Core	3,100	4,700	6,900
	103,500	111,700	113,800
Business Services	33,200	34,000	34,400
Integration and restructuring	500	1,100	300
Group	137,200	146,800	148,500

UK Retail

	2012	2011	2010
	£m	£m	£m
Net interest income	3,990	4,302	4,054
Net fees and commissions	884	1,066	1,100
Other non-interest income	95	140	322
Non-interest income	979	1,206	1,422
Total income	4,969	5,508	5,476
Direct expenses			
- staff	(800)	(839)	(889)
- other	(372)	(437)	(480)
Indirect expenses	(1,377)	(1,423)	(1,514)
	(2,549)	(2,699)	(2,883)
Profit before impairment losses and insurance net claims	2,420	2,809	2,593
Insurance net claims	—	—	(85)
Impairment losses	(529)	(788)	(1,160)
Operating profit	1,891	2,021	1,348
Analysis of income by product			
Personal advances	916	1,089	993
Personal deposits	661	961	1,102
Mortgages	2,367	2,277	1,984
Cards	863	950	962
Other, including bancassurance in 2010	162	231	435
Total income	4,969	5,508	5,476
Analysis of impairments by sector			
Mortgages	92	182	177
Personal	307	437	682
Cards	130	169	301
Total impairment losses	529	788	1,160
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Mortgages	0.1%	0.2%	0.2%
Personal	3.5%	4.3%	5.8%
Cards	2.3%	3.0%	4.9%
Total	0.5%	0.7%	1.1%
Performance ratios			
Return on equity (1)	24.4%	24.5%	16.3%
Net interest margin	3.58%	3.95%	3.89%
Cost:income ratio	51%	49%	53%

Business review continued

UK Retail continued

	2012	2011	2010
	£bn	£bn	£bn
Capital and balance sheet			
Loans and advances to customers (gross) (2)			
- mortgages	99.1	95.0	90.6
- personal	8.8	10.1	11.7
- cards	5.7	5.7	6.1
	113.6	110.8	108.4
Loan impairment provisions	(2.6)	(2.7)	(2.7)
Net loans and advances to customers	111.0	108.1	105.7
Risk elements in lending (2)	4.6	4.6	4.6
Provision coverage (3)	58%	58%	59%
Customer deposits (2)	107.6	101.9	96.1
Assets under management (excluding deposits)	6.0	5.5	5.7
Loan:deposit ratio (excluding repos)	103%	106%	110%
Risk-weighted assets	45.7	48.4	48.8

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 (2011 - £7.3 billion; 2010 - £6.8 billion), risk elements in lending £0.5 billion (2011 and 2010 - £0.5 billion) and customer deposits £8.5 billion (2011 - £8.8 billion; 2010 - £9.0 billion).
(3) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.

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;

- 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.

Business review continued

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.

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.

2011 compared with 2010
UK Retail delivered strong full year results, as operating profit increased by £673 million to £2,021 million, despite continued uncertainty in the economic climate and the low interest rate environment. Profit before impairment losses and insurance net claims was up £216 million or 8%, while impairments fell by £372 million, with further improvements in the unsecured book and continued careful mortgage underwriting. Return on equity improved to 24.5%.

The division continued to focus on growing secured lending while at the same time building customer deposits, thereby reducing the Group's reliance on wholesale funding. Loans and advances to customers grew 2%, with a change in mix from unsecured to secured as the Group actively sought to improve its risk profile. Mortgage balances grew by 5%, while unsecured lending contracted by 11%.

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Mortgage growth reflected continued strong new business levels. Gross mortgage lending market share of 10% continues above our stock position of 8%.

- Customer deposits grew 6%, outperforming the market total deposit growth of 3%. Savings balances grew by £6 billion, or 9%, with 1.5 million accounts opened, demonstrating the strength of our customer franchise and our strategy to further develop primary banking relationships.

Net interest income increased by 6% to £4,302 million, driven by strong balance sheet growth. Net interest margin increased 6 basis points recovering asset margins more than offset by more competitive savings rates and lower long term swap rate returns adversely impacting liability margins.

Non-interest income declined 15% to £1,206 million, primarily driven by lower investment and protection income as a result of the dissolution of the bancassurance joint venture. In addition, a number of changes have been made to support delivery of Helpful Banking, such as ‘Act Now’ text alerts, which have decreased fee income.

Overall expenses decreased by 6%. Cost reductions were driven by a clear management focus on process re-engineering and operational efficiency together with benefits from the dissolution of the bancassurance joint venture, partly offset by higher inflation rates in utility and mail costs.

Impairment losses decreased 32% to £788 million reflecting the impact of a strengthened risk appetite, and a more stable economic environment.

Risk-weighted assets were broadly stable, with volume growth in lower risk secured mortgages more than offset by a decrease in the unsecured portfolio.

Business review continued

UK Corporate

	2012	2011	2010
	£m	£m	£m
Net interest income	2,974	3,092	3,000
Net fees and commissions	1,365	1,375	1,353
Other non-interest income	384	396	443
Non-interest income	1,749	1,771	1,796
Total income	4,723	4,863	4,796
Direct expenses			
- staff	(928)	(922)	(912)
- other	(364)	(390)	(411)
Indirect expenses	(797)	(834)	(813)
	(2,089)	(2,146)	(2,136)
Profit before impairment losses	2,634	2,717	2,660
Impairment losses	(838)	(793)	(767)
Operating profit	1,796	1,924	1,893
Analysis of income by business			
Corporate and commercial lending	2,636	2,643	2,571
Asset and invoice finance	685	660	616
Corporate deposits	568	694	738
Other	834	866	871
Total income	4,723	4,863	4,796
Analysis of impairments by sector			
Financial institutions	15	20	20
Hotels and restaurants	52	59	52
Housebuilding and construction	143	103	131
Manufacturing	49	34	1
Private sector education, health, social work, recreational and community services	37	113	30
Property	252	170	245
Wholesale and retail trade, repairs	112	85	91
Asset and invoice finance	40	38	64
Shipping	82	22	4
Other	56	149	129
Total impairment losses	838	793	767
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Financial institutions	0.3%	0.3%	0.3%
Hotels and restaurants	0.9%	1.0%	0.8%
Housebuilding and construction	4.2%	2.6%	2.9%
Manufacturing	1.0%	0.7%	—
	0.4%	1.3%	0.3%

Private sector education, health, social work, recreational and community services			
Property	1.0%	0.6%	0.8%
Wholesale and retail trade, repairs	1.3%	1.0%	0.9%
Asset and invoice finance	0.4%	0.4%	0.6%
Shipping	1.1%	0.3%	0.1%
Other	0.2%	0.6%	0.5%
Total	0.8%	0.7%	0.7%
Performance ratios			
Return on equity (1)	14.5%	15.2%	13.6%
Net interest margin	3.06%	3.06%	2.89%
Cost:income ratio	44%	44%	45%

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).

Business review continued

	2012 £bn	2011 £bn	2010 £bn
Capital and balance sheet			
Loans and advances to customers (gross) (1)			
- financial institutions	5.8	5.8	6.2
- hotels and restaurants	5.6	6.1	6.8
- housebuilding and construction	3.4	3.9	4.5
- manufacturing	4.7	4.7	5.4
- private sector education, health, social work, recreational and community services	8.7	8.7	9.0
- property	24.8	28.2	29.5
- wholesale and retail trade, repairs	8.5	8.7	9.9
- asset and invoice finance	11.2	10.4	9.9
- shipping	7.6	7.8	7.5
- other	26.7	26.4	25.1
	107.0	110.7	113.8
Loan impairment provisions	(2.4)	(2.1)	(1.7)
Net loans and advances to customers	104.6	108.6	112.1
Total third party assets	110.2	114.2	117.0
Risk elements in lending (1)	5.5	5.0	4.0
Provision coverage (2)	45%	40%	44%
Customer deposits (1)	127.1	126.3	124.5
Loan:deposit ratio (excluding repos)	82%	86%	90%
Risk-weighted assets	86.3	79.3	84.2

Notes:
(1) Includes businesses outlined for disposal: loans and advances to customers £11.3 billion (2011 - £12.2 billion; 2010 - £13.9 billion), risk elements in lending £0.9 billion (2011 - £1.0 billion; 2010 - £1.2 billion) and customer deposits £13.0 billion (2011- £13.0 billion; 2010 - £15.0 billion).
(2) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.

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.

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

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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.

UK Corporate continued
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.

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.

2011 compared with 2010
Operating profit increased by 2% to £1,924 million, as higher income was partially offset by higher impairments and an increase in expenses.

Net interest income increased by 3%. Net interest margin improved 17 basis points with benefits from re-pricing the lending portfolio and the revision to income deferral assumptions in Q1 2011 partially offset by increased funding costs together with continued pressure on deposit margins. A 1% increase in deposit balances supported an improvement in the loan:deposit ratio to 86%.

Non-interest income decreased by 1% as a result of lower Markets cross-sales and fee income, partially offset by increased Invoice Finance and Lombard income.

Excluding the £29 million OFT penalty in 2010, total costs increased by 2%, largely reflecting increased investment in the business and higher costs of managing the non-performing book.

Impairments of £793 million were 3% higher due to increased specific impairments and collectively assessed provisions, partially offset by lower latent loss provisions.

Wealth

	2012	2011	2010
	£m	£m	£m
Net interest income	720	645	588
Net fees and commissions	366	375	376
Other non-interest income	84	84	71
Non-interest income	450	459	447
Total income	1,170	1,104	1,035
Direct expenses			
- staff	(424)	(413)	(382)
- other	(223)	(195)	(142)
Indirect expenses	(224)	(223)	(210)
	(871)	(831)	(734)
Profit before impairment losses	299	273	301
Impairment losses	(46)	(25)	(18)
Operating profit	253	248	283
Analysis of income			
Private banking	956	902	836
Investments	214	202	199
Total income	1,170	1,104	1,035
Performance ratios			
Return on equity (1)	13.7%	13.1%	15.9%
Net interest margin	3.73%	3.23%	3.26%
Cost:income ratio	74%	75%	71%

	£bn	£bn	£bn
Capital and balance sheet			
Loans and advances to customers (gross)			
- mortgages	8.8	8.3	7.8
- personal	5.5	6.9	6.7
- other	2.8	1.7	1.6
	17.1	16.9	16.1
Loan impairment provisions	(0.1)	(0.1)	(0.1)
Net loans and advances to customers	17.0	16.8	16.0
Risk elements in lending	0.2	0.2	0.2
Provision coverage (2)	44%	38%	30%
Assets under management (excluding deposits)	28.9	30.9	33.9
Customer deposits	38.9	38.2	37.1
Loan:deposit ratio (excluding repos)	44%	44%	43%
Risk-weighted assets	12.3	12.9	12.5

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

Wealth continued
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.

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.

2011 compared with 2010
Operating profit decreased by 12% on 2010 to £248 million, driven by increases in expenses (13%) and impairments (39%) partially offset by a 7% growth in income.

Income increased by £69 million with a strong treasury income and increases in lending and deposit volumes. Non-interest income rose 3%, with investment income growing 2% despite turbulent market conditions.

Expenses increased by £97 million, largely driven by adverse foreign exchange movements and headcount growth to service the increased revenue base. Additional strategic investment in technology enhancement, rebranding and programmes to support regulatory change also contributed to the increase.

Client assets and liabilities managed by the division decreased by 1%. Customer deposits grew 3% in a competitive environment and lending volumes grew 5%. Assets under management declined 9%, with fund outflows contributing 3% of the decrease and market conditions making up the balance.

Business review continued

International Banking

	2012	2011	2010
	£m	£m	£m
Net interest income from banking activities	922	1,199	1,353
Funding costs of rental assets	(9)	(42)	(37)
Net interest income	913	1,157	1,316
Non-interest income	1,209	1,398	1,961
Total income	2,122	2,555	3,277
Direct expenses			
- staff	(577)	(706)	(871)
- other	(162)	(226)	(274)
Indirect expenses	(678)	(700)	(735)
	(1,417)	(1,632)	(1,880)
Profit before impairment losses	705	923	1,397
Impairment losses	(111)	(168)	(86)
Operating profit	594	755	1,311
Of which:			
Ongoing businesses	602	773	1,348
Run-off businesses	(8)	(18)	(37)
Analysis of income by product			
Cash management	943	940	1,368
Trade finance	291	275	243
Loan portfolio	865	1,265	1,578
Ongoing businesses	2,099	2,480	3,189
Run-off businesses	23	75	88
Total income	2,122	2,555	3,277
Analysis of impairments by sector			
Manufacturing and infrastructure	42	254	(17)
Property and construction	7	17	102
Transport and storage	(3)	11	—
Telecommunications, media and technology	12	—	7
Banks and financial institutions	43	(42)	49
Other	10	(72)	(55)
Total impairment losses	111	168	86
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	0.3%	0.3%	0.2%
Performance ratios (ongoing businesses)			
Return on equity (1)	9.2%	11.5%	15.4%
Net interest margin	1.64%	1.73%	1.92%
Cost:income ratio	66%	62%	55%

Note:

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

International Banking continued

	2012	2011	2010
	£bn	£bn	£bn
Capital and balance sheet			
Loans and advances to customers (gross) (1)	42.2	57.7	62.9
Loan impairment provisions	(0.4)	(0.8)	(0.8)
Net loans and advances to customers	41.8	56.9	62.1
Loans and advances to banks	4.7	3.4	3.9
Securities	2.6	6.0	6.8
Cash and eligible bills	0.5	0.3	0.7
Other	3.4	3.3	4.4
Total third party assets (excluding derivatives mark-to-market)	53.0	69.9	77.9
Risk elements in lending	0.4	1.6	1.5
Provision coverage (2)	93%	52%	58%
Customer deposits (excluding repos)	46.2	45.1	43.7
Bank deposits (excluding repos)	5.6	11.4	7.3
Loan:deposit ratio (excluding repos and conduits)	85%	103%	112%
Risk-weighted assets	51.9	43.2	51.7
	£m	£m	£m
Run-off businesses (1)			
Total income	23	75	88
Direct expenses	(31)	(93)	(125)
Operating loss	(8)	(18)	(37)

Notes:
(1) Excludes disposal groups.
(2) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.
(3) Run-off businesses consist of the exited corporate finance businesses.

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).

Business review continued

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.

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.

2011 compared with 2010
Operating profit was down 42%, partly reflecting the sale of Global Merchant Services (GMS) which completed on 30 November 2010. Adjusting for the disposal, operating profit decreased 32%, driven by a decrease in income and an impairment provision on a single name in 2011.

Excluding GMS income of £451, income was 10% lower despite the success of deposit-gathering initiatives, as customer deposits increased £1 billion in a competitive environment.

Excluding GMS expenses of £244 million, expenses decreased by £4 million, reflecting business improvement initiatives and investment in technology and support infrastructure.

Impairment losses increased to £168 million compared with £86 million in 2010 reflecting a single name impairment.

Ulster Bank

	2012	2011	2010
	£m	£m	£m
Net interest income	649	736	839
Net fees and commissions	145	142	156
Other non-interest income	51	69	58
Non-interest income	196	211	214
Total income	845	947	1,053
Direct expenses			
- staff	(211)	(221)	(237)
- other	(49)	(67)	(74)
Indirect expenses	(261)	(259)	(264)
	(521)	(547)	(575)
Profit before impairment losses	324	400	478
Impairment losses	(1,364)	(1,384)	(1,161)
Operating loss	(1,040)	(984)	(683)
Analysis of income by business			
Corporate	360	435	521
Retail	360	428	465
Other	125	84	67
Total income	845	947	1,053
Analysis of impairments by sector			
Mortgages	646	570	294
Corporate			
- property	276	324	375
- other corporate	389	434	444
Other lending	53	56	48
Total impairment losses	1,364	1,384	1,161
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Mortgages	3.4%	2.9%	1.4%
Corporate			
- property	6.4%	6.8%	6.9%
- other corporate	5.0%	5.6%	4.9%
Other lending	3.8%	3.5%	3.7%
Total	4.2%	4.1%	3.1%
Performance ratios			
Return on equity (1)	(21.8%)	(22.8%)	(16.8%)
Net interest margin	1.88%	1.87%	2.03%
Cost:income ratio	62%	58%	55%

Note:

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

Business review continued

	2012	2011	2010
	£bn	£bn	£bn
Capital and balance sheet			
Loans and advances to customers (gross)			
- mortgages	19.2	20.0	21.2
- corporate			
- property	4.3	4.8	5.4
- other corporate	7.8	7.7	9.0
- other lending	1.3	1.6	1.3
	32.6	34.1	36.9
Loan impairment provisions	(3.9)	(2.7)	(1.6)
Net loans and advances to customers	28.7	31.4	35.3
Risk elements in lending			
- mortgages	3.1	2.2	1.5
- corporate			
- property	1.9	1.3	0.7
- other corporate	2.3	1.8	1.2
- other lending	0.2	0.2	0.2
Total risk elements in lending	7.5	5.5	3.6
Provision coverage (1)	52%	50%	45%
Customer deposits	22.1	21.8	23.1
Loan:deposit ratio (excluding repos)	130%	143%	152%
Risk-weighted assets	36.1	36.3	31.6
Spot exchange rate - €/£	1.227	1.196	1.160

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

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 9% 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.

Ulster Bank 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. The loan book increased by 1% as a result of movements in foreign exchange rates offset by 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 the second half of 2011.

2011 compared with 2010
Profit before impairment losses decreased by £78 million in 2011 with lower income partially mitigated by cost savings. Impairment losses of £1,384 million increased by 19% from 2010 resulting in an operating loss of £984 million, 44% higher than 2010.

Income fell by 10% driven by a contracting performing loan book coupled with higher funding costs. Loans and advances to customers decreased by 8% during 2011.

Expenses fell by 5% reflecting tight management of the cost base across the business.

Impairment losses increased by 19% largely reflecting the deterioration in credit metrics on the mortgage portfolio driven by a combination of higher debt flow and further fall in asset prices.

Despite intense competition, retail and small business deposit balances have grown strongly throughout 2011, driven by the benefits of a focused deposit gathering strategy. However, total customer deposit balances fell by 6% largely driven by the outflow of wholesale customer balances due to rating downgrades.

Risk-weighted assets increased by 15% in 2011 reflecting the deterioration in credit risk metrics.

US Retail & Commercial

	2012 US$m	2011 US$m	2010 US$m	2012 £m	2011 £m	2010 £m
Net interest income	3,087	3,048	2,940	1,948	1,900	1,902
Net fees and commissions	1,233	1,350	1,328	778	841	859
Other non-interest income	579	473	464	365	296	301
Non-interest income	1,812	1,823	1,792	1,143	1,137	1,160
Total income	4,899	4,871	4,732	3,091	3,037	3,062
Direct expenses						
- staff	(1,313)	(1,344)	(1,238)	(828)	(838)	(801)
- other	(833)	(893)	(897)	(526)	(557)	(580)
- litigation settlement	(138)	—	—	(88)	—	—
Indirect expenses	(1,274)	(1,250)	(1,255)	(804)	(779)	(813)
	(3,558)	(3,487)	(3,390)	(2,246)	(2,174)	(2,194)
Profit before impairment losses	1,341	1,384	1,342	845	863	868
Impairment losses	(145)	(524)	(802)	(91)	(326)	(519)
Operating profit	1,196	860	540	754	537	349
Average exchange rate - US$/£				1.585	1.604	1.546
Analysis of income by product						
Mortgages and home equity	856	744	786	541	463	509
Personal lending and cards	643	709	761	405	442	492
Retail deposits	1,364	1,487	1,465	860	927	948
Commercial lending	965	936	901	609	584	583
Commercial deposits	698	667	627	441	416	406
Other	373	328	192	235	205	124
Total income	4,899	4,871	4,732	3,091	3,037	3,062
Analysis of impairments by sector						
Residential mortgages	(2)	44	85	(1)	28	55
Home equity	150	165	164	95	103	106
Corporate and commercial	(120)	88	354	(77)	55	228
Other consumer	104	101	146	65	61	96
Securities	13	126	53	9	79	34
Total impairment losses	145	524	802	91	326	519
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector						
Residential mortgages	—	0.5%	0.9%	—	0.5%	0.9%
Home equity	0.7%	0.7%	0.7%	0.7%	0.7%	0.7%
Corporate and commercial	(0.3%)	0.2%	1.1%	(0.3%)	0.2%	1.1%
Other consumer	0.8%	0.8%	1.4%	0.8%	0.8%	1.4%
Total	0.2%	0.5%	1.0%	0.2%	0.5%	1.0%

Performance ratios						
Return on equity (1)	8.3%	6.3%	3.7%	8.3%	6.3%	3.7%
Adjusted return on equity (non-GAAP) (2)	8.9%	6.3%	3.7%	8.9%	6.3%	3.7%
Net interest margin	3.00%	3.06%	2.82%	3.00%	3.06%	2.82%
Cost:income ratio	73%	72%	72%	73%	72%	72%
Adjusted cost:income ratio (2)	71%	72%	72%	71%	72%	72%

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 litigation settlement and net gain on sale of Visa B shares in 2012 of £88 million (US$138 million) and £39 million (US$62 million) .

Business review continued

US Retail & Commercial continued

	2012 US$bn	2011 US$bn	2010 US$bn	2012 £bn	2011 £bn	2010 £bn
Capital and balance sheet						
Loans and advances to customers (gross)						
- residential mortgages	9.4	9.4	9.4	5.8	6.1	6.1
- home equity	21.5	23.1	23.6	13.3	14.9	15.2
- corporate and commercial	38.5	35.3	31.7	23.8	22.9	20.5
- other consumer	13.5	12.0	10.7	8.4	7.7	6.9
	82.9	79.8	75.4	51.3	51.6	48.7
Loan impairment provisions	(0.9)	(1.1)	(1.2)	(0.5)	(0.7)	(0.8)
Net loans and advances to customers	82.0	78.7	74.2	50.8	50.9	47.9
Total third party assets	117.3	117.3	112.4	72.5	75.8	72.4
Investment securities	19.5	23.5	21.4	12.0	15.2	13.8
Risk elements in lending						
- retail	1.3	1.0	0.7	0.8	0.6	0.4
- commercial	0.6	0.6	0.7	0.3	0.4	0.5
Total risk elements in lending	1.9	1.6	1.4	1.1	1.0	0.9
Provision coverage (1)	48%	72%	85%	48%	72%	85%
Customer deposits (excluding repos)	95.6	92.8	92.1	59.2	60.0	59.3
Bank deposits (excluding repos)	2.9	8.0	9.5	1.8	5.2	6.1
Loan:deposit ratio (excluding repos)	86%	85%	81%	86%	85%	81%
Risk-weighted assets	91.3	91.8	89.1	56.5	59.3	57.4
Spot exchange rate - US$/£				1.616	1.548	1.552

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

In the first quarter of 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.

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 £754 million ($1,196 million), up £217 million ($336 million), or 40%, from 2011. Excluding the £88 million ($138 million) litigation settlement in Q1 2012 and the £39 million ($62 million) net gain on the sale of Visa B shares in Q2 2012, operating profit was up £266 million ($412 million), or 50%, largely reflecting lower impairment losses due to an improved credit environment.

Net interest income was up £48 million ($39 million), or 3%, 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 up £6 million. In US dollar terms 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 £69 million ($109 million), up 71%, and the £47 million ($75 million) gross gain on the sale of Visa B shares.

Gross loans and advances to customers were down £0.3 billion. In US dollar terms loans and advances to customers were up $3.1 billion, or 4%, due to strong growth in commercial loan volumes.

Customer deposits decreased by 1% as a result of movements in foreign exchange rates partially offset by strong growth achieved in checking balances. Consumer checking balances fell by 1% while small business checking balances grew by 4% over the year.

Excluding the £88 million ($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 £8 million ($13 million) litigation reserve associated with the sale of Visa B shares, and a one-off £21 million ($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 £21 million ($33 million) accounting gain.

Impairment losses were down £235 million ($379 million), or 72%, reflecting an improved credit environment and lower impairments on securities. Loan impairments improved by £168 million ($266 million) driven primarily by commercial loan impairments. Impairments as a percentage of loans and advances fell to 20 basis points.

2011 compared with 2010
Operating profit increased to £537 million ($860 million) from £349 million ($540 million), an increase of £188 million ($320 million), or 54%. Excluding a credit of £73 million ($113 million) related to changes to the defined benefit plan in Q2 2010, operating profit increased £261 million ($433 million), or 95%, substantially driven by lower impairments and improved income.

The macroeconomic operating environment remained challenging, with low rates, high unemployment, a soft housing market, sluggish consumer activity and the continuing impact of legislative changes including the Durbin Amendment in the Dodd-Frank Act which became effective on 1 October 2011.

The Durbin Amendment lowers the allowable interchange on debit transactions to \$0.23-\$0.24 per transaction. The current annualised impact of the Durbin Amendment is estimated at £94 million (\$150 million).

Net interest income was down £2 million. In US dollar terms, net interest income increased by \$108 million, or 4%. Net interest margin improved by 24 basis points to 3.06% reflecting changes in deposit mix, continued discipline around deposit pricing and the positive impact from the balance sheet restructuring programme carried out during Q3 2010 combined with strong commercial loan growth, partially offset by run-off of consumer loans.

Non-interest income was down £23 million. In US dollar terms, non interest income increase by \$31 million, or 2%. The increase was primarily driven by higher account and transaction fees, partially offset by the impact of legislative changes on debit card and deposit fees.

Excluding the defined benefit plan credit of £73 million (\$113 million) in Q2 2010, total expenses were down £93 million (\$16 million), 4%, due to a number of factors including lower Federal Deposit Insurance Corporation (FDIC) deposit insurance levies, and lower litigation and marketing costs, partially offset by higher regulatory costs.

Impairment losses declined by £193 million (\$278 million), or 37%, largely reflecting an improved credit environment slightly offset by higher impairments related to securities. Loan impairments as a percentage of loans and advances improved to 0.5% from 1.0%.

Customer deposits were up 1% with particularly strong growth achieved in checking balances. Consumer checking balances grew by 6%, while small business checking balances grew by 5% over the year.

Business review continued

Markets

	2012 £m	2011 £m	2010 £m
Net interest income	111	67	581
Net fees and commissions receivable	128	371	520
Income from trading activities	4,105	3,846	5,020
Other operating income	139	131	112
Non-interest income	4,372	4,348	5,652
Total income	4,483	4,415	6,233
Direct expenses			
- staff	(1,453)	(1,963)	(2,082)
- other	(721)	(746)	(663)
Indirect expenses	(763)	(769)	(699)
	(2,937)	(3,478)	(3,444)
Profit before impairment losses	1,546	937	2,789
Impairment losses	(37)	(38)	(65)
Operating profit	1,509	899	2,724
Of which:			
Ongoing businesses	1,564	943	2,743
Run-off businesses	(55)	(44)	(19)
Analysis of income by product			
Rates	2,006	1,474	2,312
Currencies	757	1,060	1,047
Asset backed products (ABP)	1,318	1,254	1,479
Credit markets	862	616	1,350
Investor products and equity derivatives	224	593	672
Total income ongoing businesses	5,167	4,997	6,860
Inter-divisional revenue share	(691)	(767)	(883)
Run-off businesses	7	185	256
Total income	4,483	4,415	6,233
Memo - fixed income and currencies			
Rate/currencies/ABP/credit markets	4,943	4,404	6,188
Less: primary credit markets	(568)	(688)	(863)
Total fixed income and currencies	4,375	3,716	5,325
Performance ratios (ongoing businesses)			
Return on equity (1)	10.0%	6.1%	19.1%
Cost:income ratio	64%	77%	53%
Compensation ratio (2)	32%	42%	31%

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.

Business review continued

	2012	2011	2010
	£bn	£bn	£bn
Capital and balance sheet (ongoing businesses)			
Loans and advances to customers (gross)	29.8	31.5	24.4
Loan impairment provisions	(0.2)	(0.2)	(0.2)
Net loans and advances to customers	29.6	31.3	24.2
Loans and advances to banks	16.6	29.9	44.4
Reverse repos	103.8	100.4	94.7
Securities	92.4	108.1	115.8
Cash and eligible bills	30.2	28.1	38.8
Other	11.8	14.8	20.1
Total third party assets (excluding derivatives mark-to-market)	284.4	312.6	338.0
Net derivative assets (after netting)	21.9	37.0	37.4
Provision coverage (1)	77%	75%	86%
Customer deposits (excluding repos)	26.3	36.8	37.4
Bank deposits (excluding repos)	45.4	48.2	50.6
Risk-weighted assets	101.3	120.3	110.3
Run-off businesses (2)	£m	£m	£m
Total income	7	185	256
Direct expenses	(62)	(229)	(275)
Operating loss	(55)	(44)	(19)
Balance sheet - run-off businesses (2)	£bn	£bn	£bn
Total third party assets (excluding derivatives mark-to-market)	0.1	1.3	2.4

Notes:
(1) Provision coverage percentage represents loan impairment provisions as a percentage of risk elements in lending.
(2) Run-off businesses consist of the exited cash equities, corporate banking and equity capital market operations.

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.

Markets continued
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.

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.

2011 compared with 2010
Operating profit fell by 67%, from £2,724 million for 2010 to £899 million for 2011, driven by a 29% decrease in revenue. The year was characterised by volatile and deteriorating credit markets, especially during the second half of the year when the European sovereign debt crisis drove a sharp widening in credit spreads.

Due to this deterioration in the markets both the Rates and Credit businesses suffered significantly, and income from trading activities fell from £5,234 million in 2010 to £4,601 million in 2011. The heightened volatility increased risk aversion amongst clients and limited opportunities for revenue generation in the secondary markets.

Total costs increased by 1% due to increased investment costs in 2011, which included a programme to meet new regulatory requirements. The compensation ratio in Markets was 42%, driven by fixed salary costs and prior year deferred awards.

Variable compensation accrued in the first half of the year were reduced in the second half of the year, leaving the former GBM 2011 variable compensation awards 58% lower than 2010.

Third party assets fell from £338.0 billion in 2010 to £312.6 billion in 2011 as a result of lower levels of activity and careful management of balance sheet exposures.

A 9% increase in risk-weighted assets reflected the impact of significant regulatory changes, with a £21 billion uplift as a result of CRD III, largely offset by the impact of the division’s focus on risk management.

Business review continued

Direct Line Group

	2012	2011	2010
	£m	£m	£m
Earned premiums	4,044	4,221	4,459
Reinsurers' share	(326)	(252)	(148)
Net premium income	3,718	3,969	4,311
Fees and commissions	(430)	(400)	(410)
Instalment income	126	138	159
Investment income	243	265	277
Other income	60	100	179
Total income	3,717	4,072	4,516
Direct expenses			
- staff expenses	(338)	(288)	(287)
- other expenses	(387)	(333)	(325)
Total direct expenses	(725)	(621)	(612)
Indirect expenses	(124)	(225)	(267)
	(849)	(846)	(879)
Net claims	(2,427)	(2,772)	(3,932)
Operating profit/(loss)	441	454	(295)
Analysis of income by product			
Personal lines motor excluding broker			
- own brands	1,733	1,874	1,962
- partnerships	138	228	373
Personal lines home excluding broker			
- own brands	475	490	488
- partnerships	377	378	408
Personal lines rescue and other excluding broker			
- own brands	182	185	197
- partnerships	184	132	168
Commercial	347	346	333
International	337	365	341
Other (1)	(56)	74	246
Total income	3,717	4,072	4,516
In-force policies (000s)			
Personal lines motor excluding broker			
- own brands	3,714	3,787	4,162
- partnerships	336	320	645
Personal lines home excluding broker			
- own brands	1,754	1,811	1,797
- partnerships	2,485	2,497	2,530
Personal lines rescue and other excluding broker			
- own brands	1,803	1,844	1,966
- partnerships	7,628	7,307	7,497
Commercial	466	422	352

International	1,462	1,387	1,082
Other (1)	50	1	644
Total in-force policies (2)	19,698	19,376	20,675

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Direct Line Group continued

	2012 £m	2011 £m	2010 £m
Gross written premium			
Personal lines motor excluding broker			
- own brand	1,494	1,584	1,647
- partnerships	136	137	257
Personal lines home excluding broker			
- own brand	455	474	478
- partnerships	534	549	556
Personal lines rescue and other excluding broker			
- own brand	177	174	178
- partnerships	176	174	159
Commercial	436	435	397
International	557	570	425
Other (1)	1	1	201
Total gross written premium	3,966	4,098	4,298
Performance ratios			
Return on tangible equity (3)	11.7%	10.3%	(6.8%)
Loss ratio (4)	65%	70%	91%
Commission ratio (5)	12%	10%	10%
Expense ratio (6)	23%	21%	20%
Combined operating ratio (7)	100%	101%	121%
Balance sheet			
Total insurance reserves (£m) (8)	8,066	7,284	7,643

Notes:

(1) 'Other' predominately consists of the personal lines broker business and from 2012 businesses 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 reserves and liability adequacy reserve.

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 total income, partially offset by lower net claims.

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.

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 comparethemarket.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.

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.

2012 compared with 2011

Operating profit of £441 million was £13 million, or 3% lower than 2011 as lower total income was partially offset by lower net claims.

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 £3,717 million was £355 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 and lower investment income.

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.

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.

Direct Line Group's reported Return on Tangible Equity was 11.7% in 2012.

Direct Line Group continued
2011 compared with 2010
Operating profit rose by £749 million in 2011, principally due to the non repeat of the bodily injury reserve strengthening in 2010, de-risking of the motor book, exit of certain business segments and more benign weather in 2011.

Gross written premium fell £200 million, 5%, as the business continued to drive improved profitability through reduced volumes in unattractive segments. This was partially offset by growth in Commercial and International.

Total income fell £444 million, 10%, following the exit of personal lines broker, a decline in premiums reflecting reduced motor volumes and higher reinsurance costs to reduce the risk profile of the book.

Net claims fell £1,160 million, 30%, due to the non recurrence of bodily injury reserve strengthening in 2010, actions taken to de-risk the book, the exit of certain business segments and more benign weather in 2011.
Total direct expenses rose by £9 million principally driven by project activity to support the transformation plan.

Investment income fell £12 million, 4%, reflecting decreased yields on the portfolio in 2011, partially offset by higher realised gains.

At the end of 2011, Direct Line Group's investment portfolios comprised primarily cash, gilts and investment grade bonds. Within the UK portfolio, £8.9 billion, and the International portfolio, £827 million, there was no exposure to sovereign debt issued by Portugal, Ireland, Italy, Greece or Spain.

Total in-force policies fell 6% in the year due to planned de-risking of the motor book and the exiting of certain other segments and partnerships, including personal lines broker.

Central items

	2012	2011	2010
	£m	£m	£m
Central items not allocated	143	191	630

Funding and operating costs have been allocated to operating divisions, based on direct service usage, 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.

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.

2011 compared with 2010
Central items not allocated represented a credit of £191 million in 2011, a decline of £439 million compared with 2010.

2010 benefited from c.£300 million of accounting gains on hybrid securities, c.£150 million of which was amortised during 2011.

A VAT recovery of £176 million in 2010 compared with £85 million recovered in 2011.

Business review continued

Non-Core

	2012	2011	2010
	£m	£m	£m
Net interest income	346	863	1,756
Funding costs of rental assets	(102)	(215)	(283)
Net interest income	244	648	1,473
Net fees and commissions	105	(38)	471
Loss from trading activities	(654)	(721)	(31)
Insurance net premium income	—	286	702
Other operating income			
- rental income	523	958	1,035
- other (1)	70	55	(896)
Non-interest income	44	540	1,281
Total income	288	1,188	2,754
Direct expenses			
- staff	(272)	(375)	(731)
- operating lease depreciation	(246)	(347)	(452)
- other	(163)	(256)	(573)
Indirect expenses	(263)	(317)	(500)
	(944)	(1,295)	(2,256)
(Loss)/profit before insurance net claims and impairment losses	(656)	(107)	498
Insurance net claims	—	(195)	(737)
Impairment losses	(2,223)	(3,919)	(5,476)
Operating loss	(2,879)	(4,221)	(5,715)
Analysis of income/(loss) by business			
Banking & portfolios	40	1,465	1,463
International businesses	250	411	778
Markets	(2)	(688)	513
Total income	288	1,188	2,754
Loss from trading activities			
Monoline exposures	(205)	(670)	(5)
Credit derivative product companies	(205)	(85)	(139)
Asset-backed products (2)	101	29	235
Other credit exotics	(28)	(175)	77
Equities	(2)	(11)	(17)
Banking book hedges	(38)	(1)	(82)
Other	(277)	192	(100)
	(654)	(721)	(31)
Impairment losses			
Banking & portfolios	2,346	3,833	5,328
International businesses	56	82	200
Markets	(179)	4	(52)
Total impairment losses	2,223	3,919	5,476

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) (3)			
Banking & portfolios	4.2%	4.9%	5.0%
International businesses	5.1%	3.7%	4.4%
Markets	—	(3.0%)	0.2%
Total	4.2%	4.8%	4.9%

Notes:
(1) Includes losses on disposals of £14 million for 2012 (2011 - £127 million; 2010 - £504 million).
(2) Asset-backed products include super asset backed structures and other asset-backed products.
(3) Includes disposal groups.

Business review continued

	2012	2011	2010
Performance ratios			
Net interest margin	0.31%	0.63%	1.02%
Cost:income ratio	nm	109%	82%
Adjusted cost:income ratio (1)	nm	130%	112%
nm = not meaningful			
	£bn	£bn	£bn
Capital and balance sheet			
Loans and advances to customers (gross) (2)	55.4	79.4	108.4
Loan impairment provisions	(11.2)	(11.5)	(10.3)
Net loans and advances to customers	44.2	67.9	98.1
Total third party assets (excluding derivatives)	57.4	93.7	137.9
Total third party assets (including derivatives)	63.4	104.7	153.9
Risk elements in lending (2)	21.4	24.0	23.4
Provision coverage (3)	52%	48%	44%
Customer deposits (2)	2.7	3.5	6.7
Risk-weighted assets	60.4	93.3	153.7
Gross customer loans and advances			
Banking & portfolios	54.5	77.3	104.9
International businesses	0.9	2.0	3.5
Markets	—	0.1	—
	55.4	79.4	108.4
Risk-weighted assets			
Banking & portfolios	53.3	64.8	83.5
International businesses	2.4	4.1	5.6
Markets	4.7	24.4	64.6
	60.4	93.3	153.7
Third party assets (excluding derivatives)			
Banking & portfolios	51.1	81.3	113.9
International businesses	1.2	2.9	4.4
Markets	5.1	9.5	19.6
	57.4	93.7	137.9

Third party assets (excluding derivatives)	31 December 2011 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	Foreign exchange £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 (4)	93.7	(16.5)	(18.1)	2.3	(2.2)	(1.8)	57.4

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.

(4) Disposals of £0.2 billion have been signed as at 31 December 2012 but are pending completion (2011 - £0.2 billion; 2010 - £12 billion).

Non-Core continued

Commercial real estate third party assets	2012 £bn	2011 £bn	2010 £bn
UK (excluding NI)	8.9	11.4	16.7
Ireland (ROI and NI)	5.8	7.7	10.2
Spain	1.4	1.8	1.3
Rest of Europe	4.9	7.9	9.4
USA	0.9	2.2	3.6
RoW	0.2	0.5	1.4
Total (excluding derivatives)	22.1	31.5	42.6

Impairment losses by donating division and sector	2012 £m	2011 £m	2010 £m
UK Retail			
Mortgages	—	5	5
Personal	4	(27)	8
Total UK Retail	4	(22)	13
UK Corporate			
Manufacturing and infrastructure	19	76	26
Property and construction	88	224	437
Transport	16	52	3
Financial institutions	(38)	5	69
Lombard	48	75	129
Other	107	96	166
Total UK Corporate	240	528	830
Ulster Bank			
Mortgages	—	—	42
Commercial real estate			
- investment	288	609	630
- development	611	1,552	1,759
Other corporate	77	173	251
Other EMEA	7	15	52
Total Ulster Bank	983	2,349	2,734
US Retail & Commercial			
Auto and consumer	49	58	82
Cards	1	(9)	23
SBO/home equity	130	201	277
Residential mortgages	21	16	4
Commercial real estate	(12)	40	185
Commercial and other	(12)	(3)	17
Total US Retail & Commercial	177	303	588
Markets			
Manufacturing and infrastructure	3	57	(290)

Property and construction	623	752	1,296
Transport	199	(3)	33
Telecoms, media and technology	32	68	9
Banking and financial institutions	(58)	(98)	196
Other	18	(19)	14
Total Markets	817	757	1,258
Other			
Wealth	1	1	51
Central items	1	3	2
Total Other	2	4	53
Total impairment losses	2,223	3,919	5,476

Business review continued

Gross loans and advances to customers (excluding reverse repurchase agreements) by donating division and sector	2012 £m	2011 £m	2010 £m
UK Retail			
Mortgages	—	1.4	1.6
Personal	—	0.1	0.4
Total UK Retail	—	1.5	2.0
UK Corporate			
Manufacturing and infrastructure	0.1	0.1	0.3
Property and construction	3.6	5.9	11.4
Transport	3.8	4.5	5.4
Financial institutions	0.2	0.6	0.8
Lombard	0.4	1.0	1.7
Other	4.2	7.5	7.4
Total UK Corporate	12.3	19.6	27.0
Ulster Bank			
Commercial real estate			
- investment	3.4	3.9	4.0
- development	7.6	8.5	8.4
Other corporate	1.6	1.6	2.2
Other EMEA	0.3	0.4	0.4
Total Ulster Bank	12.9	14.4	15.0
US Retail & Commercial			
Auto and consumer	0.6	0.8	2.6
Cards	—	0.1	0.1
SBO/home equity	2.0	2.5	3.2
Residential mortgages	0.4	0.6	0.7
Commercial real estate	0.4	1.0	1.5
Commercial and other	0.1	0.4	0.5
Total US Retail & Commercial	3.5	5.4	8.6
Markets			
Manufacturing and infrastructure	3.9	6.6	8.7
Property and construction	12.3	15.3	19.6
Transport	1.7	3.2	5.5
Telecoms, media and technology	0.4	0.7	0.9
Banking and financial institutions	4.7	5.6	12.0
Other	3.7	7.0	9.3
Total Markets	26.7	38.4	56.0
Other			
Wealth	—	0.2	0.4
Direct Line Group	—	—	0.2
Central items	—	(0.2)	(1.0)

Total Other	—	—	(0.4)
Gross loans and advances to customers (excluding reverse repurchase agreements)	55.4	79.3	108.2

Non-Core continued

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.

2011 compared with 2010

Operating loss of £4,221 million in 2011 was £1,494 million lower than the loss recorded in 2010. The continued divestment of Non-Core businesses and portfolios has reduced revenue streams as well as the cost base.

Losses from trading activities increased by £690 million compared with 2010, principally as a result of the disposal of RBS Sempra Commodities in 2010 and costs incurred as part of the division's focus on reducing capital intensive trading assets and mitigating future regulatory uplifts in risk-weighted assets.

Impairment losses fell by £1,557 million despite ongoing challenges in the real estate and Ulster Bank portfolios, reflecting improvements in other asset classes.

Third party assets declined by £44 billion (32%) reflecting disposals of £22 billion and run-off of £22 billion.

Risk-weighted assets were £60 billion lower than 2010, principally driven by significant disposal activity on trading book assets combined with run-off.

Headcount declined by 2,200 (32%) to 4,700 in 2011, largely reflecting the divestment activity in relation to Asia, Non-Core Insurance and RBS Sempra Commodities.

Consolidated balance sheet at 31 December 2012

	2012 £m	2011 £m	2010 £m
Assets			
Cash and balances at central banks	79,290	79,269	57,014
Net loans and advances to banks	29,168	43,870	57,911
Reverse repurchase agreements and stock borrowing	34,783	39,440	42,607
Loans and advances to banks	63,951	83,310	100,518
Net loans and advances to customers	430,088	454,112	502,748
Reverse repurchase agreements and stock borrowing	70,047	61,494	52,512
Loans and advances to customers	500,135	515,606	555,260
Debt securities	157,438	209,080	217,480
Equity shares	15,232	15,183	22,198
Settlement balances	5,741	7,771	11,605
Derivatives	441,903	529,618	427,077
Intangible assets	13,545	14,858	14,448
Property, plant and equipment	9,784	11,868	16,543
Deferred tax	3,443	3,878	6,373
Prepayments, accrued income and other assets	7,820	10,976	12,576
Assets of disposal groups	14,013	25,450	12,484
Total assets	1,312,295	1,506,867	1,453,576
Liabilities			
Bank deposits	57,073	69,113	66,051
Repurchase agreements and stock lending	44,332	39,691	32,739
Deposits by banks	101,405	108,804	98,790
Customers deposits	433,239	414,143	428,599
Repurchase agreements and stock lending	88,040	88,812	82,094
Customer accounts	521,279	502,955	510,693
Debt securities in issue	94,592	162,621	218,372
Settlement balances	5,878	7,477	10,991
Short positions	27,591	41,039	43,118
Derivatives	434,333	523,983	423,967
Accruals, deferred income and other liabilities	14,801	23,125	23,089
Retirement benefit liabilities	3,884	2,239	2,288
Deferred tax	1,141	1,945	2,142
Insurance liabilities	—	6,312	6,794
Subordinated liabilities	26,773	26,319	27,053
Liabilities of disposal groups	10,170	23,995	9,428
Total liabilities	1,241,847	1,430,814	1,376,725
Non-controlling interests	2,318	1,234	1,719
Owners' equity	68,130	74,819	75,132
Total equity	70,448	76,053	76,851
Total liabilities and equity	1,312,295	1,506,867	1,453,576

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Commentary on consolidated balance sheet
2012 compared with 2011
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 the 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 of 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.

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 million, 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 period 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 of £1.0 billion.

Commentary on consolidated balance sheet
2011 compared with 2010
Total assets of £1,506.9 billion at 31 December 2011 were up £53.3 billion, 4%, compared with 31 December 2010. This principally reflects an increase in cash and balances at central banks and the mark-to-market value of derivatives in Markets, partly offset by decreases in debt securities and equity shares and the continuing disposal and run-off of Non-Core assets.

Cash and balances at central banks were up £22.3 billion, 39%, to £79.3 billion due to improvements in the Group's structured liquidity position during 2011.

Loans and advances to banks decreased by £17.2 billion, 17%, to £83.3 billion. Reverse repurchase agreements and stock borrowing ('reverse repos') were down £3.2 billion, 7%, to £39.4 billion and bank placings declined £14.0 billion, 24%, to £43.9 billion, primarily as a result of the reduction in exposure to eurozone banks and lower cash collateral requirements.

Loans and advances to customers were down £39.7 billion, 7%, to £515.6 billion. Within this, reverse repurchase agreements were up £9.0 billion, 17%, to £61.5 billion. Customer lending decreased by £48.7 billion, 10%, to £454.1 billion or £46.9 billion, 9%, to £473.9 billion before impairment provisions. This reflected the transfer to disposal groups of £19.5 billion of customer balances relating to the UK branch-based businesses. There were also planned reductions in Non-Core of £28.1 billion, together with declines in International Banking, £4.7 billion, UK Corporate, £3.0 billion and Ulster Bank, £2.0 billion, together with the effect of exchange rate and other movements, £1.9 billion. These were partially offset by growth in Markets, £6.4 billion, Wealth, £0.8 billion, UK Retail, £2.3 billion and US Retail & Commercial, £2.8 billion.

Debt securities were down £8.4 billion, 4%, to £209.1 billion driven mainly by a reduction in holdings of government and financial institution bonds in Markets and Group Treasury.

Equity shares decreased £7.0 billion, 32%, to £15.2 billion which largely reflects the closure of positions to reduce the Group's level of unsecured funding requirements to mitigate the potential impact of unfavourable market conditions.

Settlement balances declined £3.8 billion, 33% to £7.8 billion as a result of decreased customer activity.

Movements in the value of derivative assets up £102.5 billion, 24%, to £529.6 billion, and liabilities, up £100.0 billion, 24%, to £524.0 billion, primarily reflect increases in interest rate contracts as a result of a significant downward shift in interest rates across all major currencies, together with increases in the mark-to-market value of credit derivatives as a result of widening credit spreads and rising credit default swap prices.

Property, plant and equipment declined £4.7 billion, 28%, to £11.9 billion, primarily as a result of the transfer of RBS Aviation Capital's operating lease assets to disposal groups.

Deferred taxation was down £2.5 billion, 39%, to £3.9 billion, largely as a result of the utilisation of brought forward tax losses in the UK.

The increase in assets and liabilities of disposal groups reflects the reclassification of the UK branch-based businesses and RBS Aviation Capital pending their disposal, partly offset by the completion of disposals, primarily RBS Sempra Commodities JV and certain Non-Core project finance assets.

Deposits by banks increased £10.0 billion, 10%, to £108.8 billion, with higher repurchase agreements and stock lending ('repos'), up £6.9 billion, 21%, to £39.7 billion and higher inter-bank deposits, up £3.1 billion, 5%, to £69.1 billion.

Customer accounts fell £7.7 billion, 2%, to £503.0 billion. Within this, repos increased £6.7 billion, 8%, to £88.8 billion. Excluding repos, customer deposits were down £14.4 billion, 3%, to £414.1 billion, reflecting the transfer to disposal groups of £21.8 billion of customer accounts relating to the UK branch-based businesses. This was partly offset by the net effect of growth in International Banking, £1.7 billion, UK Corporate, £1.8 billion, UK Retail, £5.8 billion, US Retail & Commercial, £0.5 billion and Wealth, £1.8 billion, together with exchange rate and other movements of £0.5 billion and declines in Markets, £1.1 billion, Ulster Bank, £0.8 billion and Non-Core, £2.9 billion.

Debt securities in issue were down £55.8billion, 26% to £162.6 billion driven by reductions in the level of certificates of deposit and commercial paper in Markets and Group Treasury.

Settlement balances declined £3.5 billion, 32%, to £7.5 billion and short positions were down £2.1 billion, 5%, to £41.0 billion due to decreased customer activity.

Subordinated liabilities were down £0.7 billion, 3%, to £26.3 billion, primarily reflecting the redemption of £0.2 billion US dollar and £0.4 billion Euro denominated dated loan capital.

The Group's non-controlling interests decreased by £0.5 billion, 28%, to £1.2 billion, primarily due to the disposal of the majority of the RBS Sempra Commodities JV business, £0.4 billion.

Owners' equity decreased by £0.3 billion to £74.8 billion. This was driven by the attributable loss for the year, £2.0 billion, together with the recognition of actuarial losses in respect of the Group's defined benefit pension schemes, net of tax, £0.5 billion and exchange rate and other movements of £0.3 billion. Offsetting these reductions were gains in available-for-sale reserves, £1.1 billion and cashflow hedging reserves, £1.0 billion and the issue of shares under employee share schemes, £0.4 billion.

Business review continued

Cash flow

	2012	2011	2010
	£m	£m	£m
Net cash flows from operating activities	(45,113)	3,325	19,291
Net cash flows from investing activities	27,175	14	3,351
Net cash flows from financing activities	2,017	(1,741)	(14,380)
Effects of exchange rate changes on cash and cash equivalents	(3,893)	(1,473)	82
Net (decrease)/increase in cash and cash equivalents	(19,814)	125	8,344

2012

The major factors contributing to the net cash outflow from operating activities of £45,113 million were the decrease of £48,736 million in operating assets and liabilities, the net operating loss before tax of £5,276 million from continuing and discontinued operations, loans and advances written off net of recoveries of £3,925 million and other non-cash items of £1,491 million. These were partially offset by the elimination of foreign exchange differences of £7,140 million, provisions for impairment losses of £5,283 million and depreciation and amortisation of £1,854 million.

Net cash inflows from investing activities of £27,175 million related to the net inflows from sales of securities of £26,092 million, the sale of property, plant and equipment of £2,215 million and investments in business interests and intangible assets of £352 million offset by net cash outflows from the purchase of property, plant and equipment of £1,484 million.

Net cash inflows from financing activities of £2,017 million relate primarily to the issue of subordinated liabilities of £2,093 million and proceeds of non-controlling interests issued of £889 million partly offset by interest paid on subordinated liabilities of £746 million and dividends paid of £301 million.

2011

The major factors contributing to the net cash inflow from operating activities of £3,325 million were the elimination of foreign exchange differences of £2,702 million, depreciation and amortisation of £1,875 million and inflow from other items of £2,900 million, partially offset by the net operating loss before tax of £708 million from continuing and discontinued operations and the decrease of £3,444 million in operating assets and liabilities.

Net cash inflows from investing activities of £14 million related to the net inflows from sales of securities of £3,074 million, and sale of property, plant and equipment of £1,840 million offset by net cash outflows from investments in business interests and intangible assets of £1,428 million and from the purchase of property, plant and equipment of £3,472 million.

Net cash outflows from financing activities of £1,741 million relate primarily to interest on subordinated liabilities of £714 million, repayment of subordinated liabilities of £627 million and redemption of non-controlling interests of £382 million.

2010

The major factors contributing to the net cash inflow from operating activities of £19,291 million were the increase of £17,095 million in operating assets less operating liabilities, depreciation and amortisation of £2,220 million and income taxes received of £565 million, partly offset by the net operating loss before tax of £940 million from continuing and discontinued operations.

Net cash flows from investing activities of £3,351 million relate to the net inflows from sales of securities of £4,119 million and investments in business interests and intangibles of £3,446 million. This was partially offset by the outflow of £4,112 million from investing activities of discontinued operations.

Net cash outflow from financing activities of £14,380 million primarily arose from the redemption of non-controlling interests of £5,282 million, dividends paid of £4,240 million, repayment of subordinated liabilities of £1,588 million and the redemption of preference shares of £2,359 million.

Capital resources
The following table analyses the Group's regulatory capital resources on a fully consolidated basis at 31 December as monitored by the FSA for regulatory purposes.

	2012	2011	2010	2009	2008
	£m	£m	£m	£m	£m
Capital base					
Tier 1 capital	57,135	56,990	60,124	76,421	69,847
Tier 2 capital	12,152	8,546	9,897	15,389	32,223
Tier 3 capital	—	—	—	—	260
	69,287	65,536	70,021	91,810	102,330
Less: Supervisory deductions	(2,487)	(4,828)	(4,732)	(4,565)	(4,155)
Total regulatory capital	66,800	60,708	65,289	87,245	98,175
Risk-weighted assets					
Credit risk	323,200	344,300	385,900	513,200	551,300
Counterparty risk	48,000	61,900	68,100	56,500	61,100
Market risk	42,600	64,000	80,000	65,000	46,500
Operational risk	45,800	37,900	37,100	33,900	36,900
	459,600	508,100	571,100	668,600	695,800
Asset Protection Scheme relief	—	(69,100)	(105,600)	(127,600)	n/a
	459,600	439,000	465,500	541,000	695,800
Risk asset ratios	%	%	%	%	%
Core Tier 1	10.3	10.6	10.7	11.0	6.6
Tier 1	12.4	13.0	12.9	14.1	10.0
Total	14.5	13.8	14.0	16.1	14.1

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the Financial Services Authority (FSA). The FSA uses Risk Asset Ratio (RAR) as a measure of capital adequacy in the UK banking sector, comparing a bank's capital resources with its risk-weighted assets (the assets and off-balance sheet exposures are 'weighted' to reflect the inherent credit and other risks); by international agreement, the RAR should be not less than 8% with a Tier 1 component of not less than 4%. At 31 December 2012, the Group's total RAR was 14.5% (2011 - 13.8%) and the Tier 1 RAR was 12.4% (2011 -13.0%). For further information refer to Balance sheet management: Capital management on pages 86 to 95.

Analysis of balance sheet pre and post disposal groups

In accordance with IFRS 5 assets and liabilities of disposal groups are presented as a single line on the face of the balance sheet. As allowed by IFRS, disposal groups are included within risk measures in the Risk and balance sheet management section.

	2012			2011			2010		
	Balance sheet £m	Disposal groups (1) £m	Gross of disposal groups £m	Balance sheet £m	Disposal groups (2) £m	Gross of disposal groups £m	Balance sheet £m	Disposal groups (3) £m	Gross of disposal groups £m
Assets									
Cash and balances at central banks	79,290	18	79,308	79,269	127	79,396	57,014	184	57,198
Net loans and advances to banks	29,168	2,112	31,280	43,870	87	43,957	57,911	651	58,562
Reverse repurchase agreements and stock borrowing	34,783	—	34,783	39,440	—	39,440	42,607	—	42,607
Loans and advances to banks	63,951	2,112	66,063	83,310	87	83,397	100,518	651	101,169
Net loans and advances to customers	430,088	1,863	431,951	454,112	19,405	473,517	502,748	5,013	507,761
Reverse repurchase agreements and stock borrowing	70,047	—	70,047	61,494	—	61,494	52,512	—	52,512
Loans and advances to customers	500,135	1,863	501,998	515,606	19,405	535,011	555,260	5,013	560,273
Debt securities	157,438	7,186	164,624	209,080	—	209,080	217,480	—	217,480
Equity shares	15,232	5	15,237	15,183	5	15,188	22,198	20	22,218
Settlement balances	5,741	—	5,741	7,771	14	7,785	11,605	555	12,160
Derivatives	441,903	15	441,918	529,618	439	530,057	427,077	5,148	432,225
Intangible assets	13,545	750	14,295	14,858	15	14,873	14,448	—	14,448
Property, plant and equipment	9,784	223	10,007	11,868	4,749	16,617	16,543	18	16,561
Deferred tax	3,443	—	3,443	3,878	—	3,878	6,373	—	6,373
Other financial assets	—	924	924	1,309	—	1,309	1,306	—	1,306
Prepayments, accrued income and other assets	7,820	742	8,562	9,667	456	10,123	11,270	704	11,974
Assets of disposal groups	14,013	(13,838)	175	25,450	(25,297)	153	12,484	(12,293)	191
Total assets	1,312,295	—	1,312,295						