ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
March 01, 2012

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

March 1, 2012

The Royal Bank of Scotland Group plc

Gogarburn
PO Box 1000
Edinburgh EH12 1HQ
Scotland
United Kingdom

(Address of principal executive offices)

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

Form 20-F X Form 40-F

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

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

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

Yes No X

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

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-162219 and 333-162219-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Contents

Contents (continued)

Forward-looking statements

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

In particular, this document includes forward-looking statements relating, but not limited to: the Group’s restructuring plans, 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; certain ring-fencing proposals; sustainability targets; the Group’s future financial performance; the level and extent of future impairments and write-downs, including sovereign debt impairments; the protection provided by the Asset Protection Scheme (APS); and the Group’s potential exposures to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: the global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the ability to access sufficient sources of liquidity and funding; the recommendations made by the Independent Commission on Banking (ICB) and their potential implications; the ability to implement strategic plans on a timely basis, or at all, including the disposal of certain Non-Core assets and assets and businesses required as part of the State Aid restructuring plan; organisational restructuring, including any adverse consequences of a failure to transfer, or delay in transferring, certain business assets and liabilities from RBS N.V. to RBS; the full nationalisation of the Group or other resolution procedures under the Banking Act 2009; deteriorations in borrower and counterparty credit quality; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the United States; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; ineffective management of capital or changes to capital adequacy or liquidity requirements; litigation and regulatory investigations; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group’s operations) in the United Kingdom, the United States and other countries in which the Group operates or a change in United Kingdom Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; insurance claims; reputational risk; the ability to access the contingent capital arrangements with HM Treasury; the participation of the Group in the APS and the effect of the APS on the Group’s financial and capital position; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group’s activities as a result of HM Treasury’s investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

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

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

3

RFS Holdings minority interest

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

Non-GAAP financial information

The directors manage the Group's performance by class of business, before certain reconciling items, as is presented in the segmental analysis on pages 95 to 99 (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 95 to 99. These non-GAAP financial measures are not a substitute for GAAP measures, for which management has responsibility. Furthermore, RBS has divided its operations into "Core" and "Non-Core" for internal reporting purposes. Certain measures disclosed in this document for Core operations and used by RBS management are non-GAAP financial measures as they represent a combination of all reportable segments with the exception of Non-Core. In addition, RBS has further divided parts of the Core business into "Retail & Commercial" consisting of the UK Retail, UK Corporate, Wealth, Global Transaction Services, Ulster Bank and US Retail & Commercial divisions. This is a non-GAAP financial measure. Lastly, the Basel III net stable funding ratio (see pages 149 and 150) 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.

Net interest margin

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

Disposal groups

In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the Group has transferred the assets and liabilities relating to the planned disposal of its RBS England and Wales, and NatWest Scotland branch-based business, along with certain SME and corporate activities across the UK ('UK branch-based businesses'), to assets and liabilities of disposal groups.

Condensed consolidated income statement
for the period ended 31 December 2011

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Interest receivable	21,410	22,776	5,234	5,371	5,612
Interest payable	(8,731)	(8,567)	(2,160)	(2,294)	(2,032)
Net interest income	12,679	14,209	3,074	3,077	3,580
Fees and commissions receivable	6,384	8,193	1,590	1,452	2,052
Fees and commissions payable	(1,460)	(2,211)	(573)	(304)	(449)
Income from trading activities	2,701	4,517	(238)	957	364
Gain on redemption of own debt	255	553	(1)	1	-
Other operating income (excluding insurance premium income)	4,122	1,479	205	2,384	1,003
Insurance net premium income	4,256	5,128	981	1,036	1,272
Non-interest income	16,258	17,659	1,964	5,526	4,242
Total income	28,937	31,868	5,038	8,603	7,822
Staff costs	(8,678)	(9,671)	(1,993)	(2,076)	(2,194)
Premises and equipment	(2,451)	(2,402)	(674)	(604)	(709)
Other administrative expenses	(4,931)	(3,995)	(1,296)	(962)	(1,048)
Depreciation and amortisation	(1,875)	(2,150)	(513)	(485)	(546)
Write-down of goodwill and other intangible assets	(91)	(10)	(91)	-	(10)
Operating expenses	(18,026)	(18,228)	(4,567)	(4,127)	(4,507)
Profit before insurance net claims and impairment losses	10,911	13,640	471	4,476	3,315
Insurance net claims	(2,968)	(4,783)	(529)	(734)	(1,182)
Impairment losses	(8,709)	(9,256)	(1,918)	(1,738)	(2,141)
Operating (loss)/profit before tax	(766)	(399)	(1,976)	2,004	(8)
Tax (charge)/credit	(1,250)	(634)	186	(791)	3
(Loss)/profit from continuing operations	(2,016)	(1,033)	(1,790)	1,213	(5)
Profit/(loss) from discontinued operations, net of tax	47	(633)	10	6	55
(Loss)/profit for the period	(1,969)	(1,666)	(1,780)	1,219	50
Non-controlling interests	(28)	665	(18)	7	(38)

Preference share and other dividends	-	(124)	-	-	-
(Loss)/profit attributable to ordinary and B shareholders	(1,997)	(1,125)	(1,798)	1,226	12
Basic (loss)/earnings per ordinary and B share from continuing operations	(1.8p)	(0.5p)	(1.7p)	1.1p	-
Diluted (loss)/earnings per ordinary and B share from continuing operations	(1.8p)	(0.5p)	(1.7p)	1.1p	-
Basic (loss)/earnings per ordinary and B share from discontinued operations	-	-	-	-	-
Diluted (loss)/earnings per ordinary and B shares from discontinued operations	-	-	-	-	-

5

Philip Hampton, Group Chairman, letter to shareholders:
When I became your Chairman in 2009, our urgent task was to stabilise RBS and then to begin the job of rebuilding the company.

We have made good progress in three years. The balance sheet has been reduced by over £700 billion from its peak. Our reliance on short-term wholesale funding, which stood at £297 billion at the end of 2008 has been cut to £102 billion. We repaid more than £20 billion of government-guaranteed debt in 2011. At 10.6%, our Core Tier 1 ratio is one of the strongest among our peers.

Our actions have made RBS safer and more stable.

Achievements like these require hard work. The Board is committed to restoring RBS to good health. We also made comprehensive changes to the executive management team after 2008. I am confident that they, ably led by Stephen Hester, are the right people to rebuild RBS. All of us understand our duties and responsibilities and are determined to fulfil them diligently.

It is the Board's view that running the business on commercial grounds is the best way to make the bank safer and more valuable for everyone who depends upon it. I do not believe there is a workable alternative if our aim is to provide the opportunity for the UK government to sell its shares in the public markets in a reasonable timescale.

A sign that we have succeeded will be the desire of private investors to acquire the UK government's stake. While these investors hold only 18% of our shares today, their view of our performance, leadership and strategy is crucial. All being well, they will own the majority of the equity capital of the company in future years.

In the meantime, the job of rebuilding the Group is far from complete. The need to address the legacy of losses in a number of businesses means that the Group is not yet profitable, although in 2011 our core businesses earned a profit of £6 billion and a return on tangible equity of 10.5%.

During 2011, we faced weak and deteriorating economic and market conditions. We dealt with those. For example, we accelerated our Non-Core run-down, reduced risk concentrations and strengthened our liquidity and funding position. The Independent Commission on Banking published its findings and the UK government responded with its plans. We have begun to deal with its far-reaching implications. In January 2012, we announced how we will reshape our international wholesale business.

So, we can adapt and we have adapted our plans to changing conditions. That is simply doing business.

Other external forces affect banks in the UK and especially RBS. We know we are different. I have said often that we are grateful to, and are well aware of the interest in the Group by UK taxpayers. We intend to repay them by restoring RBS, allowing the bank to do its vital job of serving our customers and being part of a vibrant and successful economy.

Comment (continued)

At present, we are an unusual company, operating commercially, listed on the stock market but majority-owned by the UK government. It is a challenge for all those involved to manage the complexities and occasional tensions in this structure. The ability to run the company on a commercial basis can be hindered by elements of the periodic debate on how to respond to such tensions, in the media and elsewhere. The Board believes it is important to remain commercially focussed, recognising where we can the political context in which we operate.

I understand people's anger and anxiety about inequalities in pay at a time when the economy is weak and many people are finding things tough. RBS alone cannot fix these wider issues if we are to achieve what is asked of us commercially. But we have led the way in changing how we pay our people. We asked our shareholders how they expect us to set incentives. In response, we have aligned the longer-term rewards our people receive with our shareholders' interests. When we reward good performance, the amount paid in cash is minimal, with most of it paid in shares and bonds. If the subsequent results so warrant, we can claw back awards. I am confident that our practices will stand favourable comparison with others'.

Fulfilling our wider responsibilities

As we rebuild RBS, we are fulfilling our responsibilities to the communities in which our customers and people live and work. Last year, we:

- provided more than 40p in every £1 lent to UK small and medium-sized businesses;
- opened nearly 120,000 new start-up accounts across the UK;
- provided an average of 4,000 business loans each week;
- helped over 5,000 UK businesses back to health through our Specialised Relationship Management teams; and
- recruited more than 8,000 16-24 year olds.

These demonstrate the role we can and will play in serving and helping society and the economy. We are building on them. Our Board-level Sustainability Committee is talking to our stakeholders about the elements of our business that matter to them and in 2012 we will publish demanding environmental targets that will drive a reduction in our carbon footprint.

The Board

We were pleased to welcome three new independent non-executive directors to the Board: Alison Davis, Tony Di Iorio and Baroness Noakes. They bring a wealth of experience, along with a strong global perspective. They have already made a significant contribution to the work of the Board since they joined.

Colin Buchan retired as a director in August 2011 and John McFarlane will step down in March 2012. We have greatly appreciated the experience, commitment and knowledge they brought to the Board.

Thanks

Finally, I wish to thank our employees. They are rebuilding RBS each day by serving our customers. They did that very well indeed in 2011, even as many faced major uncertainties. I am grateful to them.

7

Comment (continued)

Stephen Hester, Group Chief Executive, letter to shareholders:
RBS has completed the first three years of its recovery plan. Over that period the Bank's results across our key goals - Customers, Risk and Value - have exceeded the Plan targets we put together in 2009. This is pleasing and puts the Bank in a vastly better position than before to serve our different constituencies. We are dealing with the new economic and regulatory challenges within the strategic plan and have retained our focus on building an RBS for all to be proud of. Great credit is due to our people for the accomplishments to date and to those who have supported us with their capital or their custom.

Priorities
We are clear on RBS's priorities:

· to serve customers well;

· to restore the Bank to a sustainable and conservative risk profile; and

· to rebuild value for all shareholders.

These priorities are interconnected and mutually supporting.

2009-11 Report Card
During the last three years RBS has:

- sustained its customer franchises across our Core business in the face of restructuring and reputational pressures. Market shares are stable overall. Service standards are generally up. Lending support across the UK business substantially exceeds our natural customer market share.

- rebuilt its financial resilience. Core Tier 1 ratio increased to 10.6%, total assets reduced by £712 billion from peak levels, short-term wholesale borrowing reduced by £195 billion, converting a £207 billion deficit versus liquid assets to a £53 billion surplus. Balance sheet leverage reduced from 21.2x to 16.9x and the loan:deposit ratio improved to 108% (94% in Core). In each case the 2011 position is well ahead of that originally forecast.

- produced £34 billion in pre-impairment profits from Core businesses. These were used to self-fund our legacy losses and loan impairments, which to date have totalled £43 billion. Operating costs have been reduced by an average of £1 billion annually. Each of these totals is better than originally forecast despite a tougher economic environment.

2011 Results
2011 saw good progress across all measures of risk reduction and increased financial soundness; important given the much tougher market conditions. Customer service and support was sustained well.

However, RBS has reported a pre-tax loss of £766 million overall and, in common with others, has seen a share price fall, albeit still at levels much higher than the 10p starting point in January 2009. These outcomes reflect the stage of our recovery and the external environment. They mask real and important accomplishments, however.

2011 Results (continued)

Core bank operating profits were £6.1 billion. Within this total, operating profits in 2011 across RBS's Retail and Commercial business (excluding Ulster Bank) were up 9% to £4.9 billion. RBS Insurance turned loss into profit, a £749 million improvement on 2010. GBM suffered a 54% fall in profit to £1.6 billion, reflecting tough market conditions, but still a substantial result and one generally in line with other investment banking businesses. Non-Core losses declined 24% to £4.2 billion as the risk run-off continued ahead of schedule. Exceptional charges for past business associated with PPI and Greek write-downs were also taken. £3.8 billion was handed over to HMT/HMRC/Bank of England in fees for APS/Credit Guarantee Scheme, taxes (both on our behalf and on that of our employees) and capital support schemes.

We all understand that a company that is making losses at the bottom line tests the patience of those who depend on it. However, the restructuring task we have undertaken at RBS is unique in its scale and complexity, and needs to be phased in line with our ability to fund and execute it. In dealing with these legacy losses we expect to put the company on a sustainable footing for generations to come. 2011 proved what we already knew: that there are no shortcuts to this endpoint.

Strategy

The new RBS is built upon customer-driven businesses with substantial competitive strengths in their respective markets; together our 'Core' business. Each unit is being reshaped to provide improved and enduring performance and to meet new external challenges. The businesses are managed to add value in their own right but to provide a stronger, more balanced and valuable whole through vital cross-business linkages.

The weaknesses uncovered by the financial crisis - of leverage, risk concentration and business stretch – are being fixed. The primary vehicle for this is the run-off and sale of assets in our Non-Core division though there are many other parallel tasks. RBS's total assets have already been reduced by £712 billion from their peak in 2008 - more than any other entity worldwide has achieved.

Adjustments to Plan

The principles of RBS strategy are working well. The tougher external environment will slow progress and reduce profitability but requires largely tactical change from the original plan for the majority of our business.

However, all banks, and especially in the UK, must adjust to much higher capital and liquidity requirements, and substantially changed wholesale funding markets. There are particular pressures on the funding, profitability and capital intensity of cross-border, wholesale and investment banking business lines.

RBS has therefore adjusted its business plan to target a still more conservative capital and funding structure overall in order to meet current and prospective market and regulatory challenges. This also includes further reduction in balance sheet, capital usage and expense base in the investment banking area, including exit of the cash equities business, reduction of the Group's fixed income markets balance sheet and combination of its international corporate banking businesses. We expect these moves to make the client proposition in our wholesale businesses more focused, and so stronger and more sustainable. It will improve the stability of their funding and their prospects for an improved return on equity.

2011 Results (continued)
These enduring principles - around Customer, Risk and Shareholder - continue to drive our strategy. The actions they give rise to should enable RBS to prosper over the long term as a leading international bank, anchored firmly in the UK and serving customers, shareholders and society well.

People
RBS people are doing a great job in serving customers whilst driving the change we need. Their engagement and efforts are essential to our task. I thank them sincerely. While the climate is tough for people in many walks of life, that does not take away from the exceptional demands we make on our staff and the continuing need we have for their talents, engagement and motivation.

Concluding remarks
In this letter a year ago I re-affirmed the path ahead for RBS and how we planned to travel down it. I am pleased to say we remain on that track.

However, I also warned of the risks from economic and regulatory/policy change. These have indeed impacted strongly and remain uppermost in our minds when looking at 2012. We will continue to prioritise customer service and risk reduction. We will strive to complement this with determined measures to improve business performance to pay for the remaining ‘clean-up’ and then to produce results for shareholders. We are building the capacity of our business to earn its cost of capital and produce solid returns as external conditions allow.

RBS is an enduring financial institution playing a key part in our markets and communities. We support others. We depend on the support of customers and our communities in turn. We are working our way out of a tough legacy whilst sustaining “business as usual” for the vast majority of what we do.

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

Highlights

2011 results summary
RBS made further progress in 2011 on its strategic plan to rebuild financial resilience, cutting its funded balance sheet to less than £1,000 billion for the first time since the restructuring plan's inception in 2009. The Group's priority in 2011 has been to strengthen its balance sheet and reduce risk as it works through the restructuring plan. Key achievements include:

- decreasing the funded balance sheet by £49 billion to £977 billion.
- exceeding Non-Core run-off targets, with Non-Core funded assets reduced to £94 billion, less than 10% of Group funded assets.
- reducing RWAs by £63 billion.
- growing Retail & Commercial customer deposits by £9 billion.
- improving the Core loan:deposit ratio to 94% from 96% in 2010 and the Group loan:deposit ratio to 108% (2010 - 118%).
- maintaining a robust capital base, with a Core Tier 1 ratio of 10.6%.

Customer franchises have been sustained across the Core Group, with resilient market shares and improving service metrics. While operating results in the Group's principal retail and commercial businesses have remained strong, measures to reduce risk in Global Banking & Markets (GBM) as financial market conditions deteriorated in the second half of the year and to accelerate the disposal of Non-Core exposures held back overall operating profits.

These results mean that over the last three years RBS has lowered short-term wholesale funding by 66% to £102 billion and improved its loan:deposit ratio to 108%. Core pre-impairment operating profits over this period have totalled £34 billion, including £11.5 billion from GBM. This has helped to fund £43 billion of loan losses and the costs of working through other legacy issues and derisking the Group's operations, including sovereign debt impairments, APS charges, disposal costs and restructuring charges.

Operating profit
Group loss before tax in 2011 was £766 million up from £399 million in 2010. Adjusting for movements in the fair value of own debt of £1,846 million, a charge of £906 million for the Asset Protection Scheme, Payment Protection Insurance (PPI) costs of £850 million, sovereign debt impairments of £1,099 million, amortisation of purchased intangible assets of £222 million, integration and restructuring costs of £1,064 million, a gain on redemption of own debt of £255 million, strategic disposals of £104 million, bank levy charges of £300 million, interest rate hedge adjustments on impaired available-for-sale Greek government bonds of £169 million, and other non-operating items totalling £45 million, Group operating profit was £1,892 million in 2011, compared with £1,913 million in 2010. Adjusting for the impact of the disposal of Global Merchant Services (GMS) in Q4 2010, operating profit was up 11%. A total of £2,456 million has now been expensed in relation to the APS.

- UK Retail operating profit rose 45% to £1,991 million, with income flat but expenses 6% lower, and impairments down 32%.

·

UK Corporate operating profit totalled £1,414 million, down 3%, with income and expenses broadly flat and impairments up £24 million.

- Wealth operating profit was 6% higher at £321 million, driven by 11% growth in income.

- Global Transaction Services (GTS) operating profit was £743 million, down 16% after adjusting for GMS, largely reflecting a single corporate loan impairment.

Highlights

2011 results summary (continued)

Operating profit (continued)

· Ulster Bank operating losses increased to £1,024 million as Irish credit conditions remained challenging.

· US Retail & Commercial recovery continued with operating profit up 57%, as income improved and impairment losses fell substantially.

· GBM operating profits fell 54% to £1,561 million, with revenue down 25% as the division faced a difficult external environment and managed down its risk exposures.

· RBS Insurance delivered a strong turnaround with an operating profit of £454 million compared with a loss of £295 million in 2010. We continue to target an IPO of this business in the second half of 2012, subject to market conditions.

Non-Core's operating loss fell to £4,203 million in 2011, an improvement of £1,302 million from 2010, with impairments falling by £1,557 million, despite ongoing challenges in the Ulster Bank and real estate portfolios. Operating expenses were £961 million lower. Non-Core RWAs fell by £60 billion in 2011 to £93 billion. The division focused on reducing capital intensive trading assets, with activity including the restructuring of monoline exposures, which, at a cost of c.£600 million in 2011, achieved a reduction of £32 billion in RWAs.

The process of funding legacy losses through the generation of operating profit continues. In 2011 the Group absorbed further significant legacy costs, including integration and restructuring costs of £1,064 million; PPI costs of £850 million; sovereign debt impairments of £1,099 million; and a charge of £906 million for the Asset Protection Scheme. A total of £2,456 million has now been expensed in relation to the APS. Other significant non-operating items included the bank levy of £300 million and a credit of £1,846 million for movements in the fair value of own debt, resulting in pre-tax losses of £766 million, up from £249 million in 2010. Following a particularly high tax charge of £1,250 million (£634 million in 2010), primarily as a result of continuing Ulster Bank losses, the Group recorded an attributable loss of £1,997 million compared with £1,125 million in 2010.

Returns

Retail & Commercial (R&C) ROE improved to 11.3% from 10.2% in 2010. GBM ROE was 7.7%, notwithstanding the challenging market conditions, leaving overall Core ROE at 10.5%. TNAV per share at end 2011 was 50.1p.

Efficiency

Core expenses were stable, with reduced costs in UK Retail and GBM offset by investment in the Wealth and GTS franchises. Non-Core expenses fell by 43%, leaving Group 2011 expenses 7% lower than in 2010 at £15,478 million. The Group's cost reduction programme delivered cost savings with an underlying run rate of over £3 billion to the end of 2011, ahead of the original target of £2.5 billion annualised savings by 2013 and with lower programme spend than originally projected. This has enabled the Group to reinvest savings into enhancing its systems infrastructure to support improvements in customer service, enhance product offerings and respond to regulatory changes.

2011 results summary (continued)

Efficiency (continued)
Staff costs declined 10% to £8,678 million. The compensation ratio in GBM, excluding discontinued businesses, was 39%. Variable compensation accrued in the first half of the year were reduced in the second half of the year, leaving the 2011 variable compensation awards 58% lower than 2010, compared with the 54% fall in operating profit.

The cost:income ratio for the Group was 62% and for R&C was 55%, compared with 56% in 2010. RBS believes that further efficiency gains will be needed to ensure that its businesses are capable of delivering sustainable returns in excess of the cost of equity to its shareholders.

Risk
Group impairments totalled £8,709 million, down 6% from 2010. Non-Core continued to improve, despite persistent challenges in Ulster Bank and commercial real estate portfolios.

UK Retail and US R&C impairment trends remained favourable, with 2011 impairment losses down 32% and 37% respectively compared with the prior year. UK Corporate impairments were broadly in line with 2010 at 0.7% of loans and advances but Core Ulster Bank's impairment charge rose 19%, reflecting deteriorating bad debt trends and lower asset prices in the mortgage portfolio. Total Ulster Bank impairments in Core and Non-Core were £3,733 million in 2011 compared with £3,895 million in 2010, down 4%.

Adjusting for sovereign debt impairment losses of £1,099 million, interest rate hedge adjustments on impaired available-for-sale Greek government bonds of £169 million and other impairment losses of £2 million, the 2011 impairment charge represented 1.5% of Group customer loans and advances, with the Core ratio at 0.8%. Provision coverage of risk elements in lending improved to 49% compared with 47% at the end of 2010.

The Group actively managed down its market risk exposures in anticipation of the deterioration in financial market conditions in the second half of 2011. Average trading value at risk (VaR) was £105.5 million, down 37% from 2010. Average credit spread VaR in particular was significantly lower, reflecting continuing progress in managing down Non-Core exposures and reducing concentration risk. Increased volatility arising from the difficulties of eurozone sovereigns resulted in average VaR increasing slightly in Q4 2011.

Balance sheet
The Group funded balance sheet fell by £49 billion during 2011 to £977 billion. Non-Core again exceeded targets, reducing funded assets by £44 billion during 2011 to £94 billion at the year-end. Further reductions will include the disposal of the Group's aviation finance business for £4.7 billion, signed in January 2012. During 2011, Non-Core focused on reducing capital intensive trading assets, reducing RWAs by £60 billion and also mitigated significant future regulatory uplifts.

GBM lowered funded assets by £35 billion, to £362 billion compared with £397 billion at 31 December 2010, making good progress towards the new target of circa £300 billion set as RBS restructures its wholesale businesses. R&C loan growth remained muted.

2011 results summary (continued)

Liquidity and funding

The Group further strengthened its liquidity and funding metrics as financial market conditions became more challenging in the second half of 2011. Including loans and advances to customers of £19,405 million and customer deposits of £22,610 within disposal groups the Group loan:deposit ratio improved to 108%, 10 percentage points lower than at the end of 2010. Over the last three years Core R&C customer deposits have grown by £49 billion, partially offset by a reduction in more volatile GBM deposits and Non-Core rundown.

Net term issuance in 2011 totalled £21 billion, exceeding the Group's targets for the year. £20 billion of maturing government-guaranteed debt was repaid in 2011. In view of continuing uncertain market conditions the liquidity portfolio was maintained above target levels at £155 billion, well in excess of short-term wholesale funding, which, excluding derivatives collateral, fell to £102 billion at year end compared with £130 billion at 31 December 2010.

Capital

The Core Tier 1 ratio was 10.6%, compared with 10.7% at the end of 2010. Excluding the effect of the APS of £69 billion, RWAs decreased by £63 billion, despite a £21 billion impact in Q4 2011 from the implementation of CRD III. The reduction reflected activity in Non-Core to reduce capital-intensive trading assets, including the restructuring of monoline exposures. As assets covered by the APS have run-off or been disposed of, the Core Tier 1 ratio benefit arising from the APS has diminished to 0.9%, compared with 1.2% at end 2010.

Tangible net asset value per share was 50.1p at 31 December 2011, compared with 51.1p at 31 December 2010.

Strategy

RBS has made good progress over the last three years towards its key objectives of serving customers well, reducing risk and rebuilding value for all shareholders.

In the course of 2011 the Group's priority has been to strengthen its balance sheet and reduce risk as it works through the restructuring plan, and this is reflected in good progress made on the key risk measures set out in 2009. Targets for capital, short-term wholesale funding, liquidity reserves and leverage have all been met ahead of schedule. The 2011 Group loan:deposit ratio was 110%. Including loans and advances to customers of £19,405 million and customer deposits of £22,610 million within disposal groups, the Group loan:deposit ratio improved further in 2011 to stand at 108%, compared with 154% shortly before the strategic plan was launched.

RBS has seen significant improvement in earnings and returns from the worst point reached in 2008. In 2011, however, the deterioration in external economic and financial conditions led the Group to prioritise derisking over driving returns. Core ROE was 10.5%, with R&C return on equity at 11.3%. GBM ROE was 7.7%, notwithstanding the challenging market conditions. The Group's objective remains for each of its banking businesses to be based on enduring customer franchises; to be capable of generating sustainable returns in excess of its cost of equity; to be able to fund itself from its own deposit base; to contribute to the overall Group through its connectivity with other businesses; and to achieve the levels of efficiency necessary to compete effectively in its market. In light of the changed market and regulatory environment, the RBS Group Board has agreed new medium-term strategic targets, which are set out below.

Highlights (continued)

2011 results summary (continued)

Customer franchises
RBS's first priority is to serve its customers well. Since the adoption of our strategic plan in 2009 we have been focused on identifying what our customers value and on targeting our product propositions and service improvements accordingly.

2011 highlights for our businesses included:
- reporting progress against our Customer Charters and introducing new commitments;

- using new technologies to make it easier for customers to bank with us;

- reacting swiftly and decisively to external events affecting our customers; and

- introducing new training programmes for customer-facing employees.

During 2011, UK Retail and Ulster Bank both achieved encouraging progress against their Customer Charter commitments. UK Retail, for example, achieved the goal of serving 80% of its customers in less than 5 minutes in its busiest branches and answering 90% of all incoming calls in less than a minute. 89% of Ulster Bank's customer queries were answered in a single call in the period July - September 2011, compared with 81% in the period January - June 2011. In both divisions, however, there is clearly more to do, with handling of customer complaints a particular focus.

US Retail & Commercial began a phased roll-out of its Customer Commitments in Q4 2011: focusing on getting to know each customer as an individual, earning customer trust, putting customers in control of their own finances and valuing their time and business.

Technological innovation has an important role to play in improving customer service, and 2011 saw further improvements to RBS's leading mobile banking services. UK Retail, Ulster Bank and US Retail & Commercial customers can access their accounts and manage their money via their mobiles and GBM customers can access trading analysis and expert commentary through their iPad. The iPhone app for RBS and NatWest customers was updated and has now been downloaded by one million customers.

In August, RBS Insurance responded quickly and decisively to the UK riots, helping customers and other small business owners cope with the aftermath of the rioting, providing general insurance advice and information on the claims process. UK Corporate also reacted swiftly, providing £10 million of interest-free, fee-free loans to business customers affected by the rioting.

In June, UK Corporate launched a relationship manager accreditation programme to improve the knowledge and professionalism of front-line staff, while US Retail & Commercial invested in an enhanced sales training programme for managers and sales colleagues. By the end of 2011, the majority of UK Corporate's relationship managers had gained full accreditation under the initial phase of the programme and in the US the training has begun to deliver externally recognised increases in customer satisfaction.

2011 results summary (continued)

Customer franchises (continued)
2011 demonstrated clear examples of our commitment to serving our customers well but we recognise there is much we still need to achieve, and providing our customers consistently high quality service remains a key priority in our strategic plan.

UK lending
RBS extended £93.5 billion of new lending to UK businesses in 2011: £36.3 billion of new loans and facilities to mid and large corporates, £16.3 billion of mid corporate overdraft renewals, £31.5 billion of new loans and facilities to SMEs and £9.4 billion of SME overdraft renewals.

New loans and facilities to businesses increased by 22% in 2011 compared with 2010, with new loans and facilities to SME customers up by 4%, exceeding its Merlin "stretch" lending targets. RBS new lending accounted for 48% of all SME lending reported by the Merlin banks, well above its customer market share.

This strong lending performance represented a significant success for RBS's efforts to foster loan demand from creditworthy companies, in the face of weakening confidence and subdued appetite for investment in 2011. If creditworthy demand grows, the Group would aim to lend even more in 2012. Economic uncertainty caused companies - particularly smaller businesses - to delay or scale back investments and to focus on deleveraging and cash flow preservation. Total SME credit applications in 2011 were 17% lower than for 2010, and 31% lower than 2007. RBS remains committed to doing everything it can to stimulate demand.

Many of RBS's SME customers have been paying down debt and building up their cash balances, with SME customers increasingly opting to build up longer term savings in light of perceived decreased investment opportunities. Term deposits of over 12 months rose 53% in 2011 from the Group's smallest business customers, those with turnover of up to £2 million, and 33% for SME customers overall. SME overdraft utilisation also continued to fall, from 47% for December 2010 to 45% for December 2011.

Lending to mid and large corporates was driven by re-financing activity, as economic newsflows remained weak and uncertainty surrounding the eurozone drove confidence in economic recovery and market stability lower. Drawn lending balances in the mid and large corporate sector decreased by 5% compared with 2010.

Gross new mortgage lending in 2011 was £16.2 billion, with balances outstanding up 5% compared with 2010. A fifth of new mortgages provided by the Group were to first time buyers, and gross new lending to this market segment increased quarter on quarter throughout 2011.

Highlights (continued)

2011 results summary (continued)

Outlook
Economic and regulatory challenges have continued into 2012. Growth prospects in the UK, the Group's most important market, remain modest, while the eurozone sovereign crisis remains a risk.

Against this backdrop, Retail and Commercial performance is expected to remain broadly stable, benefitting modestly from improvement in impairments.

GBM Markets will transition to its revised, more targeted strategy. The year is off to a good start, but revenue performance will remain market-dependent.

The continuing run-off of Non-Core is expected to crystallise further disposal losses, though overall Non-Core losses are expected to fall again.

The Group NIM outlook is stable with the second half of 2011. However, accounting swings relating to fair value of own debt will continue to feature.

The Group expects to continue to prioritise the strengthening of its balance sheet and the further removal of risk.

Analysis of results

	Year ended		Quarter ended	
	31 December 2011	31 December 2010	31 December 2011	30 September 2011
Net interest income	£m	£m	£m	£m
Net interest income	12,679	14,209	3,074	3,077
Average interest-earning assets	661,118	689,531	663,519	663,059
Net interest margin	1.92%	2.06%	1.84%	1.84%
- Group				
- Core				
- Retail & Commercial (1)	3.21%	3.14%	3.17%	3.19%
- Global Banking & Markets	0.73%	1.05%	0.76%	0.71%
- Non-Core	0.64%	1.16%	0.31%	0.43%

Note:

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

Key points

2011 compared with 2010

- Group net interest income was 11% lower 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.

- R&C NIM was up 7 basis points, with strengthening asset margins in the first half of the year offsetting the impact of a competitive deposit market.

Q4 2011 compared with Q3 2011

- Group net interest income remained stable in Q4 2011, as reduced interest expense from repayment of high cost government-guaranteed debt offset modest margin pressure in R&C.

- R&C NIM was 2 basis points lower, largely driven by competitive pricing on UK deposits and a continued decline in long-term swap rate returns on current accounts.

- Overall Group interest-earning assets were broadly stable. R&C interest-earning assets were flat, while elsewhere in the Group higher central bank cash balances offset asset run-off in GBM and Non-Core.

Q4 2011 compared with Q4 2010

- R&C NIM was down 4 basis points, with continued tightening of liability margins and a decline in long-term swap rate returns on current accounts more than offsetting asset repricing actions.

- Average interest-earning assets were up slightly at £665 billion, with growth in UK mortgage balances and in liquidity holdings offsetting Non-Core run-off.

Analysis of results (continued)

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Non-interest income	£m	£m	£m	£m	£m
Net fees and commissions	4,924	5,982	1,017	1,148	1,603
Income from trading activities					
- Asset Protection Scheme (APS)	(906)	(1,550)	(209)	(60)	(725)
- movements in the fair value of own debt	225	(75)	(170)	470	110
- other	3,382	6,142	141	547	979
Gain/(loss) on redemption of own debt	255	553	(1)	1	-
Other operating income					
- strategic disposals	(24)	171	2	49	502
- movements in the fair value of own debt*	1,621	249	(200)	1,887	472
- other	2,525	1,059	403	448	29
Non-interest income (excluding insurance net premium income)	12,002	12,531	983	4,490	2,970
Insurance net premium income	4,256	5,128	981	1,036	1,272
Total non-interest income	16,258	17,659	1,964	5,526	4,242
* Fair value of own debt impact:					
Income from trading activities	225	(75)	(170)	470	110
Other operating income	1,621	249	(200)	1,887	472
Fair value of own debt (FVOD)	1,846	174	(370)	2,357	582

Key points

2011 compared with 2010

- Non-interest income decreased by 8% to £16,258 million in 2011. Excluding movements in the fair value of own debt £1,846 million, a charge on the APS of £906 million, gain on redemption of own debt of £255 million, a loss on strategic disposals of £24 million and other losses of £1 million, non-interest income decreased by £3,374 million to £15,088 million. This was principally driven by lower trading income in GBM and Non-Core and a fall in insurance net premium income.

- Volatile market conditions led to a reduction in GBM 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.

- Insurance net premium income fell by 17% largely driven by RBS Insurance’s exit from certain business segments, along with reduced volumes reflecting 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.

- A gain of £502 million on strategic disposals for Q4 2010 largely reflected the £837 million gain on the sale of Global Merchant Services, partially offset by losses on Non-Core project finance assets.

Analysis of results (continued)

2011 compared with 2010 (continued)

- A full year gain on FVOD of £1,846 million as a result of Group credit spreads widening partially offset the 2011 charges. This compares with a smaller gain of £174 million in 2010.

- 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.

Q4 2011 compared with Q3 2011

- Non-interest income fell 6% to £1,964 million. Excluding movements in the fair value of own debt of £370 million, a charge on the APS of £209 million, a gain on strategic disposals of £2 million and other adjustments of £2 million, non-interest income was £1,964 million.

- GBM trading income included a £368 million change in own credit on derivative liabilities, partially offset by an improved credit hedging (CEM) position of £235 million. Excluding these items, GBM trading income was £542 million versus £551 million in Q3 2011.

- Insurance premium income fell, largely reflecting the continued de-risking of the motor portfolio.

- The Group's credit spreads narrowed in the fourth quarter resulting in a FVOD charge of £370 million. This compares with a widening of spreads in Q3 2011 and a significant gain of £2,357 million.

Q4 2011 compared with Q4 2010

- Non-interest income fell 54% to £1,964 million.

- More challenging market conditions reduced trading and fee income in GBM.

- In Q4 2011 the Group recorded a loss of £370 million on FVOD, as Group credit spreads tightened. Wider credit spreads in Q4 2010 resulted in a gain of £582 million.

- The Q4 2011 APS fair value charge was £209 million compared with a charge of £725 million in Q4 2010, reflecting improved credit spreads in the quarter, as well as a further reduction in assets covered to £131.8 billion at 31 December 2011.

Analysis of results (continued)

Operating expenses	Year ended 31 December 2011 £m	31 December 2010 £m	Quarter ended 31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Staff expenses	8,678	9,671	1,993	2,076	2,194
Premises and equipment	2,451	2,402	674	604	709
Other administrative expenses					
-Payment Protection Insurance costs	850	-	-	-	-
-Integration and restructuring costs	1,059	1,032	478	233	299
-Bank levy	300		300		
-Other	2,722	2,963	518	729	749
Administrative expenses	16,060	16,068	3,963	3,642	3,951
Depreciation and amortisation					
-amortisation of purchased intangible assets	222	369	53	69	96
-other	1,653	1,781	460	416	450
Write down of goodwill and other intangible assets					
-Goodwill relating to UK branch-based businesses	80	-	80	-	-
-other	11	10	11	-	10
Operating expenses	18,026	18,228	4,567	4,127	4,507
General insurance	2,968	4,698	529	734	1,151
Bancassurance	-	85	-	-	31
Insurance net claims	2,968	4,783	529	734	1,182
Staff costs as a % of total income	30%	30%	40%	24%	28%

Key points

2011 compared with 2010

· Group expenses were £18,026 million, 1% lower in 2011. Excluding Payment Protection Insurance costs of £850 million, integration and restructuring costs of £1,059 million, bank levy charges of £300 million, goodwill relating to the sale of UK branch-based business of £80 million and other adjustments of £259 million, Group expenses fell by 7% to £15,478 million. This decrease was 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 expenses fell 10%, driven by lower GBM variable 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.

- General insurance claims were £1,730 million lower, mainly due to the non-repeat of bodily injury reserve strengthening in 2010, de-risking of the motor book, more benign weather in 2011 and claims in Non-Core decreasing as legacy policies ran-off.

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

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

Q4 2011 compared with Q3 2011

- Group expenses increased by 10% to £4,567 million. Excluding integration and restructuring costs of £478 million, bank levy charges of £300 million, amortisation of purchased intangible assets of £53 million, goodwill relating to the sale of UK branch-based business of £80 million and other losses of £12 million, Group expenses fell by 5% to £3,644 million. This was significantly driven by a reduction in GBM variable compensation accrued in the first half of 2011. Core R&C expenses declined by 3% in part reflecting lower deposit insurance levies in Wealth and US R&C and continued benefits from the cost reduction programme.

- Non-Core expenses fell 3% largely driven by ongoing rundown of the division.

- Q4 2011 integration and restructuring costs increased to £478 million, largely reflecting the GBM headcount reduction announced in 2011, as well as property exit costs.

Q4 2011 compared with Q4 2010

- Group expenses were £60 million, or 1% higher than in the prior year. Excluding integration and restructuring costs of £478 million, bank levy charges of £300 million, amortisation of purchased intangible assets of £53 million, goodwill relating to the sale of UK branch-based business of £80 million and other losses of £12 million, Group expenses were £437 million, or 11% lower than in the prior year. Non-Core expenses were down 35% reflecting the impact of business disposals and country exits and significantly lower current year variable compensation in GBM.

- General insurance claims fell by 54% as net claims in RBS Insurance fell by £309 million, reflecting an improved risk mix, more benign weather in Q4 2011 and the exit of certain business segments. Legacy business run-off in Non-Core also reduced claims.

- Integration and restructuring costs increased from £299 million in Q4 2010 to £478 million in Q4 2011 largely reflecting significant restructuring within GBM along with continued business and country exits.

Analysis of results (continued)

Impairment losses	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Quarter ended 31 December 2011 £m	Quarter ended 30 September 2011 £m	Quarter ended 31 December 2010 £m
Loan impairment losses	7,241	9,144	1,654	1,452	2,155
Securities impairment losses					
-Sovereign debt impairment (1)	1,099	-	224	142	-
-Interest rate hedge adjustments on available-for-sale Greek government bonds	169	-	-	60	-
-other	200	112	40	84	(14)
Group impairment losses	8,709	9,256	1,918	1,738	2,141
Loan impairment losses					
- latent	(545)	(121)	(190)	(60)	(116)
- collectively assessed	2,591	3,070	591	689	729
- individually assessed	5,195	6,208	1,253	823	1,555
Customer loans	7,241	9,157	1,654	1,452	2,168
Bank loans	-	(13)	-	-	(13)
Loan impairment losses	7,241	9,144	1,654	1,452	2,155
Core	3,403	3,737	924	817	912
Non-Core	3,838	5,407	730	635	1,243
Group	7,241	9,144	1,654	1,452	2,155
Customer loan impairment charge as a % of gross loans and advances (2)					
Group	1.5%	1.7%	1.3%	1.1%	1.6%
Core	0.8%	0.9%	0.9%	0.8%	0.9%
Non-Core	4.8%	4.9%	3.7%	2.8%	4.4%

Notes:

(1) The Group holds Greek government bonds with a notional amount of £1.45 billion. In the second quarter of 2011, the Group recorded an impairment loss of £733 million in respect of these bonds as a result of Greece's continuing fiscal difficulties. This charge (c.50% of notional) wrote the bonds down to their market price as at 30 June 2011. In the third quarter of 2011, an additional impairment loss of £142 million was recorded to write the bonds down to their market price as at 30 September 2011 (c.37% of notional). In the fourth quarter of 2011, an additional impairment loss of £224 million was recorded to write the bonds down to their market price as at 31 December 2011 (c.21% of notional).

(2)

Customer loan impairment charge as a percentage of gross customer loans and advances excluding reverse repurchase agreements and including disposal groups.

Key points

2011 compared with 2010

- Group loan impairment losses decreased by 21% 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.

- R&C loan impairment losses fell by £199 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 GTS.

- Total Core and Non-Core Ulster Bank loan impairment losses decreased by 3%, 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 customer loan impairment charge as a percentage of loans and advances fell to 1.5% compared with 1.7% for 2010. For Core, the comparable percentages are 0.8% and 0.9%.

- 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.

Q4 2011 compared with Q3 2011

- Group loan impairment losses increased by 14% in Q4 2011, largely reflecting a small number of corporate provisions in GBM and a small increase in Non-Core impairments related to the UK Corporate portfolio.

- Total Core and Non-Core Ulster Bank loan impairments fell by £38 million compared with Q3 2011, £570 million versus £608 million, driven by a 14% decrease in Non-Core Ulster Bank impairments. Core Ulster Bank impairments were broadly flat as lower losses on the corporate portfolio were offset by an increase in mortgage losses.

- An additional impairment of £224 million was taken in Q4 2011 as a result of the continuing decline in the value of Greek sovereign bonds.

Q4 2011 compared with Q4 2010

- Group loan impairment losses fell 23% largely driven by a reduction in Non-Core impairment losses reflecting a reduction in Ulster Bank provisions in the quarter.

- Total Ulster Bank loan impairment losses (Core and Non-Core) were £570 million in Q4 2011, compared with £1,159 million in Q4 2010, driven by the decrease in Non-Core impairments.

- Loan impairment losses in R&C fell by £51 million, driven by improvements in UK Retail, US Retail & Commercial and Ulster Bank, partially offset by a single name provision in GTS and higher specific provisions in UK Corporate.

- Provision coverage of risk elements in lending was 49% at the end of Q4 2011, compared with 47% a year earlier.

Bank levy

The Finance Act 2011 introduced an annual bank levy in the UK. The levy is collected through the existing quarterly Corporation Tax collection mechanism starting with payment dates on or after 19 July 2011.

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 first chargeable period for the Group was the year ended 31 December 2011. In determining the chargeable equity and liabilities the following amounts are excluded: adjusted Tier 1 capital; certain “protected deposits” (for example those protected under the Financial Services Compensation Scheme); liabilities that arise from certain insurance business within banking groups; liabilities in respect of currency notes in circulation; Financial Services Compensation Scheme liabilities; liabilities representing segregated client money; and deferred tax liabilities, current tax liabilities, liabilities in respect of the levy, revaluation of property liabilities, liabilities representing the revaluation of business premises and defined benefit retirement liabilities. It is also permitted in specified circumstances to reduce certain liabilities: by netting them against certain assets; offsetting assets on the relevant balance sheets that would qualify as high quality liquid assets (in accordance with the FSA definition); and repo liabilities secured against sovereign and supranational debt.

The levy will be set at a rate of 0.088 per cent from 2012. Three different rates applied during 2011, these average to 0.075 per cent. Certain liabilities are subject to only a half rate, namely any deposits not otherwise excluded, (except for those from financial institutions and financial traders) and liabilities with a maturity greater than one year at the balance sheet date. The levy is not charged on the first £20 billion of chargeable liabilities. The cost of the levy to the Group for 2011 is £300 million (included in ‘Other administrative expenses’ - see page 21). As the Group continues to target a reduction in wholesale funding, the cost should decline over time absent further rate increases.

Capital resources and ratios	31 December 2011	30 September 2011	31 December 2010
Core Tier 1 capital	£46bn	£48bn	£50bn
Tier 1 capital	£57bn	£58bn	£60bn
Total capital	£61bn	£62bn	£65bn
Risk-weighted assets			
- gross	£508bn	£512bn	£571bn
- benefit of the Asset Protection Scheme	(£69bn)	(£89bn)	(£106bn)
Risk-weighted assets	£439bn	£423bn	£465bn
Core Tier 1 ratio (1)	10.6%	11.3%	10.7%
Tier 1 ratio	13.0%	13.8%	12.9%
Total capital ratio	13.8%	14.7%	14.0%

Note:
(1) The benefit of APS in Core Tier 1 ratio is 0.9% at 31 December 2011 (30 September 2011 - 1.3%; 31 December 2010 - 1.2%).

Key points

2011 compared with 2010

· The Group's Core Tier 1 ratio remained strong at 10.6%. Core Tier 1 ratio fell 10 basis points compared with 2010, reflecting the PPI charge, the impairment taken on the Group's AFS bond portfolio in relation to Greek sovereign bonds, the bank levy and the implementation of CRD III.

· Gross risk-weighted assets fell £63 billion, or 11% in 2011. Net of the APS scheme the decline was £26 billion. The fall in risk-weighted assets was largely driven by Non-Core run-off and business exits, combined with specific actions taken in Non-Core to reduce capital intensive assets. These were partially offset by CRD III related uplifts which added £21 billion.

Q4 2011 compared with Q3 2011

· The Core Tier 1 ratio declined 70 basis points versus Q3 2011, reflecting a £21 billion uplift in risk-weighted assets from the implementation of CRD III, along with the quarter's attributable loss.

· Gross risk-weighted assets were broadly flat on the previous quarter, with the CRD III related uplift offset by Non-Core risk-weighted assets reduction from run-off and restructuring activity.

· The Q4 2011 capital relief from APS declined to 0.9%, versus 1.3% in Q3 2011, due to the significant decline in covered assets in Non-Core of £20 billion.

Analysis of results (continued)

Balance sheet	31 December 2011	30 September 2011	31 December 2010
Funded balance sheet (1)	£977bn	£1,035bn	£1,026bn
Total assets	£1,507bn	£1,608bn	£1,454bn
Loans and advances to customers (2)	£454bn	£486bn	£503bn
Customer deposits (3)	£414bn	£434bn	£429bn
Loan:deposit ratio - Group (4)	110%	112%	118%

Notes:
(1) Funded balance sheet represents total assets less derivatives.
(2) Excluding reverse repurchase agreements and stock borrowing.
(3) Excluding repurchase agreements and stock lending.
(4) Net of provisions. Including disposal groups, the loan:deposit ratio at 31 December 2011 was 108%.

Key points

· Funded assets declined £58 billion in the quarter to close the year at £977 billion. GBM's funded assets fell £35 billion in 2011, to £362 billion, with further reductions to circa £300 billion of funded assets targeted as RBS restructures its wholesale businesses. Non-Core funded assets fell by £11 billion in the quarter, £44 billion in the year, closing 2011 with funded assets of £94 billion, ahead of its revised target of £96 billion.

· Loans and advances to customers were down 7% from Q3 2011. Loans and advances to customers, including disposal groups of £19 billion, were down 3% from Q3 2011, and down 7% from Q4 2010, largely reflecting run-off in Non-Core. Loans and advances in R&C were broadly flat in the year.

· Customer deposits were down 5% from Q3 2011. Including disposal groups of £23 billion, customer deposits increased by £6 billion from Q4 2010. R&C deposits increased by £10 billion, 3%, from 2010, partially offset by a decrease in Non-Core as business disposals and country exits continued. Customer deposits also increased by £3 billion compared with Q3 2011, as UK Retail attracted £3 billion of new deposits and UK Corporate attracted £2 billion of new deposits, partially offset by reductions in GBM and Ulster Bank.

· The Group loan:deposit ratio improved to 108% at 31 December 2011, a 900 basis point improvement from 31 December 2010. The Core loan:deposit ratio also improved to 94% compared with 96% a year earlier.

Further discussion of the Group's liquidity and funding position is included on pages 141 to 150.

Divisional performance

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

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Operating profit/(loss) by division					
UK Retail	1,991	1,372	461	499	558
UK Corporate	1,414	1,463	275	301	333
Wealth	321	304	96	71	87
Global Transaction Services	743	1,088	197	195	267
Ulster Bank	(1,024)	(761)	(239)	(219)	(271)
US Retail & Commercial	479	306	157	115	64
Retail & Commercial	3,924	3,772	947	962	1,038
Global Banking & Markets	1,561	3,364	(95)	112	527
RBS Insurance	454	(295)	125	123	(9)
Central items	156	577	85	67	115
Core	6,095	7,418	1,062	1,264	1,671
Non-Core	(4,203)	(5,505)	(1,308)	(997)	(1,616)
Managed basis	1,892	1,913	(246)	267	55
Reconciling items					
Fair value of own debt	1,846	174	(370)	2,357	582
Asset Protection Scheme	(906)	(1,550)	(209)	(60)	(725)
Payment Protection Insurance costs	(850)	-	-	-	-
Sovereign debt impairment	(1,099)	-	(224)	(142)	-
Amortisation of purchased intangible assets	(222)	(369)	(53)	(69)	(96)
Integration and restructuring costs	(1,064)	(1,032)	(478)	(233)	(299)
Gain/(loss) on redemption of own debt	255	553	(1)	1	-
Strategic disposals	(104)	171	(82)	(49)	502
Bank levy	(300)	-	(300)	-	-
Other	(214)	(259)	(13)	(68)	(27)
Statutory basis	(766)	(399)	(1,976)	2,004	(8)

Divisional performance (continued)

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	£m	£m	£m	£m	£m
Impairment losses/(recoveries) by division					
UK Retail	788	1,160	191	195	222
UK Corporate	785	761	234	228	219
Wealth	25	18	13	4	6
Global Transaction Services	166	9	47	45	3
Ulster Bank	1,384	1,161	327	327	376
US Retail & Commercial	325	517	65	84	105
Retail & Commercial	3,473	3,626	877	883	931
Global Banking & Markets	49	151	68	(32)	(5)
Central items	(2)	3	(4)	3	4
Core	3,520	3,780	941	854	930
Non-Core	3,919	5,476	751	682	1,211
Group impairment losses	7,439	9,256	1,692	1,536	2,141

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	%	%	%	%	%
Net interest margin by division					
UK Retail	3.92	3.91	3.75	3.90	4.05
UK Corporate	2.58	2.51	2.55	2.48	2.55
Wealth	3.59	3.37	3.86	3.46	3.29
Global Transaction Services	5.52	6.73	5.29	5.33	6.14
Ulster Bank	1.77	1.84	1.81	1.85	1.77
US Retail & Commercial	3.06	2.85	3.03	3.09	3.00
Retail & Commercial	3.21	3.14	3.17	3.19	3.21
Global Banking & Markets	0.73	1.05	0.76	0.71	0.93
Non-Core	0.64	1.16	0.31	0.43	1.09
Group net interest margin	1.92	2.06	1.84	1.84	

Divisional performance (continued)

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Risk-weighted assets by division					
UK Retail	48.4	48.7	(1%)	48.8	(1%)
UK Corporate	76.1	75.7	1%	81.4	(7%)
Wealth	12.9	13.0	(1%)	12.5	3%
Global Transaction Services	17.3	18.6	(7%)	18.3	(5%)
Ulster Bank	36.3	34.4	6%	31.6	15%
US Retail & Commercial	58.8	56.5	4%	57.0	3%
Retail & Commercial	249.8	246.9	1%	249.6	-
Global Banking & Markets	151.1	134.3	13%	146.9	3%
Other	10.8	9.8	10%	18.0	(40%)
Core	411.7	391.0	5%	414.5	(1%)
Non-Core	93.3	117.9	(21%)	153.7	(39%)
Group before benefit of Asset Protection Scheme	505.0	508.9	(1%)	568.2	(11%)
Benefit of Asset Protection Scheme	(69.1)	(88.6)	(22%)	(105.6)	(35%)
Group before RFS Holdings minority interest	435.9	420.3	4%	462.6	(6%)
RFS Holdings minority interest	3.1	3.0	3%	2.9	7%
Group	439.0	423.3	4%	465.5	(6%)

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

Employee numbers by division (full time equivalents in continuing operations rounded to the nearest hundred)	31 December 2011	30 September 2011	31 December 2010
UK Retail	27,700	27,900	28,200
UK Corporate	13,500	13,600	13,100
Wealth	5,700	5,600	5,200
Global Transaction Services	2,600	2,700	2,600
Ulster Bank	4,200	4,400	4,200
US Retail & Commercial	15,200	15,300	15,700
Retail & Commercial	68,900	69,500	69,000
Global Banking & Markets	17,000	18,900	18,700

RBS Insurance	14,900	15,200	14,500
Group Centre	6,200	6,100	4,700
Core	107,000	109,700	106,900
Non-Core	4,700	5,300	6,900
	111,700	115,000	113,800
Business Services	34,000	34,200	34,400
Integration and restructuring	1,100	1,100	300
Group	146,800	150,300	148,500

UK Retail

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	£m	£m	£m	£m	£m
Income statement					
Net interest income	4,272	4,078	1,036	1,074	1,088
Net fees and commissions	1,066	1,100	242	259	316
Other non-interest income	140	322	35	33	86
Non-interest income	1,206	1,422	277	292	402
Total income	5,478	5,500	1,313	1,366	1,490
Direct expenses					
- staff	(839)	(889)	(200)	(206)	(208)
- other	(437)	(480)	(116)	(102)	(71)
Indirect expenses	(1,423)	(1,514)	(345)	(364)	(400)
	(2,699)	(2,883)	(661)	(672)	(679)
Insurance net claims	-	(85)	-	-	(31)
Impairment losses	(788)	(1,160)	(191)	(195)	(222)
Operating profit	1,991	1,372	461	499	558
Analysis of income by product					
Personal advances	1,089	993	276	260	275
Personal deposits	961	1,102	214	236	271
Mortgages	2,277	1,984	577	576	557
Cards	950	962	238	231	251
Other, including bancassurance	201	459	8	63	136
Total income	5,478	5,500	1,313	1,366	1,490
Analysis of impairments by sector					
Mortgages	182	177	32	34	30
Personal	437	682	116	120	131
Cards	169	301	43	41	61
Total impairment losses	788	1,160	191	195	222

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	0.2%	0.2%	0.1%	0.1%	0.1%
Personal	4.3%	5.8%	4.6%	4.7%	4.5%
Cards	3.0%	4.9%	3.0%	2.9%	4.0%
Total	0.7%	1.1%	0.7%	0.7%	0.8%

30

UK Retail (continued)

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	26.4%	18.0%	25.1%	26.7%	25.2%
Net interest margin	3.92%	3.91%	3.75%	3.90%	4.05%
Cost:income ratio	49%	52%	50%	49%	46%
Adjusted cost:income ratio (2)	49%	53%	50%	49%	47%

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross) (3)					
- mortgages	95.0	94.2	1%	90.6	5%
- personal	10.1	10.3	(2%)	11.7	(14%)
- cards	5.7	5.6	2%	6.1	(7%)
	110.8	110.1	1%	108.4	2%
Customer deposits (excluding bancassurance) (3)	101.9	98.6	3%	96.1	6%
Assets under management (excluding deposits)	5.5	5.6	(2%)	5.7	(4%)
Risk elements in lending (3)	4.6	4.7	(2%)	4.6	-
Loan:deposit ratio (excluding repos)	106%	109%	(300bp)	110%	(400bp)
Risk-weighted assets	48.4	48.7	(1%)	48.8	(1%)

Notes:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).
(2) Adjusted cost:income ratio is based on total income after netting insurance claims and operating expenses.
(3) Includes disposal groups: loans and advances to customers £7.3 billion; risk elements in lending £0.5 billion; customer deposits £8.8 billion.

Key points
In 2010, UK Retail set out an aspiration to become the UK's most helpful bank and launched the Customer Charter. In 2011, we made good progress on our Customer Charter commitments and the roll-out of innovation that actually helps customers. In December 2011, UK Retail refined its staff incentive scheme to further strengthen the role of customer service and to help build long lasting customer relationships.

Progress against the Customer Charter commitments is independently assessed and has shown encouraging results. By the end of 2011, we achieved the goal of serving 80% of our customers in less than 5 minutes in our busiest branches.

Branch opening hours have also been extended and standardised, which means that our branches are now open for an additional 5,000 hours per week at times our customers have told us suit them.

Innovation has supported the delivery of Helpful Banking by focusing on solutions that make it easier for customers to bank with RBS and NatWest. An important example has been giving customers access to 24 hour emergency cash from NatWest and RBS ATMs when their cards are lost or stolen. We also updated our market-leading iPhone application and by the end of the year 1 million customers had downloaded the application. With successful apps also launched for iPad, Android and Blackberry, RBS is now the leading mobile bank in the UK.

UK Retail (continued)

Key points (continued)

2011 compared with 2010

- UK Retail delivered strong full year results, as operating profit increased by £619 million to £1,991 million, despite continued uncertainty in the economic climate and the low interest rate environment. Profit before impairments was up £247 million or 10%, while impairments fell by £372 million, with further improvements in the unsecured book and continued careful mortgage underwriting. Return on equity improved to 26.4%.

- 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%.

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

  o 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 5% to £4,272 million, driven by strong balance sheet growth. Net interest margin remained broadly flat with recovering asset margins largely 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%, with the adjusted cost:income ratio improving from 53% to 49%. 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 partly offset by a decrease in the unsecured portfolio.

Q4 2011 compared with Q3 2011

- UK Retail achieved strong deposit growth of £3.3 billion or 3% in the quarter, with competitive fixed rate bond and ISA offerings helping to deliver strong growth in savings balances. With interest rates falling and declining consumer activity, this strong deposit-gathering performance was balanced by narrowing liability margins and lower fee income, resulting in a 4% drop in income and operating profit of £461 million, £38 million lower than in the previous quarter.

UK Retail (continued)

Key points (continued)

Q4 2011 compared with Q3 2011 (continued)

· Mortgage balances increased £0.8 billion and RBS's share of gross new lending remained strong at 10% in the quarter, above its share of stock at 8%. Unsecured lending declined 1% as the Group continued to focus on lower risk secured lending. In conjunction with the strong deposit growth recorded during the quarter, this resulted in an improvement in the loan to deposit ratio to 106% from 109% in Q3 2011.

· Net interest income fell 4%, £38 million, driven by the continued tightening of liability margins, with competitive pricing on savings balances and a continued decline in long-term swap rate returns on current accounts. Overall the net interest margin declined 15 basis points to 3.75%.

· Non-interest income declined by 5%, £15 million, as subdued consumer spending activity continued to depress transaction volumes.

· Overall expenses decreased by 2%, £11 million, with direct staff costs down 3%, £6 million, due to headcount reductions and lower staff compensation. Indirect costs decreased by 5%, £19 million, driven by further cost saving initiatives linked to compensation costs and technology savings.

· Impairment losses decreased by 2% or £4 million during the period.

Mortgage impairment losses were £32 million on a total book of £95 billion, £2 million lower than Q3 2011. Arrears rates were stable and remained below the Council of Mortgage Lenders industry average. Provision coverage levels remain stable.

The unsecured portfolio impairment charge of £159 million, on a book of almost £16 billion, was broadly flat. Default levels remained stable. Industry benchmarks for cards arrears remain stable, with RBS continuing to perform better than the market.

Q4 2011 compared with Q4 2010

· Operating profit decreased by £97 million, with income down 10%, costs down 3% and impairments 14% lower than in Q4 2010.

· Net interest income was 5% lower, with strong mortgage and deposit balance growth more than offset by a reduction in net interest margin. Liability margins fell as a result of continued competitive pressure on new business savings margins and lower long term swap rate returns adversely impacting current account income.

· Customer deposits were up 6%, with savings balances 9% higher, significantly outperforming the market. This strong deposit growth contributed to a reduction of the loan to deposit ratio from 110% to 106%.

· Non-interest income declined by 31%, £125 million, largely driven by the dissolution of the bancassurance joint venture combined with lower spending and investment activity reflecting the general economic environment.

· Overall expenses were 3% lower, despite increased charges relating to the Financial Services Compensation Scheme, reflecting continued implementation of process efficiencies and lower average staff compensation and benefits from the dissolution of the bancassurance joint venture.

- Impairment losses decreased by 14%, £31 million, primarily reflecting improvements in default rates on the unsecured book.

33

UK Corporate

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	£m	£m	£m	£m	£m
Income statement					
Net interest income	2,585	2,572	634	621	653
Net fees and commissions	948	952	229	244	251
Other non-interest income	327	371	62	83	79
Non-interest income	1,275	1,323	291	327	330
Total income	3,860	3,895	925	948	983
Direct expenses					
- staff	(780)	(778)	(195)	(184)	(198)
- other	(335)	(359)	(86)	(88)	(93)
Indirect expenses	(546)	(534)	(135)	(147)	(140)
	(1,661)	(1,671)	(416)	(419)	(431)
Impairment losses	(785)	(761)	(234)	(228)	(219)
Operating profit	1,414	1,463	275	301	333
Analysis of income by business					
Corporate and commercial lending	2,676	2,598	634	647	657
Asset and invoice finance	660	617	169	176	166
Corporate deposits	683	728	170	172	184
Other	(159)	(48)	(48)	(47)	(24)
Total income	3,860	3,895	925	948	983
Analysis of impairments by sector					
Banks and financial institutions	20	20	(2)	6	12
Hotels and restaurants	59	52	16	22	18
Housebuilding and construction	103	131	27	29	47
Manufacturing	34	1	13	9	(9)
Other	163	127	37	36	(12)
Private sector education, health, social work, recreational and community services	113	30	81	20	21
Property	170	245	19	82	84
Wholesale and retail trade, repairs	85	91	29	24	31

Asset and invoice finance	38	64	14	-	27
Total impairment losses	785	761	234	228	219

UK Corporate (continued)

	Year ended 31 December 2011	Year ended 31 December 2010	Quarter ended 31 December 2011	Quarter ended 30 September 2011	Quarter ended 31 December 2010
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Banks and financial institutions	0.4%	0.3%	(0.1%)	0.4%	0.8%
Hotels and restaurants	1.0%	0.8%	1.0%	1.4%	1.1%
Housebuilding and construction	2.6%	2.9%	2.8%	2.9%	4.2%
Manufacturing	0.7%	-	1.1%	0.8%	(0.7%)
Other	0.5%	0.4%	0.5%	0.4%	(0.2%)
Private sector education, health, social work, recreational and community services	1.3%	0.3%	3.7%	0.9%	0.9%
Property	0.6%	0.8%	0.3%	1.1%	1.1%
Wholesale and retail trade, repairs	1.0%	0.9%	1.4%	1.1%	1.3%
Asset and invoice finance	0.4%	0.6%	0.5%	-	1.1%
Total	0.7%	0.7%	0.9%	0.8%	0.8%

Key metrics

	Year ended 31 December 2011	Year ended 31 December 2010	Quarter ended 31 December 2011	Quarter ended 30 September 2011	Quarter ended 31 December 2010
Performance ratios					
Return on equity (1)	12.4%	12.1%	10.2%	11.1%	11.8%
Net interest margin	2.58%	2.51%	2.55%	2.48%	2.55%
Cost:income ratio	43%	43%	45%	44%	44%

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Total third party assets	111.8	112.7	(1%)	114.6	(2%)
Loans and advances to customers (gross) (2)					
- banks and financial institutions	5.7	5.7	-	6.1	(7%)
- hotels and restaurants	6.1	6.3	(3%)	6.8	(10%)
- housebuilding and construction	3.9	4.0	(3%)	4.5	(13%)
- manufacturing	4.6	4.7	(2%)	5.3	(13%)
- other	32.6	32.6	-	31.0	5%
- private sector education, health, social	8.7	8.7	-	9.0	(3%)

work, recreational and community services					
- property	28.2	29.0	(3%)	29.5	(4%)
- wholesale and retail trade, repairs	8.5	8.9	(4%)	9.6	(11%)
- asset and invoice finance	10.4	10.1	3%	9.9	5%
	108.7	110.0	(1%)	111.7	(3%)
Customer deposits (2)	100.9	98.9	2%	100.0	1%
Risk elements in lending (2)	5.0	4.9	2%	4.0	25%
Loan:deposit ratio (excluding repos)	106%	109%	(300bp)	110%	(400bp)
Risk-weighted assets	76.1	75.7	1%	81.4	(7%)

Notes:

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

(2) Includes disposal groups: loans and advances to customers £12.2 billion; risk elements in lending £1.0 billion; customer deposits £21.8 billion.

35

Key points

In 2011, UK Corporate focused on supporting its customers through challenging economic times.

As a result of over 5,000 hours of customer research, UK Corporate launched the ‘Ahead for Business’ promise to its small and medium-sized enterprise (SME) customers.

To deliver on this, the division launched a number of initiatives to improve the service it offers to customers. For example, the ‘Working with You’ initiative, has seen over 4,600 visits to customer businesses since its launch in Q2 2011. Additionally, following the launch of the relationship manager accreditation programme, also in Q2 2011, almost all relationship managers have gained full accreditation in the initial phase.

UK Corporate continued to support new and existing businesses during 2011:

- launching its best ever fixed rate loan product for SMEs;
- reacting quickly after the August riots to give affected businesses access to special interest rate and fee free lending products;
- answering over 4,000 calls on the Start-up Hotline, offering free advice and a complementary business plan review service; and
- supporting more debt capital and loan market deals for larger corporates than any other bank

The division also took measures to reduce the risk retained in the business allowing for quicker and more consistent decisions by simplifying the credit underwriting process and improving automated decision making.

2011 compared with 2010

- Operating profit decreased 3% to £1,414 million, as lower income and higher impairments were only partially offset by a decrease in expenses.
- Net interest income remained broadly flat. Net interest margin improved 7 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 to deposit ratio to 106%.
- Non-interest income decreased by 4% as a result of lower GBM 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 1%, largely reflecting increased investment in the business and higher costs of managing the non-performing book.
- Impairments of £785 million were 3% higher due to increased specific impairments and collectively assessed provisions, partially offset by lower latent loss provisions.

UK Corporate (continued)

Key points (continued)

Q4 2011 compared with Q3 2011

· Operating profit of £275 million was 9% lower, with increased net interest income more than offset by higher impairments and lower non-interest income.

· Net interest income rose by 2% and net interest margin by 7 basis points, with improved lending margins more than offsetting continued pressure on deposit margins. Strong growth in customer deposits, up £2 billion or 2%, contributed to an improvement in the loan to deposit ratio from 109% to 106%.

· Non-interest income fell by 11%, due to a number of valuation adjustments, including derivative close out costs associated with impaired assets.

· Total costs decreased 1% due to lower indirect costs, partially offset by higher discretionary staff costs.

· Impairment losses increased £6 million due to a small number of specific provisions, partially offset by an improvement in collectively assessed balances and latent provision releases.

Q4 2011 compared with Q4 2010

· Operating profit decreased 17%, driven by lower income and increased impairments.

· Net interest income decreased 3%, impacted by higher funding and liquidity costs. Excluding these costs of £39 million, income increased 1% with net interest margin up 11 basis points, reflecting the benefit from re-pricing the lending portfolio.

· Non-interest income decreased 12%, largely driven by a number of valuation adjustments, including derivative close out costs associated with impaired assets.

· Total costs decreased 3%, despite the higher operational costs of managing the non-performing book in Q4 2011, largely reflecting a decrease in staff incentive costs.

.

· Impairment losses increased £15 million reflecting higher specific provisions.

Wealth

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Income statement					
Net interest income	718	609	191	178	160
Net fees and commissions	375	376	89	95	94
Other non-interest income	84	71	23	23	17
Non-interest income	459	447	112	118	111
Total income	1,177	1,056	303	296	271
Direct expenses					
- staff	(413)	(382)	(96)	(106)	(96)
- other	(195)	(142)	(43)	(57)	(29)
Indirect expenses	(223)	(210)	(55)	(58)	(53)
	(831)	(734)	(194)	(221)	(178)
Impairment losses	(25)	(18)	(13)	(4)	(6)
Operating profit	321	304	96	71	87
Analysis of income					
Private banking	975	857	255	244	220
Investments	202	199	48	52	51
Total income	1,177	1,056	303	296	271

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	18.7%	18.9%	22.1%	16.3%	21.0%
Net interest margin	3.59%	3.37%	3.86%	3.46%	3.29%
Cost:income ratio	71%	70%	64%	75%	66%

	31 December 2011	30 September 2011	31 December 2010

	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	8.3	8.3	-	7.8	6%
- personal	6.9	7.2	(4%)	6.7	3%
- other	1.7	1.5	13%	1.6	6%
	16.9	17.0	(1%)	16.1	5%
Customer deposits (2)	38.2	37.4	2%	37.1	3%
Assets under management (excluding deposits) (2)	30.9	29.9	3%	33.9	(9%)
Risk elements in lending	0.2	0.2	-	0.2	-
Loan:deposit ratio (excluding repos) (2)	44%	45%	(100bp)	43%	100bp
Risk-weighted assets	12.9	13.0	(1%)	12.5	3%

Notes:

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

(2) 31 December 2010 comparatives were revised in Q3 2011 to reflect the current reporting methodology.

Wealth (continued)

Key points
2011 has been a significant year for the Coutts businesses from a strategic perspective. In Q1 2011, a new divisional strategy was defined with the execution of early changes already making an impact.

Key strategic changes in 2011 included:

- A refreshed Coutts brand bringing Coutts UK and RBS Coutts under one single contemporary brand.

- A refocus on territories where the businesses have the opportunity for greatest scale or growth such as UK, Asia, Middle East, and Eastern Europe.

- Further development of client propositions as well as the portfolio of products and services for key international markets.

- Strategic investment in technology leading to the development of a single global technology platform for the Wealth division. The platform was successfully deployed in Adam & Company in 2011 with Coutts UK to follow in 2012.

- Strengthening the connectivity between Wealth and other Group divisions including referrals in international jurisdictions and improved connectivity with UK Corporate.

- Continued activity to ensure the division responds to new or expected regulatory changes with proactive solution design and preparation.

- Injection of new management into key roles from both internal and external sources including key segment heads, marketing, products & services, and international executive leadership.

Following the establishment of a single global brand in Q4 2011, focus turned to the reorganisation of key global functions such as marketing and product & services, as well as some local management structures. These reorganisations have realigned the division to maximise execution of the divisional strategy.

The execution plan for the strategy will continue into 2012 and position Wealth strongly against its peers.

2011 compared with 2010

- Operating profit increased by 6% on 2010 to £321 million, driven by a 11% growth in income partially offset by increases in expenses and impairments.

- Income increased by £121 million with a 24 basis points improvement in lending margins, 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.

39

Wealth (continued)

Key points (continued)

Q4 2011 compared with Q3 2011

- Operating profit increased 35% to £96 million in the quarter with a small increase in income and lower expenses partially offset by a rise in impairments.

- Income increased 2% in Q4 2011 with a 7% increase in net interest income partially offset by a 5% decline in non-interest income. The growth in net interest income reflects continued growth in lending margins and strong treasury income. Non-interest income declined with turbulent market conditions resulting in a decrease in investment and brokerage income.

- Expenses decreased 12% largely driven by a decrease in Financial Services Compensation Scheme levies and lower incentive costs, assisted by a favourable movement in exchange rates.

- Client assets and liabilities managed by the division increased by 2%. Lending volumes were stable and deposit volumes increased 2%, primarily in the UK, as result of a successful fixed term deposit campaign. Assets under management grew 3% with stable net new business and positive market movements.

Q4 2011 compared with Q4 2010

- Operating profit increased 10% with a 12% growth in income partially offset by higher expenses and impairments.

- Income increased due to a 19% rise in net interest income with a 57 basis points improvement in net interest margin reflecting strong treasury income, higher lending margins and growth in deposit volumes. Non-interest income increased 1%.

- Expenses rose 9% reflecting adverse movements in exchange rates and continued investment in private banker recruitment, strategic initiatives and regulatory project spend.

Global Transaction Services

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Income statement					
Net interest income	1,076	974	277	276	263
Non-interest income	1,175	1,587	296	300	375
Total income	2,251	2,561	573	576	638
Direct expenses					
- staff	(375)	(411)	(95)	(89)	(105)
- other	(113)	(159)	(26)	(26)	(51)
Indirect expenses	(854)	(894)	(208)	(221)	(212)
	(1,342)	(1,464)	(329)	(336)	(368)
Impairment losses	(166)	(9)	(47)	(45)	(3)
Operating profit	743	1,088	197	195	267
Analysis of income by product					
Domestic cash management	866	818	221	216	207
International cash management	868	801	222	220	223
Trade finance	318	309	77	90	81
Merchant acquiring	16	451	5	4	80
Commercial cards	183	182	48	46	47
Total income	2,251	2,561	573	576	638

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	30.4%	42.8%	33.0%	31.0%	42.7%
Net interest margin	5.52%	6.73%	5.29%	5.33%	6.14%
Cost:income ratio	60%	57%	57%	58%	58%

31 December	30 September	31 December

	2011 £bn	2011 £bn	Change	2010 £bn	Change
Capital and balance sheet					
Total third party assets	25.9	29.9	(13%)	25.2	3%
Loans and advances	15.8	19.5	(19%)	14.4	10%
Customer deposits	71.7	71.4	-	69.9	3%
Risk elements in lending	0.2	0.2	-	0.1	100%
Loan:deposit ratio (excluding repos)	22%	28%	(600bp)	21%	100bp
Risk-weighted assets	17.3	18.6	(7%)	18.3	(5%)

Note:

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

Global Transaction Services (continued)

Key points

In Q4 2011, Global Transaction Services (GTS) maintained operating profit levels with continued focus on cost management and an improved funding contribution.

GTS recognises the important role international trade plays in a strong global economy and throughout 2011 the division supported UK companies, both in the UK and overseas, to do more business internationally. This support included delivering a series of UK Government-backed ‘Doing Business in Asia’ events.

During the year, GTS invested in improving existing products and services and also in developing new ones. To help corporate treasurers manage their global positions, the division launched a global Liquidity Solutions Portal, giving its customers a view of their operational and investment balances and rates all in one place, improving transparency, and enabling them to execute and redeem investments effectively.

2011 compared with 2010

· Operating profit was down 32%, partly reflecting the sale of Global Merchant Services (GMS) which completed on 30 November 2010. Adjusting for the disposal, operating profit decreased 16%, driven by an impairment provision on a single name in 2011.

· Excluding GMS income of £451 million, income was 7% higher driven by the success of deposit-gathering initiatives, as deposits increased £2 billion in a competitive environment.

· Excluding GMS expenses of £244 million, expenses increased by 10%, reflecting business improvement initiatives and investment in technology and support infrastructure.

· Impairment losses increased to £166 million compared with £9 million in 2010 reflecting a single name impairment.

· For the eleven months in 2010 before completion of the disposal, GMS generated income of £451 million, total expenses of £244 million and an operating profit of £207 million.

Q4 2011 compared with Q3 2011

· Operating profit was in line with Q3 2011 reflecting resilient income and slightly higher impairment charges, offset by lower expenses.

· Income fell by 1% as a result of seasonally lower trade finance activity.

· Total expenses fell by 2% largely driven by a reduction in technology and infrastructure support costs, partially offset by lower discretionary staff costs in Q3 2011.

· Q4 2011 impairment losses of £47 million, up 4%, largely related to additional provisioning on an existing single name impairment.

· Customer deposits held up well in a competitive environment despite the adverse effect of a weakened Euro exchange rate.

· Third party assets decreased 13% as a result of reduced trade finance activity and the positive impact of balance sheet efficiency initiatives.

- Risk-weighted assets fell 7%, primarily benefitting from lower loans and advances.

Global Transaction Services (continued)

Key points (continued)

Q4 2011 compared with Q4 2010

- Operating profit was down 26%, driven by a provision on a single name in 2011. Adjusting for the sale of GMS, which completed on 30 November 2010 with an operating profit of £207 million, operating profit decreased 17%.

- Excluding GMS income of £451 million, income increased by 3%, driven by strong deposit gathering initiatives. Excluding GMS expenses of £244 million, expenses increased by 3%, reflecting business improvement initiatives and investment in technology and support infrastructure.

- In the two months in Q4 2010 before completion of the disposal, GMS recorded income of £80 million, total expenses of £50 million and an operating profit of £30 million.

Ulster Bank

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	£m	£m	£m	£m	£m
Income statement					
Net interest income	696	761	171	185	187
Net fees and commissions	142	156	28	41	40
Other non-interest income	69	58	21	19	16
Non-interest income	211	214	49	60	56
Total income	907	975	220	245	243
Direct expenses					
- staff	(221)	(237)	(53)	(55)	(57)
- other	(67)	(74)	(15)	(17)	(17)
Indirect expenses	(259)	(264)	(64)	(65)	(64)
	(547)	(575)	(132)	(137)	(138)
Impairment losses	(1,384)	(1,161)	(327)	(327)	(376)
Operating loss	(1,024)	(761)	(239)	(219)	(271)
Analysis of income by business					
Corporate	435	521	98	107	122
Retail	428	465	101	116	124
Other	44	(11)	21	22	(3)
Total income	907	975	220	245	243
Analysis of impairments by sector					
Mortgages	570	294	133	126	159
Corporate					
- property	324	375	83	78	69
- other corporate	434	444	100	111	135
Other lending	56	48	11	12	13
Total impairment losses	1,384	1,161	327	327	376
Loan impairment charge as % of gross					

customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	2.8%	1.4%	2.7%	2.4%	3.0%
Corporate					
- property	6.8%	6.9%	6.9%	6.1%	5.1%
- other corporate	5.6%	4.9%	5.2%	5.4%	6.0%
Other lending	3.5%	3.7%	2.8%	3.2%	4.0%
Total	4.1%	3.1%	3.8%	3.7%	4.1%

Ulster Bank (continued)

Key metrics

	Year ended 31 December 2011	Year ended 31 December 2010	Quarter ended 31 December 2011	Quarter ended 30 September 2011	Quarter ended 31 December 2010
Performance ratios					
Return on equity (1)	(26.1%)	(21.0%)	(23.3%)	(21.2%)	(29.8%)
Net interest margin	1.77%	1.84%	1.81%	1.85%	1.77%
Cost:income ratio	60%	59%	60%	56%	57%

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	20.0	20.7	(3%)	21.2	(6%)
- corporate					
- property	4.8	5.1	(6%)	5.4	(11%)
- other corporate	7.7	8.2	(6%)	9.0	(14%)
- other lending	1.6	1.5	7%	1.3	23%
	34.1	35.5	(4%)	36.9	(8%)
Customer deposits	21.8	23.4	(7%)	23.1	(6%)
Risk elements in lending					
- mortgages	2.2	2.1	5%	1.5	47%
- corporate					
- property	1.3	1.5	(13%)	0.7	86%
- other corporate	1.8	1.8	-	1.2	50%
- other lending	0.2	0.2	-	0.2	-
Total risk elements in lending	5.5	5.6	(2%)	3.6	53%
Loan:deposit ratio (excluding repos)	143%	141%	200bp	152%	(900bp)
Risk-weighted assets	36.3	34.4	6%	31.6	15%
Spot exchange rate - €/£	1.196	1.162		1.160	

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

Key points
2011 was another difficult year for the business due to the continued challenging economic environment. This was reflected in the financial performance, with ongoing pressure on income and a further increase in impairment losses.

Ulster Bank continues to make progress on its customer commitments and deposit gathering strategy, while cost management and targeting growth in areas that leverage competitive advantage, remain priorities. In 2011, customer numbers increased by 2%, representing a strong performance in current and savings accounts, driven by the enhanced customer service highlighted by our 'Help for what matters' programme.

Following a review of the cost base and operating model, 950 proposed job losses were announced in January 2012, the majority of which are expected by the end of 2012. This decision is a necessary part of the changes required to build a stronger sustainable business for the future.

Key points (continued)

2011 compared with 2010

- Operating profit before impairment losses decreased by £40 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 £1,024 million, 35% higher than 2010.

- Income fell by 7% 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.

Q4 2011 compared with Q3 2011

- Operating loss for the quarter increased by £20 million to £239 million largely as higher funding costs in both wholesale and deposit markets continue to outweigh the impact of loan re-pricing initiatives and tight expense management.

- Net interest income decreased by £14 million driven by a reduction in income earning assets coupled with an increase in funding costs. Customer loan balances reduced by 4%, reflecting amortisation of the loan book, which continued to exceed new business volume growth. Net interest margin declined by 4 basis points in the quarter to 1.81%, with the decrease in income partly offset by lower asset balances.

- Non-interest income fell by £11 million largely due to a one-off foreign exchange gain in Q3 2011.

- Expenses remained broadly flat in the quarter, but continued focus on cost management is driving towards a declining trend.

- Impairment losses were flat, with lower losses on the corporate portfolio offset by an increase in mortgage losses.

- Customer deposit balances decreased by 7% reflecting an outflow of wholesale balances due to rating downgrades.

Key points (continued)

Q4 2011 compared with Q4 2010

- Operating loss was £32 million lower primarily driven by a decrease in impairment charges on both the mortgage and corporate portfolios.

- Net interest income fell by 9%, reflecting the impact of a reducing loan book coupled with higher funding costs. Net interest margin increased by 4 basis points primarily driven by progress made on initiatives to improve customer loan margins during 2011.

- Non-interest income decreased by 13%, partially reflecting the loss of income from the merchant services business disposed of in Q4 2010.

- Expenses were broadly flat with an 8% fall in direct expenses.

US Retail & Commercial (£ Sterling)

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Income statement					
Net interest income	1,896	1,917	493	483	467
Net fees and commissions	709	729	164	190	169
Other non-interest income	295	300	94	67	62
Non-interest income	1,004	1,029	258	257	231
Total income	2,900	2,946	751	740	698
Direct expenses					
- staff	(819)	(784)	(211)	(206)	(204)
- other	(544)	(569)	(133)	(152)	(124)
Indirect expenses	(733)	(770)	(185)	(183)	(201)
	(2,096)	(2,123)	(529)	(541)	(529)
Impairment losses	(325)	(517)	(65)	(84)	(105)
Operating profit	479	306	157	115	64
Average exchange rate - US$/£	1.604	1.546	1.573	1.611	1.581
Analysis of income by product					
Mortgages and home equity	464	509	128	119	128
Personal lending and cards	420	476	94	111	113
Retail deposits	918	903	235	236	206
Commercial lending	580	580	147	149	141
Commercial deposits	292	320	76	75	75
Other	226	158	71	50	35
Total income	2,900	2,946	751	740	698
Analysis of impairments by sector					
Residential mortgages	35	58	9	7	3
Home equity	99	126	19	29	26
Corporate and commercial	54	202	8	7	54
Other consumer	57	97	17	11	6
Securities	80	34	12	30	16
Total impairment losses	325	517	65	84	105

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.6%	1.0%	0.6%	0.5%	0.2%
Home equity	0.7%	0.8%	0.5%	0.8%	0.7%
Corporate and commercial	0.2%	1.0%	0.1%	0.1%	1.1%
Other consumer	0.8%	1.4%	0.9%	0.7%	0.3%
Total	0.5%	1.0%	0.4%	0.4%	0.7%

US Retail & Commercial (£ Sterling) (continued)

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	6.3%	3.6%	8.0%	6.0%	3.3%
Net interest margin	3.06%	2.85%	3.03%	3.09%	3.00%
Cost:income ratio	72%	72%	70%	73%	76%

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Total third party assets	74.5	72.9	2%	71.2	5%
Loans and advances to customers (gross)					
- residential mortgages	6.1	5.9	3%	6.1	-
- home equity	14.9	14.9	-	15.2	(2%)
- corporate and commercial	22.8	22.1	3%	20.4	12%
- other consumer	7.6	6.6	15%	6.9	10%
	51.4	49.5	4%	48.6	6%
Customer deposits (excluding repos)	59.5	58.5	2%	58.7	1%
Risk elements in lending					
- retail	0.6	0.6	-	0.4	50%
- commercial	0.4	0.4	-	0.5	(20%)
Total risk elements in lending	1.0	1.0	-	0.9	11%
Loan:deposit ratio (excluding repos)	85%	83%	200bp	81%	400bp
Risk-weighted assets	58.8	56.5	4%	57.0	3%
Spot exchange rate - US$/£	1.548	1.562		1.552	

Note:

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

Key points

· Sterling weakened relative to the US dollar during the fourth quarter, with the average exchange rate decreasing by 2% compared with Q3 2011.

· Performance is described in full in the US dollar-based financial statements set out on pages 50 and 51.

US Retail & Commercial (US Dollar)

	Year ended		Quarter ended		
	31 December 2011 $m	31 December 2010 $m	31 December 2011 $m	30 September 2011 $m	31 December 2010 $m
Income statement					
Net interest income	3,042	2,962	777	778	739
Net fees and commissions	1,138	1,126	258	306	267
Other non-interest income	473	465	148	109	100
Non-interest income	1,611	1,591	406	415	367
Total income	4,653	4,553	1,183	1,193	1,106
Direct expenses					
- staff	(1,313)	(1,212)	(331)	(332)	(322)
- other	(874)	(880)	(211)	(245)	(197)
Indirect expenses	(1,176)	(1,189)	(291)	(295)	(317)
	(3,363)	(3,281)	(833)	(872)	(836)
Impairment losses	(521)	(799)	(101)	(136)	(168)
Operating profit	769	473	249	185	102
Analysis of income by product					
Mortgages and home equity	744	786	202	192	201
Personal lending and cards	673	735	147	179	179
Retail deposits	1,474	1,397	370	381	329
Commercial lending	931	896	232	240	223
Commercial deposits	469	495	120	121	119
Other	362	244	112	80	55
Total income	4,653	4,553	1,183	1,193	1,106
Analysis of impairments by sector					
Residential mortgages	56	90	14	12	5
Home equity	160	194	29	48	40
Corporate and commercial	87	312	13	11	87
Other consumer	92	150	26	17	11
Securities	126	53	19	48	25
Total impairment losses	521	799	101	136	168

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.6%	1.0%	0.6%	0.5%	0.2%
Home equity	0.7%	0.8%	0.5%	0.8%	0.7%
Corporate and commercial	0.2%	1.0%	0.1%	0.1%	1.1%
Other consumer	0.8%	1.4%	0.9%	0.7%	0.4%
Total	0.5%	1.0%	0.4%	0.5%	0.8%

US Retail & Commercial (US Dollar) (continued)

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	6.3%	3.6%	8.0%	6.0%	3.3%
Net interest margin	3.06%	2.85%	3.03%	3.09%	3.00%
Cost:income ratio	72%	72%	70%	73%	76%

	31 December 2011 $bn	30 September 2011 $bn	Change	31 December 2010 $bn	Change
Capital and balance sheet					
Total third party assets	115.3	113.8	1%	110.5	4%
Loans and advances to customers (gross)					
- residential mortgages	9.4	9.1	3%	9.4	-
- home equity	23.1	23.3	(1%)	23.6	(2%)
- corporate and commercial	35.3	34.5	2%	31.7	11%
- other consumer	11.8	10.4	13%	10.6	11%
	79.6	77.3	3%	75.3	6%
Customer deposits (excluding repos)	92.1	91.3	1%	91.2	1%
Risk elements in lending					
- retail	1.0	0.9	11%	0.7	43%
- commercial	0.6	0.6	-	0.7	(14%)
Total risk elements in lending	1.6	1.5	7%	1.4	14%
Loan:deposit ratio (excluding repos)	85%	83%	200bp	81%	400bp
Risk-weighted assets	91.1	88.2	3%	88.4	3%

Note:

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

Key points

US R&C continued to focus on its back-to-basics strategy, with good progress made in developing the division's customer franchise during 2011. The bank continued to re-energise the franchise through new branding, product development and competitive pricing.

To strengthen retail alignment and improve efficiencies, US R&C formed a consolidated Consumer Banking division by combining management of the retail banking franchise with the consumer lending division during H2 2011. This continued focus on alignment is expected to further contribute to the improved penetration of loan products to deposit households, which has already increased in ten consecutive quarters. The penetration of on-line banking customers, a key indicator of customer retention, also continued to improve during 2011.

To enhance the customer experience, in Q4 2011, Consumer Banking introduced four core Customer Commitments, built around feedback received from customers in Massachusetts. In Q1 2012, the Commitments will be rolled out to Citizens Financial Group's (CFG's) entire branch footprint.

US Retail & Commercial (US Dollar) (continued)

Key points (continued)

Significant organisational changes and investment in Commercial Banking, including unification under the RBS Citizens brand, has been important in positioning the business for growth. The enhanced sales training programme for managers and sales colleagues in this business has begun to deliver results with both higher credit balances and increased client satisfaction. External researchers TNS awarded Citizens the second highest score in relationship manager satisfaction among its competitors for 2011.

Risk management was also an important focus for 2011 and in Q4 2011, CFG's Board of directors approved a new formal risk appetite statement aimed at ensuring sustained predictable earnings and further strengthening the control environment.

2011 compared with 2010

- Operating profit increased to £479 million ($769 million) from £306 million ($473 million), an increase of £173 million ($296 million), or 56%. Excluding a credit of £73 million ($113 million) related to changes to the defined benefit plan in Q2 2010, operating profit increased £246 million ($409 million), or 106%, 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 £21 million, or 1% (up $80 million in US dollar terms). Net interest margin improved by 21 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 £25 million (up $20 million in US dollar terms), or 1%. The increase in US dollars 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 £100 million ($31 million), or 5%, 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 £192 million ($278 million), or 37%, largely reflecting an improved credit environment slightly offset by higher impairments related to securities. Loan impairments as a percent 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.

52

Key points (continued)

Q4 2011 compared with Q3 2011

- US Retail & Commercial posted an operating profit of £157 million ($249 million) compared with £115 million ($185 million) in the prior quarter, an increase of £42 million ($64 million), or 37%, driven by a decrease in expenses and impairments.

- Net interest income was £493 million ($777 million) compared with £483 million ($778 million) in the prior quarter. Loans and advances were up £2 billion ($2 billion), or 4%, from the previous quarter partially due to strong growth in commercial loan volumes partly offset by some continued planned run-off of long term fixed rate consumer products.

- Non-interest income was in line with the previous quarter, reflecting lower debit card fees impacted by legislative changes within the Durbin Amendment.

- Total expenses were down £12 million ($39 million), or 2%, reflecting lower mortgage servicing rights impairment and FDIC deposit insurance levies.

- Impairment losses were down £19 million ($35 million), or 22%, reflecting lower impairments related to securities. Loan impairments as a percent of loans and advances improved slightly to 0.4% from 0.5%.

Q4 2011 compared with Q4 2010

- Operating profit increased to £157 million ($249 million) from £64 million ($102 million), an increase of £93 million ($147 million), or 145%, substantially driven by lower impairments and improved income.

- Net interest income was up £26 million ($38 million), or 6%. Net interest margin improved by 3 basis points to 3.03% reflecting changes in deposit mix and continued discipline around deposit pricing combined with strong commercial loan growth partially offset by run-off of consumer loans.

- Non-interest income was up £27 million ($39 million), or 12%, reflecting securities gains. Higher account and transaction fees as a result of new pricing initiatives, were offset by lower debit card fees.

- Total expenses were broadly in line with Q4 2010 reflecting a positive movement on the valuation of mortgage servicing rights in Q4 2010, not repeated in Q4 2011, and higher costs related to regulatory challenges, offset by lower litigation costs.

- Impairment losses declined by £40 million ($67 million), or 38%, reflecting an improved credit environment. Loan impairments as a percentage of loans and advances improved to 0.4% from 0.8%.

Global Banking & Markets

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	£m	£m	£m	£m	£m
Income statement					
Net interest income from banking activities	707	1,252	171	171	225
Funding cost of rental assets	(42)	(37)	(12)	(10)	(11)
Net interest income	665	1,215	159	161	214
Net fees and commissions receivable	1,049	1,283	188	222	381
Income from trading activities	4,735	5,218	395	1,892	957
Other operating income	(508)	196	170	(1,176)	35
Non-interest income	5,276	6,697	753	938	1,373
Total income	5,941	7,912	912	1,099	1,587
Direct expenses					
- staff	(2,454)	(2,693)	(459)	(527)	(554)
- other	(928)	(842)	(240)	(243)	(292)
Indirect expenses	(949)	(862)	(240)	(249)	(219)
	(4,331)	(4,397)	(939)	(1,019)	(1,065)
Impairment (losses)/recoveries	(49)	(151)	(68)	32	5
Operating profit/(loss)	1,561	3,364	(95)	112	527
Analysis of income by product					
Rates - money markets	(212)	65	(78)	(19)	(65)
Rates - flow	1,668	1,985	465	113	413
Currencies	868	870	183	227	178
Credit and asset backed markets	1,424	2,215	9	93	433
Fixed income & currencies	3,748	5,135	579	414	959
Portfolio management and origination	1,343	1,777	277	305	396
Equities	781	933	158	114	183
Total excluding fair value derivative liabilities	5,872	7,845	1,014	833	1,538
Fair value derivative liabilities	69	67	(102)	266	49
Total income	5,941	7,912	912	1,099	1,587
Analysis of impairments by sector					

Manufacturing and infrastructure	(139)	51	(62)	-	(2)
Property and construction	(42)	(74)	(25)	(11)	(10)
Banks and financial institutions	54	(177)	(11)	44	(54)
Other	78	49	30	(1)	71
Total impairment (losses)/recoveries	(49)	(151)	(68)	32	5
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	0.1%	0.2%	0.4%	(0.2%)	-

54

Global Banking & Markets (continued)

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	7.7%	16.6%	(1.8%)	2.3%	10.2%
Net interest margin	0.73%	1.05%	0.76%	0.71%	0.93%
Cost:income ratio	73%	56%	103%	93%	67%
Compensation ratio (2)	41%	34%	50%	48%	35%
Compensation ratio - continuing business	39%	32%			