

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
May 10, 2013

Report of Foreign Private Issuer

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

10 May 2013

The Royal Bank of Scotland Group plc

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PO Box 1000
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(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(File Nos. 333-184147 and 333-184147-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

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Forward-looking statements

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

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

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

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

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

Presentation of information

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 in appendix 1 (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 in appendix 1. These non-GAAP financial measures are not a substitute for GAAP measures. Furthermore, RBS has divided its operations into "Core" and "Non-Core". Certain measures disclosed in this document for Core operations and used by RBS management are non-GAAP financial measures as they represent a combination of all reportable segments with the exception of Non-Core. In addition, RBS has further divided parts of the Core business into "Retail & Commercial" consisting of the UK Retail, UK Corporate, Wealth, International Banking, Ulster Bank and US Retail & Commercial divisions. This is a non-GAAP financial measure. Lastly, the Basel III net stable funding ratio, fully loaded Basel III ratio and liquidity coverage ratio represent non-GAAP financial measures given they are metrics that are not yet required to be disclosed by a government, governmental authority or self-regulatory organisation.

Disposal groups

Since 2011, the assets and liabilities relating to the RBS England and Wales and NatWest Scotland branch-based businesses, along with certain SME and corporate activities across the UK ('UK branch-based businesses'), were classified within Disposal groups. Santander's withdrawal from the sale in October 2012 has led the Group to conclude that a sale within 12 months is unlikely; accordingly in the balance sheets at 31 December 2012 and 31 March 2013 the assets and liabilities of the UK branch-based businesses are not included within Disposal groups. IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations' does not permit restatement on reclassification.

Direct Line Group

The Group sold the first tranche of ordinary shares representing 34.7% of the share capital of Direct Line Group in October 2012 via an Initial Public Offering. On 13 March 2013, the Group sold a further 16.8% of ordinary shares in Direct Line Group and has ceded control. This fulfils the Group's plan to cede control of Direct Line Group by the end of 2013 and is a step toward complete disposal by the end of 2014, as required by the European Commission.

The Group now holds 48.5% of the issued ordinary share capital of Direct Line Group. Consequently, in the Q1 2013 Group results Direct Line Group is treated as a discontinued operation until 12 March 2013 and as an associated undertaking thereafter.

Presentation of information (continued)

Revisions

Revised allocation of Business Services costs

In the first quarter of 2013, the Group transferred certain direct costs from Business Services to US Retail & Commercial, and has also reclassified certain costs between direct and indirect expenses for all divisions. Comparatives have been restated accordingly; the revision did not affect total expenses or operating profit.

Implementation of IAS 19 'Employee Benefits' (revised)

The Group implemented IAS 19 with effect from 1 January 2013. IAS 19 requires: the immediate recognition of all actuarial gains and losses eliminating the corridor approach; interest cost to be calculated on the net pension liability or asset at the long-term bond rate, an expected rate of return will no longer be applied to assets; and all past service costs to be recognised immediately when a scheme is curtailed or amended. Implementation of IAS 19 resulted in an increase in the loss after tax for the quarters ended 31 December 2012 and 31 March 2012 of £21 million.

Implementation of IFRS 10 'Consolidated Financial Statements'

The Group implemented IFRS 10 with effect from 1 January 2013. IFRS 10 adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity so as to vary returns for the reporting entity. IFRS 10 requires retrospective application. Following implementation of IFRS 10, certain entities that have trust preferred securities in issue are no longer consolidated by the Group. As a result there has been a reduction in non-controlling interests of £0.5 billion with a corresponding increase in Owners' equity (Paid-in equity); prior periods have been restated.

Condensed consolidated income statement
for the quarter ended 31 March 2013

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Interest receivable	4,279	4,439	4,934
Interest payable	(1,609)	(1,666)	(2,019)
Net interest income	2,670	2,773	2,915
Fees and commissions receivable	1,316	1,374	1,485
Fees and commissions payable	(210)	(245)	(179)
Income from trading activities	1,115	474	212
(Loss)/gain on redemption of own debt	(51)	-	577
Other operating income	612	227	(800)
Non-interest income	2,782	1,830	1,295
Total income	5,452	4,603	4,210
Staff costs	(1,887)	(1,656)	(2,508)
Premises and equipment	(556)	(592)	(562)
Other administrative expenses	(763)	(2,506)	(883)
Depreciation and amortisation	(387)	(498)	(457)
Write-down of goodwill and other intangible assets	-	(124)	-
Operating expenses	(3,593)	(5,376)	(4,410)
Profit/(loss) before impairment losses	1,859	(773)	(200)
Impairment losses	(1,033)	(1,454)	(1,314)
Operating profit/(loss) before tax	826	(2,227)	(1,514)
Tax charge	(350)	(39)	(138)
Profit/(loss) from continuing operations	476	(2,266)	(1,652)
Profit/(loss) from discontinued operations, net of tax			
- Direct Line Group (1)	127	(351)	88
- Other	2	6	5
Profit/(loss) from discontinued operations, net of tax	129	(345)	93
Profit/(loss) for the period	605	(2,611)	(1,559)
Non-controlling interests	(131)	108	14
Preference share and other dividends	(81)	(115)	-

Profit/(loss) attributable to ordinary and B shareholders	393	(2,618)	(1,545)
Basic and diluted earnings/(loss) per ordinary and B share from continuing operations (2)	2.6p	(21.6p)	(15.0p)
Basic and diluted earnings/(loss) per ordinary and B share from continuing and discontinued operations (2)	3.5p	(23.6p)	(14.2p)

Notes:

- (1) Includes a gain on disposal of £72 million in Q1 2013 and the write-down of goodwill of £394 million in Q4 2012.
- (2) Data for the quarter ended 31 March 2012 have been adjusted for the sub-division and one-for-ten consolidation of ordinary shares in June 2012.

Comment

Stephen Hester, Group Chief Executive, commented:

These results show pleasing progress in delivering a strong and valuable RBS for all our stakeholders. We expect to substantially complete the Bank's restructuring phase during 2014. We are seeing the start of a pick-up in loan demand and have a strong surplus of funds ready and available to fully support economic recovery. Across the Group we are working hard to improve what we do for customers and to better position the Bank for future growth.

Capital ratios continue to improve, underpinning our confidence in RBS's standalone strength. Unwanted assets are shrinking, with Non-Core set to complete the current sell-down phase at the end of 2013. Irish losses seem to have turned the corner, falling 47% year on year.

RBS as a whole made a pre-tax operating profit of £826 million this quarter, with our Core businesses performing solidly given the economic environment. We are focused on completing the additional restructuring required of us. While challenges remain, we expect RBS to be able to provide both good customer service and improving returns for shareholders in the coming years.

Banking culture has rightly received much focus in recent months. At its core is the need to permanently ensure that serving customers well lies at the heart of what we do and that all our people re-engage in the task of improving further the way in which we contribute to our customers and to the world around us more broadly. RBS is intensively engaged across all its people and activities in this cause.

There is hard work still ahead for the economy and our industry. Nonetheless, our sights are set on moving RBS beyond its restructuring phase towards the ambition of building a really good bank for customers and for all we serve.

Highlights

Successful rebuild of financial strength

- RBS's Core Tier 1 ratio strengthened by 50 basis points to 10.8%, largely driven by the continuing reduction in Non-Core and Markets risk-weighted assets.
- On a fully loaded Basel III basis, the Group's Core Tier 1 ratio improved by 50 basis points to 8.2%.
- Non-Core funded assets were reduced by £5 billion to £53 billion and the division is on track to hit its target of £40 billion by the end of 2013.
- Continuing deposit inflows improved the loan:deposit ratio to 99%, and our liquidity pool of £158 billion covered short-term wholesale funding of £43 billion by 3.7 times.
- Risk elements in lending fell by £1 billion and provision coverage was further strengthened in Non-Core and Ulster Bank. The Group charge for loan impairments fell 20% versus prior year.
- Credit trends in Ireland are turning a corner, with Ulster Bank Core and Non-Core impairment losses down 27% from Q1 2012 and 29% from Q4 2012.

Operating performance is resilient

- Group operating profit before tax was £826 million, £577 million excluding own credit adjustment of £249 million, compared with a loss of £2,227 million in Q4 2012.
- Profit attributable to shareholders was £393 million, or £194 million excluding the impact of own credit adjustments of £199 million.
- Core operating profit of £1,334 million compares with £1,495 million in Q4 2012 and £1,639 million in Q1 2012. Retail & Commercial profits were up 12% from Q1 2012 to £1,010 million, with Ulster Bank posting a material improvement. Markets showed a seasonal increase versus Q4 2012 to £278 million, though down significantly relative to the prior year's strong first quarter.
- Non-Core operating losses of £505 million were 46% lower than in Q4 2012, driven by a further reduction in impairments.

Good progress in business restructuring

- The sale of a further tranche of Direct Line Group shares in March took the Group's stake below 50%, in line with the European Commission (EC) state aid agreement.
- The Group continues to work towards a full separation and initial public offering of its branch-based business that is mandated for disposal by the EC. The business is profitable and well-funded, and we continue to have discussions with potential investors in the business. We anticipate re-branding this business under the Williams & Glyn's name.
- As indicated in the Group's 2012 report on Form 6-K filed with the Securities and Exchange Commission on March 11, 2013, the Markets business is being restructured with a 2014 target of reducing risk-weighted assets to £80 billion, on a Basel III basis. Our intention is to sustain the business's core strengths in fixed income products while focusing on serving our corporate and investor clients well.

Highlights (continued)

Continuing commitment to customers

- RBS is committed to serving its customers well. Right across our business this is our top priority, to sustain and to improve what we do.
- Core lending to SMEs(1) rose 1% from Q4 2012 to £34 billion, while the wider market remained flat. UK residential mortgage lending remained broadly stable at £110.2 billion. UK Retail mortgage balances stand 33% above 2008 levels, although Q1 2013 volumes were affected by extensive staff retraining.
- During Q1 2013 RBS has been pleased to offer over £1.5 billion of discounted loans to SMEs and more than £327 million of mortgages to homebuyers in association with the Bank of England's Funding for Lending Scheme (FLS). Given its very strong liquidity position, RBS has had no need to draw on this public funding during the quarter.
- During the quarter RBS offered more than £13 billion of loans and facilities to UK businesses, including £8 billion to SMEs, and renewed nearly £7 billion of overdrafts, of which £2 billion was for SMEs.
- The average interest rate charged on RBS's SME loans was 3.88% in Q1 2013, down from 3.93% in the prior quarter and from 4.14% in Q1 2012.
- The Group has maintained broadly stable market shares across its major customer franchises. Net Promoter Scores improved slightly in Q1 2013 in a number of key areas.
- Efforts to simplify processes and improve customer experience continue; changes to the current account opening process are being piloted that have so far significantly reduced account opening times.

Outlook

RBS expects continued good progress on all 'safety and soundness' measures including a fully loaded Basel III Core Tier 1 ratio of around 9% by the end of 2013.

The Bank has strong ability to fund lending growth as customer demand grows.

Operating results in Retail and Commercial banking are expected to be resilient with modest improvement in net interest margin, cost reduction and improving impairment trends. Income is likely to mirror customer activity levels.

Markets-related income remains difficult to predict but we expect a muted year overall as the business transitions towards its revised steady-state shape and size.

We expect to deliver Group operating costs (excluding Direct Line Group) below market consensus expectations of c.£13.2 billion this year, with further meaningful cost reductions in 2014 and 2015.

Note:

- (1) Core SME lending excludes Non-Core and commercial property lending.

Business update

Supporting our UK customers

RBS is determined to support its customers responsibly and well, through lending as well as in other ways.

In Q1 2013, RBS:

- Supplied £13.2 billion of loans and facilities to UK business, including £7.8 billion to SME customers;
- Renewed £6.5 billion of UK business overdrafts, including £1.7 billion for SMEs;
- Offered £1.5 billion of discounted loans to nearly 8,500 SMEs in association with the Bank of England's Funding for Lending Scheme (FLS);
- Accounted for 35% of all SME lending in the UK, compared with overall customer market share of 24%(1); and
- Advanced £3.6 billion of mortgages to around 28,000 UK homeowners, including £327 million of discounted FLS loans.

RBS core lending to UK business, excluding commercial property lending, was broadly stable in Q1 2013 at £64.1 billion.

Within this total, core lending to SMEs rose over 1% to £34 billion, compared with a flat overall market. Manufacturing was amongst the sectors where loan growth was strongest, up 10% versus Q4 2012.

Loan applications rose slightly from the prior quarter to 49,000, though they remained lower than in Q1 2012 and repayment levels are still high. RBS continues to approve over 90% of loan applications. The most significant category of declines is on the grounds of ability to repay. The average interest rate charged on RBS's SME loans was 3.88% in Q1, down from 3.93% in Q4 2012 and 4.14% in Q1 2012.

Many SME customers are still building up cash balances. This is reflected in overdraft utilisation rates, down to 43% compared with 46% in Q1 2012, and in customer deposits, up 3% to £54.7 billion.

UK residential mortgage lending was broadly stable in the quarter at £110.2 billion. Since 2008, UK Retail mortgage balances have risen by 33% in a market that has risen by only 3%. Activity was lower in Q1 2013 than in Q4 2012 as a result of extensive retraining of UK Retail's mortgage advisers, which reduced adviser availability for new appointments in December 2012 and limited the loan pipeline.

(1) Source: British Bankers' Association and RBS internal data.

Business update (continued)

Supporting our UK customers (continued)

RBS has continued to promote the Bank of England's Funding for Lending Scheme (FLS), and was pleased to offer £1.5 billion of discounted loans to nearly 8,500 SMEs in association with the FLS. The Group's very strong liquidity position, however, meant it had no need to draw on this public funding during the quarter.

Published data for the FLS includes commercial property lending, where RBS continues to run off excess exposures. Although changes to the scheme announced in April will bring asset and invoice finance in scope, Q1 data currently excludes business credit supplied through Lombard and RBS Invoice Finance. RBS's FLS net lending in Q1 2013 was +£0.9 billion (up 1%) when adjusted for these inclusions and for commercial property run-off.

Analysis of results

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Net interest income			
Net interest income	2,670	2,773	2,915
Average interest-earning assets	559,672	566,233	629,318
Net interest margin			
- Group	1.93%	1.95%	1.86%
- Retail & Commercial (1)	2.90%	2.91%	2.91%
- Non-Core	(0.25%)	0.29%	0.31%

Note:

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

Key points

Net interest income was affected in the period by the lower day count. The impact of declining income from UK deposit hedges continued to weigh on margins, largely offset by deposit repricing. Net interest margin was flat quarter on quarter and up 6 basis points year-on-year.

Q1 2013 compared with Q4 2012

- Net interest income fell by £103 million, largely reflecting continued run-off and divestment in Non-Core and a lower day count in Q1 2013 which particularly affected R&C. Excluding the impact of the lower day count, R&C net interest income was resilient, with continued lower rates on current account hedges and a small decline in asset volumes partly offset by improved rates on deposits.
- Average interest-earning assets fell by a further £7 billion in line with the Group's planned balance sheet reductions in Non-Core and Markets.
- R&C NIM was 1 basis point lower, primarily driven by UK Retail with continued lower rates on current account hedges and the non-repeat of an internal funding benefit in Q4 2012.
- Group NIM remained decreased 2 basis points to 1.93% as lower Group Treasury funding costs offset declines in R&C and Non-Core NIM.

Q1 2013 compared with Q1 2012

- Group NIM was up 7 basis points, largely reflecting a smaller liquidity portfolio and the decline of lower-yielding Non-Core assets as the division continued to shrink.
- A £245 million fall in net interest income was driven by continuing pressure on liability margins in the R&C businesses as deposit hedges roll off as well as significantly lower interest-earning assets.

A £70 billion reduction in average interest-earning assets reflected the reduction in Non-Core and International Banking assets along with planned run-off of the low-yielding liquidity buffer.

For details on the Group's average balance sheet refer to pages 67 and 68.

Analysis of results (continued)

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

	Quarter ended		
	31 March	December	31 March
	2013	2012	2012
	£m	£m	£m
Non-interest income			
Fees and commissions receivable			
- managed basis	1,317	1,375	1,487
- Direct Line Group discontinued operations	(1)	(1)	(2)
Statutory basis	1,316	1,374	1,485
Fees and commissions payable			
- managed basis	(284)	(324)	(290)
- Direct Line Group discontinued operations	74	80	111
- RFS Holdings minority interest	-	(1)	-
Statutory basis	(210)	(245)	(179)
Net fees and commissions			
- managed basis	1,033	1,051	1,197
- Direct Line Group discontinued operations	73	79	109
- RFS Holdings minority interest	-	(1)	-
Statutory basis	1,106	1,129	1,306
Income from trading activities			
- managed basis	1,015	567	1,264
- Asset Protection Scheme	-	-	(43)
- own credit adjustments*	99	(98)	(1,009)
- Direct Line Group discontinued operations	1	4	-
- RFS Holdings minority interest	-	1	-
Statutory basis	1,115	474	212
(Loss)/gain on redemption of own debt - statutory basis	(51)	-	577
Other operating income			
- managed basis (1)	381	381	725
- strategic disposals**	(6)	(16)	(8)
- own credit adjustments*	150	(122)	(1,447)
- Direct Line Group discontinued operations	(14)	(16)	(53)
- RFS Holdings minority interest	101	-	(17)
Statutory basis	612	227	(800)
Insurance net premium income (to 12 March 2013)			
- managed basis	699	919	938

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- Direct Line Group discontinued operations	(699)	(919)	(938)
Statutory basis	-	-	-
Total non-interest income - managed basis	3,128	2,918	4,124
Total non-interest income - statutory basis	2,782	1,830	1,295
* Own credit adjustments impact:			
Income from trading activities	99	(98)	(1,009)
Other operating income	150	(122)	(1,447)
Own credit adjustments	249	(220)	(2,456)
**Strategic disposals			
Loss on sale and provision for loss on disposal of investments in:			
- RBS Aviation Capital	-	(8)	-
- Other	(6)	(8)	(8)
	(6)	(16)	(8)

Note:

- (1) Includes the Group's share of profit of Direct Line Group as an associated undertaking of £7 million from 13 March 2013.

Analysis of results (continued)

Key points

Seasonal first quarter strength in investment banking revenues was less pronounced in Q1 2013 than in previous years. Direct Line Group was accounted for as an associated undertaking from 13 March 2013, as our holding fell below 50% and we ceded control.

Q1 2013 compared with Q4 2012

- Income from trading activities increased by 135%, partially due to a £99 million gain in relation to own credit adjustments compared with a charge of £98 million in Q4 2012. On a managed basis, income from trading activities increased by 79% in line with a seasonally stronger first quarter, with a particularly good performance in Asset Backed Products in the Markets division as investors renewed their search for yield. Non-Core income from trading activities also benefited from the seasonal trend, with tighter spreads, asset price improvements and lower disposal losses.
- Slightly offsetting these seasonal gains was a 17% decline in UK Corporate non-interest income, with lower revenue share from Markets and the non-repeat of equity investment gains in Q4 2012.
- On a managed basis, insurance net premium income fell by £220 million, primarily reflecting the non-consolidation of Direct Line Group from 13 March 2013. On a statutory basis, insurance net premium income is included in discontinued operations.

Q1 2013 compared with Q1 2012

- On a statutory basis, non-interest income increased by £1,487 million partially due to an own credit gain of £249 million recorded in Q1 2013, compared to a charge of £2,456 million in Q1 2012. On a managed basis the majority of the £996 million fall in non-interest income was driven by Markets which fell by £700 million, reflecting the business's de-risking activity and the impact of less attractive market conditions in the Rates business versus Q1 2012.
- On a managed basis, insurance net premium income was down £239 million, given the accounting change described above and lower net premium income reflecting a decline in the volume of Motor-related insurance revenue.

Analysis of results (continued)

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

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Operating expenses			
Staff expenses			
- managed basis	1,893	1,467	2,249
- Direct Line Group discontinued operations	(73)	(123)	(90)
- integration and restructuring costs	67	311	349
- bonus tax	-	-	-
- RFS Holdings minority interest	-	1	-
Statutory basis	1,887	1,656	2,508
Premises and equipment			
- managed basis	580	573	550
- Direct Line Group discontinued operations	(34)	(54)	(1)
- integration and restructuring costs	10	75	13
- RFS Holdings minority interest	-	(2)	-
Statutory basis	556	592	562
Other administrative expenses			
- managed basis	731	723	819
- Payment Protection Insurance costs	-	450	125
- Interest Rate Hedging Products redress and related costs	50	700	-
- regulatory fines	-	381	-
- bank levy	-	175	-
- Direct Line Group discontinued operations	(54)	(51)	(133)
- integration and restructuring costs	37	128	71
- RFS Holdings minority interest	(1)	-	1
Statutory basis	763	2,506	883
Depreciation and amortisation			
- managed basis	339	384	394
- Direct Line Group discontinued operations	(10)	(24)	(11)
- amortisation of purchased intangible assets	41	32	48
- integration and restructuring costs	17	106	27
- RFS Holdings minority interest	-	-	(1)
Statutory basis	387	498	457
Write-down of goodwill and other intangible assets - statutory	-	124	-
Operating expenses - managed basis	3,543	3,147	4,012
Operating expenses - statutory basis	3,593	5,376	4,410
Insurance net claims			

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- managed basis	445	606	649
- Direct Line Group discontinued operations	(445)	(606)	(649)
Statutory basis	-	-	-

Analysis of results (continued)

Key points

In 2013, the Group is continuing its focus on cost control, whilst at the same time funding investment in order to make it simpler, easier and fairer for customers to do business with us by improving systems and processes and enhancing compliance and risk management infrastructure.

Q1 2013 compared with Q4 2012

- On a statutory basis, operating expenses decreased by 33% partially due to the non-repeat of Payment Protection Insurance costs (£450 million), regulatory fines (£381 million) and bank levy (£175 million) recorded in Q4 2012; and a £650 million reduction in Interest Rate Hedging Products redress and related costs. On a managed basis, the increase in operating expenses largely reflects the substantial bonus accrual releases and clawback recorded in Q4 2012, principally in Markets and International Banking.
- US R&C expenses were flat, excluding a \$33 million pension gain recorded in Q4 2012. A 5% increase in UK Corporate expenses was driven by costs set aside for customer remediation.

Q1 2013 compared with Q1 2012

- On a statutory basis, operating expenses were 19% lower partially due to lower integration and restructuring costs, down £329 million, and a charge of £125 million for Payment Protection Insurance costs recorded in Q1 2012. On a managed basis the 12% decrease in operating expenses reflects a £162 million reduction in Markets, £98 million reduction in Non-Core, and falls in US R&C of £80 million, International Banking of £77 million and Direct Line Group of £71 million.
- Staff costs in Markets were driven lower as a result of significant headcount reductions, down 2,000, and lower performance-related pay.
- The decline in Non-Core expenses reflected a reduction in operating lease depreciation (£56 million), predominantly due to the disposal of RBS Aviation Capital in Q2 2012, and a 1,700 fall in headcount in line with the run-off of the business.
- Business Services costs of £918 million were down 5%, reflecting continuing benefits from the Group's efficiency initiatives.

Analysis of results (continued)

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Impairment losses			
Loan impairment losses	1,036	1,402	1,295
Securities impairment (gains)/losses	(3)	52	19
Group impairment losses - managed and statutory	1,033	1,454	1,314
Loan impairment losses			
- individually assessed	646	818	745
- collectively assessed	441	505	595
- latent	(51)	80	(57)
Customer loans	1,036	1,403	1,283
Bank loans	-	(1)	12
Loan impairment losses	1,036	1,402	1,295
Core	599	729	796
Non-Core	437	673	499
Group	1,036	1,402	1,295
Customer loan impairment charge as a % of gross loans and advances (1)			
Group	0.9%	1.2%	1.1%
Core	0.6%	0.7%	0.8%
Non-Core	3.3%	4.8%	2.7%

Note:

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

Key points

Further significant reductions in impairments were recorded in both R&C and Non-Core portfolios, with an improving trend in Ulster Bank, in line with the recent stabilisation in the economic environment in Ireland. Impairment losses in Ireland remain elevated, nonetheless.

Q1 2013 compared with Q4 2012

- Group loan impairment losses fell by 26%, with the biggest improvements occurring in the Core and Non-Core Ulster Bank portfolios.
- Non-Core loan impairments fell by £236 million (35%) with £122 million of the fall relating to the Ulster Bank portfolio. Core Ulster Bank loan impairments declined by £78 million, reflecting improving trends on the mortgage portfolio.

- Loan impairments as a percentage of gross loans and advances declined to 0.6% in Core and 3.3% in Non-Core.
- Risk elements in lending (REIL) totalled £41 billion, down £1 billion in the quarter. Group provision coverage of REIL remained stable at 52%.

Analysis of results (continued)

Key points (continued)

Q1 2013 compared with Q1 2012

- Group loan impairment losses fell by 20%, largely reflecting a £154 million improvement in Core Ulster Bank, along with improvements in UK Retail (down £75 million as a result of lower default rates) and Non-Core (down £62 million) as the size of the portfolio declined by 28%.
- The improvement in Ulster Bank reflects a significant reduction in losses in the mortgage portfolio, as the pace of deterioration in credit metrics slowed in line with relative macroeconomic stabilisation.

For more details on the Group's exposures and provisioning please refer to page 90 and Appendix 3.

Analysis of results (continued)

	31 March 2013	31 December 2012
Capital resources and ratios		
Core Tier 1 capital	£48bn	£47bn
Tier 1 capital	£57bn	£57bn
Total capital	£69bn	£67bn
Risk-weighted assets	£446bn	£460bn
Core Tier 1 ratio	10.8%	10.3%
Tier 1 ratio	12.9%	12.4%
Total capital ratio	15.5%	14.5%

Key points

Good progress continues to be made in reducing risk-weighted assets and further strengthening the Group's capital ratios, consistent with meeting regulatory requirements well ahead of their implementation.

Q1 2013 compared with Q4 2012

- Core Tier 1 ratio increased by 50 basis points to 10.8% largely as a result of a £14 billion decrease in risk-weighted assets.
- The £14 billion fall in risk-weighted assets was largely attributable to an £13 billion decline in Markets, with lower operational and market risk, and a £6 billion reduction in Non-Core, through disposals and run-off.
- On a fully loaded Basel III basis, the Common Equity Tier 1 ratio strengthened by 50 basis points to 8.2%(1) in line with management's target of reaching in the region of 9% by the end of 2013 and 10% by the end of 2014. This is well ahead of the Basel implementation timetable, which calls for RBS to have a fully loaded ratio of 8.5% by 2018.

For more details of the Group's capital resources refer to page to 85.

(1) Calculated on the same basis as disclosed on page 157 of the Group's 2012 Form 6-K.

Analysis of results (continued)

	31 March 2013	31 December 2012
Balance sheet		
Total assets	£1,308bn	£1,312bn
Derivatives	£432bn	£442bn
Funded balance sheet (1)	£876bn	£870bn
Loans and advances to customers (2)	£433bn	£432bn
Customer deposits (3)	£438bn	£434bn
Loan:deposit ratio - Core (4)	90%	90%
Loan:deposit ratio - Group (4)	99%	100%

Notes:

(1) Funded balance sheet represents total assets less derivatives; (2) Excluding reverse repurchase agreements and stock borrowing, and including disposal groups; (3) Excluding repurchase agreements and stock lending, and including disposal groups; (4) Net of provisions, including disposal groups and excluding repurchase agreements. Excluding disposal groups, the loan:deposit ratios of Core and Group at 31 March 2013 were 90% and 99% respectively (31 December 2012 - 89% and 99% respectively).

Key points

The Group's balance sheet remains strong and conservatively funded.

Q1 2013 compared with Q4 2012

- The Group's loan:deposit ratio ticked down to 99%, driven by further Non-Core asset reductions and continuing strong deposit inflows.
- Loans and advances to customers grew by £1 billion as a £3 billion increase in US R&C, largely reflecting the strengthening of the US dollar against sterling, was partly offset by run-off and disposals in Non-Core. In the UK, subdued customer demand for borrowing continued to hamper loan growth.
- Customer deposits increased by £4 billion as a result of the US dollar strengthening against sterling and deposit inflows in most R&C businesses despite market-wide pricing reductions, driven by an overall excess of liquidity in the market. This was partially offset by a fall in UK Corporate deposits, largely reflecting seasonality.
- The funded balance sheet increased by £6 billion, principally reflecting larger central bank deposits within Group Treasury and a small rebound in Markets counterparty positions compared with a seasonally low Q4 2012. The change in accounting treatment for Direct Line Group led to an £11 billion reduction in third party assets.

Analysis of results (continued)

Funding & liquidity metrics	31 March 2013	31 December 2012
Deposits (1)	£493bn	£491bn
Deposits as a percentage of funded balance sheet	56%	56%
Short-term wholesale funding (2)	£43bn	£42bn
Wholesale funding (2)	£147bn	£150bn
Short-term wholesale funding as a percentage of funded balance sheet	5%	5%
Short-term wholesale funding as a percentage of total wholesale funding	29%	28%
Liquidity portfolio	£158bn	£147bn
Liquidity portfolio as a percentage of funded balance sheet	18%	17%
Liquidity portfolio as a percentage of short-term wholesale funding	367%	350%
Net stable funding ratio	119%	117%

Notes:

- (1) Excludes repurchase agreements and stock lending and includes disposal groups.
- (2) Excludes derivative collateral.

Key points

The Group funds its activities with a high quality and stable mix of funding dominated by customer deposits. It also holds a significant liquidity buffer to protect against unforeseen funding shortages.

Q1 2013 compared with Q4 2012

- The liquidity portfolio grew by a further £11 billion, with Non-Core run-down and deposit growth continuing to bring in additional liquidity and subdued customer demand for borrowing making it harder to lend.
- This liquidity portfolio covered the Group's short-term wholesale funding 3.7 times, significantly above the Group's medium-term target of 1.5 times, as short-term wholesale funding as a proportion of the funded balance sheet remained at 5%.
- The Group monitors its liquidity coverage ratio (LCR) and, based on its interpretation of the draft guidance available, maintained its LCR at over 100% as at 31 March 2013. The net stable funding ratio was 119%.

Further analysis of the Group's liquidity and funding metrics are included from page 87.

Divisional performance

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

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Operating profit/(loss) by division			
UK Retail	477	513	477
UK Corporate	358	424	492
Wealth	56	76	43
International Banking	94	155	97
Ulster Bank	(164)	(243)	(310)
US Retail & Commercial	189	200	102
Retail & Commercial	1,010	1,125	901
Markets	278	139	824
Direct Line Group	89	113	84
Central items	(43)	118	(170)
Core	1,334	1,495	1,639
Non-Core	(505)	(942)	(483)
Managed basis	829	553	1,156
Reconciling items:			
Own credit adjustments	249	(220)	(2,456)
Payment Protection Insurance costs	-	(450)	(125)
Interest Rate Hedge Products redress and related costs	(50)	(700)	-
Regulatory fines	-	(381)	-
Integration and restructuring costs	(131)	(620)	(460)
Gain on redemption of debt	(51)	-	577
Write-down of goodwill and other intangible assets	-	(518)	-
Asset Protection Scheme	-	-	(43)
Amortisation of purchased intangible assets	(41)	(32)	(48)
Strategic disposals	66	(16)	(8)
Bank levy	-	(175)	-
RFS Holdings minority interest	100	(2)	(25)
Statutory basis before the reclassification of the Direct Line Group results to discontinued operations	971	(2,561)	(1,432)
Direct Line Group reclassified to discontinued operations	(145)	334	(82)
Statutory basis	826	(2,227)	(1,514)
Impairment losses by division			
UK Retail	80	93	155
UK Corporate	185	234	176

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Wealth	5	16	10
International Banking	55	37	35
Ulster Bank	240	318	394
US Retail & Commercial	19	23	19
Retail & Commercial	584	721	789
Markets	16	22	2
Central items	-	8	34
Core	600	751	825
Non-Core	433	703	489
Managed and statutory basis	1,033	1,454	1,314

Divisional performance (continued)

	Quarter ended		
	31 March 2013 %	31 December 2012 %	31 March 2012 %
Net interest margin by division			
UK Retail	3.49	3.60	3.61
UK Corporate	3.01	2.97	3.09
Wealth	3.55	3.69	3.67
International Banking	1.74	1.62	1.60
Ulster Bank	1.85	1.93	1.87
US Retail & Commercial	2.93	2.90	3.03
Retail & Commercial	2.90	2.91	2.91
Non-Core	(0.25)	0.29	0.31
Group net interest margin	1.93	1.95	1.86

	31 March 2013 £bn	31 December 2012 £bn
	Total funded assets by division	
UK Retail	117.1	117.4
UK Corporate	109.9	110.2
Wealth	21.7	21.4
International Banking	54.4	53.0
Ulster Bank	30.6	30.6
US Retail & Commercial	76.3	72.1
Retail & Commercial	410.0	404.7
Markets	288.0	284.5
Other (primarily Group Treasury)	123.8	123.0
Core	821.8	812.2
Non-Core	52.9	57.4
RFS Holdings minority interest	874.7	869.6
	1.0	0.8
Group	875.7	870.4

Divisional performance (continued)

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Risk-weighted assets by division					
UK Retail	44.5	45.7	(3%)	48.2	(8%)
UK Corporate	87.0	86.3	1%	76.9	13%
Wealth	12.5	12.3	2%	12.9	(3%)
International Banking	48.9	51.9	(6%)	41.8	17%
Ulster Bank	36.8	36.1	2%	38.4	(4%)
US Retail & Commercial	58.9	56.5	4%	58.6	1%
Retail & Commercial	288.6	288.8	-	276.8	4%
Markets	88.5	101.3	(13%)	115.6	(23%)
Other (primarily Group Treasury)	10.2	5.8	76%	11.0	(7%)
Core	387.3	395.9	(2%)	403.4	(4%)
Non-Core	54.6	60.4	(10%)	89.9	(39%)
Group before benefit of Asset Protection Scheme	441.9	456.3	(3%)	493.3	(10%)
Benefit of Asset Protection Scheme	-	-	-	(62.2)	(100%)
Group before RFS Holdings minority interest	441.9	456.3	(3%)	431.1	3%
RFS Holdings minority interest	3.9	3.3	18%	3.2	22%
Group	445.8	459.6	(3%)	434.3	3%

Employee numbers by division (full time equivalents rounded to the nearest hundred)	31 March 2013	31 December 2012	31 March 2012
UK Retail	25,800	26,000	27,600
UK Corporate	13,600	13,300	13,400
Wealth	5,100	5,100	5,500
International Banking	4,800	4,600	5,600
Ulster Bank	5,000	4,500	4,500
US Retail & Commercial	18,600	18,700	18,700
Retail & Commercial	72,900	72,200	75,300
Markets	11,300	11,300	13,300
Direct Line Group	-	14,200	15,100
Group Centre	6,800	6,800	6,600
Core	91,000	104,500	110,300

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Non-Core	2,600	3,100	4,300
	93,600	107,600	114,600
Business Services	29,100	29,100	29,500
Integration and restructuring	300	500	1,000
Group	123,000	137,200	145,100

UK Retail

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Income statement			
Net interest income	965	1,011	1,001
Net fees and commissions	212	202	237
Other non-interest income	14	17	29
Non-interest income	226	219	266
Total income	1,191	1,230	1,267
Direct expenses			
- staff	(178)	(186)	(211)
- other	(112)	(90)	(78)
Indirect expenses	(344)	(348)	(346)
	(634)	(624)	(635)
Profit before impairment losses	557	606	632
Impairment losses	(80)	(93)	(155)
Operating profit	477	513	477
Analysis of income by product			
Personal advances	223	228	236
Personal deposits	103	150	185
Mortgages	628	610	563
Cards	209	214	219
Other	28	28	64
Total income	1,191	1,230	1,267
Analysis of impairments by sector			
Mortgages	10	5	34
Personal	35	64	82
Cards	35	24	39
Total impairment losses	80	93	155

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Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Mortgages	-	-	0.1%
Personal	1.6%	2.9%	3.5%
Cards	2.5%	1.7%	2.8%
Total	0.3%	0.3%	0.6%

UK Retail (continued)

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			
Return on equity (1)	25.5%	27.2%	24.0%
Net interest margin	3.49%	3.60%	3.61%
Cost:income ratio	53%	51%	50%

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	99.1	99.1	-	97.5	2%
- personal	8.6	8.8	(2%)	9.4	(9%)
- cards	5.5	5.7	(4%)	5.6	(2%)
	113.2	113.6	-	112.5	1%
Loan impairment provisions	(2.6)	(2.6)	-	(2.7)	(4%)
Net loans and advances to customers	110.6	111.0	-	109.8	1%
Risk elements in lending	4.4	4.6	(4%)	4.6	(4%)
Provision coverage (2)	58%	58%	-	58%	-
Customer deposits	110.1	107.6	2%	104.1	6%
Assets under management (excluding deposits)	6.2	6.0	3%	5.8	7%
Loan:deposit ratio (excluding repos)	100%	103%	(300bp)	105%	(500bp)
Risk-weighted assets (3)					
- Credit risk (non-counterparty)	36.7	37.9	(3%)	40.4	(9%)
- Operational risk	7.8	7.8	-	7.8	-
	44.5	45.7	(3%)	48.2	(8%)

Notes:

- (1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).
- (2) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
- (3) Divisional RWAs are based on a long-term conservative average secured mortgage probability of default methodology rather than the current lower point in time basis required for regulatory reporting.

Key points

During Q1 2013, UK Retail continued to make progress towards becoming a simpler, more customer focused business. On 18 March 2013, UK Retail announced its new strategy and the investment of £700 million in the business over the next 3-5 years, as part of its plans to build the best retail bank in the UK.

The strategy focuses on understanding and responding to customers' needs, making banking easier and being fair and honest. At the heart of those plans is improving systems and processes to make it simpler for customers to do business with us and to free up more time to coach and develop customer facing teams.

UK Retail (continued)

Key points (continued)

In Q1 2013, UK Retail implemented a new Telephony Desktop System across all of its Customer Contact Centres, giving staff all the information they need to help customers on one screen, saving customer time and improving the experience. In addition, mortgage advisors attended extensive training courses and were re-accredited during Q1 2013 to help ensure customers receive the best possible outcome to meet their financial needs. The division also launched a new Specialist Financial Advice business for customers who require advice about their investment and protection needs. Through quality advice from fully accredited advisers, customers can make informed financial decisions.

Further enhancements were made to UK Retail's mobile banking app, used by over two million customers. Customers can now open a savings account using the iPhone or iPad apps (a first in the UK), and the app also now includes the ability to pay any mobile phone contact who holds a VISA debit card. In February 2013, as a direct response to requests from customers, UK Retail launched a version of the app for customers with Windows phones which attracted top reviews on WindowsPhone.com, with more than 10,000 downloads in the first few days following launch.

Q1 2013 compared with Q4 2012

- Operating profit of £477 million held up well, excluding the impact on income of fewer days in the quarter (£22 million) and the effect on expenses of higher FSCS levy charges (£22 million). Return on equity remained robust.
- Mortgage balances remained flat as the direct sales force took part in a re-accreditation training exercise to help ensure optimal customer outcomes. Credit card balances reflected seasonal customer behaviour, although the interest-bearing balances remained stable.
- Customer deposit balances increased by 2%, mainly due to strong current account and instant access savings performance, which helped drive a 3% reduction in the loan:deposit ratio to 100%.
- Net interest income, down £46 million, reflected the result of fewer days in the quarter as well as continued lower rates on current account hedges. This, along with the non-recurrence of an internal funding benefit in Q4 2012, drove net interest margin 11 basis points lower to 3.49%.
- Non-interest income increased by £7 million although investment advice income has been adversely impacted by the Retail Distribution Review (RDR).
- Staff costs declined by a further 4% as a consequence of increased branch efficiency and automation which drove headcount reductions. Other direct costs were successfully controlled, with the increase due to a rise in the FSCS levy charge of £22 million.
- Impairment losses declined by 14% reflecting slightly lower default levels and the recognition of improved recoveries on previously defaulted unsecured debt.
- Risk-weighted assets fell by 3%, reflecting quality improvements and small balance reductions across the unsecured portfolio.

UK Retail (continued)

Key points (continued)

Q1 2013 compared with Q1 2012

- Operating profit was resilient as impairments improved by £75 million, offsetting weaker income trends.
- The loan:deposit ratio improved by 5%.

Mortgage balances increased by 2% reflecting strong growth in 2012. Personal lending balances declined by 9% largely as a result of continued customer deleveraging.

Customer deposits increased by 6% with strong instant access balance growth and a healthy 2012/13 ISA season.

- Net interest income reflected the continuing roll-over of current account hedges at lower prevailing market rates and lower unsecured balances.
- Non-interest income was affected by restructuring and retraining to meet industry-wide RDR regulatory changes. In addition, packaged account fees and credit card insurance income were lower.
- Total costs remained stable as staff costs declined, reflecting headcount reductions of 1,800 offset by a higher FSCS levy and other regulatory charges.
- Impairment losses declined, reflecting lower default rates.

UK Corporate

	Quarter ended		
	31		
	31 March	December	31 March
	2013	2012	2012
	£m	£m	£m
Income statement			
Net interest income	706	717	756
Net fees and commissions	321	349	336
Other non-interest income	57	107	109
Non-interest income	378	456	445
Total income	1,084	1,173	1,201
Direct expenses			
- staff	(228)	(226)	(249)
- other	(105)	(99)	(85)
Indirect expenses	(208)	(190)	(199)
	(541)	(515)	(533)
Profit before impairment losses	543	658	668
Impairment losses	(185)	(234)	(176)
Operating profit	358	424	492
Analysis of income by business			
Corporate and commercial lending	622	672	687
Asset and invoice finance	164	176	162
Corporate deposits	73	87	166
Other	225	238	186
Total income	1,084	1,173	1,201
Analysis of impairments by sector			
Financial institutions	2	3	2
Hotels and restaurants	18	23	15
Housebuilding and construction	12	25	25
Manufacturing	8	10	-
Private sector education, health, social work, recreational and community services	25	2	22
Property	69	71	30
Wholesale and retail trade, repairs	32	47	33

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Asset and invoice finance	1	10	9
Shipping	8	42	2
Other	10	1	38
Total impairment losses	185	234	176

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UK Corporate (continued)

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Financial institutions	0.2%	0.2%	0.1%
Hotels and restaurants	1.3%	1.6%	1.0%
Housebuilding and construction	1.5%	2.9%	2.7%
Manufacturing	0.7%	0.9%	-
Private sector education, health, social work, recreational and community services	1.1%	0.1%	1.0%
Property	1.1%	1.1%	0.4%
Wholesale and retail trade, repairs	1.5%	2.2%	1.5%
Asset and invoice finance	-	0.4%	0.3%
Shipping	0.4%	2.2%	0.1%
Other	0.1%	-	0.6%
Total	0.7%	0.9%	0.6%

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			
Return on equity (1)	10.7%	13.2%	16.2%
Net interest margin	3.01%	2.97%	3.09%
Cost:income ratio	50%	44%	44%

UK Corporate (continued)

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- financial institutions	5.1	5.8	(12%)	6.2	(18%)
- hotels and restaurants	5.6	5.6	-	6.0	(7%)
- housebuilding and construction	3.1	3.4	(9%)	3.7	(16%)
- manufacturing	4.7	4.7	-	4.7	-
- private sector education, health, social work, recreational and community services	8.8	8.7	1%	8.6	2%
- property	24.4	24.8	(2%)	26.7	(9%)
- wholesale and retail trade, repairs	8.6	8.5	1%	9.1	(5%)
- asset and invoice finance	11.4	11.2	2%	10.3	11%
- shipping	7.7	7.6	1%	7.7	-
- other	27.4	26.7	3%	26.7	3%
	106.8	107.0	-	109.7	(3%)
Loan impairment provisions	(2.4)	(2.4)	-	(2.1)	14%
Net loans and advances to customers	104.4	104.6	-	107.6	(3%)
Total third party assets	109.9	110.2	-	113.2	(3%)
Risk elements in lending	5.3	5.5	(4%)	4.9	8%
Provision coverage (2)	45%	45%	-	43%	200bp
Customer deposits	123.9	127.1	(3%)	124.3	-
Loan:deposit ratio (excluding repos)	84%	82%	200bp	87%	(300bp)
Risk-weighted assets					
- Credit risk (non-counterparty)	78.6	77.7	1%	68.3	15%
- Operational risk	8.4	8.6	(2%)	8.6	(2%)
	87.0	86.3	1%	76.9	13%

Notes:

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

Key points

In a challenging economic landscape, UK Corporate continued to support the UK economy and contribute to the communities it operates in.

UK Corporate successfully completed the first of its Funding for Lending Scheme (FLS) phases in Q1 2013, surpassing the £2.5 billion of lending it had originally committed to. Since the scheme's inception, the division has supported over 19,000 Small and Medium Enterprises (SMEs) with over £3.2 billion of new FLS-related lending, £1.6 billion of which has already been drawn. These SME customers benefited from both lower interest rates and the removal of arrangement fees. Supporting UK economic growth, UK Corporate also used the FLS to provide targeted support to mid-sized manufacturers, reducing interest rates by more than 1% in some cases.

UK Corporate (continued)

Key points (continued)

In Q1 2013, UK Corporate underlined its commitment to the communities it operates in by continuing the implementation of its Business Banking Enterprise Programme. Through its Start-Up Surgeries, Mobile Business School and Business Academy the Programme offers support and advice to aspiring entrepreneurs, new start-up businesses and established SMEs looking to grow. In Q1 2013, UK Corporate began the national rollout of the Start-Up Surgeries and Business Academy which, since their launch, have already supported over 1,300 customers.

In Q1 2013, UK Corporate also expanded its Two Percent Club into the Midlands. A high-level networking group, the Two Percent Club aims to develop more women into senior business leaders in the UK and further underscores UK Corporate's longstanding commitment to helping women achieve their business goals.

Q1 2013 compared with Q4 2012

- Operating profit fell by 16%, with revenues 8% lower than the more buoyant Q4 2012. This was partially offset by lower impairments (down 21%), with improving trends in the SME portfolio.
- Net interest income was down 2% mainly as a result of fewer days in the quarter. Deposit margin compression, due to a continuation of low yields, was largely offset by an improvement in asset margins from selected sector re-pricing and back book refinancing.
- Non-interest income declined by 17%, mainly from lower revenue share from Markets hedging activities, the non-repeat of equity investment gains of £19 million in Q4 2012, higher derivative close-out charges associated with impaired assets, up £11 million, and subdued transaction services.
- Expenses were 5% higher, reflecting costs of £17 million provided for customer remediation. Excluding these, expenses were broadly in line with lower revenue-related costs offset by the implementation of revised internal charging arrangements, which resulted in UK Corporate taking an increased share of branch network costs.
- Impairments fell by 21% in the quarter, with fewer significant individual cases and improving trends in the SME market.
- Lending balances remained broadly flat over the course of Q1 2013, whilst absorbing targeted reductions in the commercial property sector.
- Risk-weighted assets increased by 1% to £87 billion following further regulatory changes to models relating to the market-wide slotting approach on real estate.

UK Corporate (continued)

Key points (continued)

Q1 2013 compared with Q1 2012

- Operating profit fell 27%, with continuing pressure on liability margins and with small increases in costs and impairments. Return on equity fell to 10.7%, reflecting the fall in operating profit and higher risk-weighted assets.
- Net interest income decreased by 7%, primarily driven by continuing pressure on liability margins and the non-repeat of income deferral benefits of £28 million in Q1 2012. This was partially offset by improvements in asset margins.
- Non-interest income was 15% lower, reflecting a decline in Markets revenue share, and derivative close-out charges up £14 million.
- Total expenses increased by 2% as a result of customer remediation costs of £17 million and increased branch network charges, partially offset by lower revenue-related and staff incentive costs.
- Impairments were slightly higher than in Q1 2012, which had benefited from a higher latent provision release.
- Risk-weighted assets were 13%, or £10 billion, higher as a result of significant increases in market-wide regulatory capital model requirements and increases to default risk weights in other models.

Wealth

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Income statement			
Net interest income	169	178	179
Net fees and commissions	89	89	93
Other non-interest income	15	18	18
Non-interest income	104	107	111
Total income	273	285	290
Direct expenses			
- staff	(108)	(85)	(116)
- other	(24)	(34)	(43)
Indirect expenses	(80)	(74)	(78)
	(212)	(193)	(237)
Profit before impairment losses	61	92	53
Impairment losses	(5)	(16)	(10)
Operating profit	56	76	43
Analysis of income			
Private banking	224	230	237
Investments	49	55	53
Total income	273	285	290
Key metrics			
	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			
Return on equity (1)	12.1%	16.7%	9.0%
Net interest margin	3.55%	3.69%	3.67%
Cost:income ratio	78%	68%	82%

Note:

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

Wealth (continued)

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	8.8	8.8	-	8.4	5%
- personal	5.7	5.5	4%	6.8	(16%)
- other	2.7	2.8	(4%)	1.7	59%
	17.2	17.1	1%	16.9	2%
Loan impairment provisions	(0.1)	(0.1)	-	(0.1)	-
Net loans and advances to customers	17.1	17.0	1%	16.8	2%
Risk elements in lending	0.3	0.2	50%	0.2	50%
Provision coverage (1)	43%	44%	(100bp)	38%	500bp
Assets under management (excluding deposits)	30.8	28.9	7%	31.4	(2%)
Customer deposits	39.6	38.9	2%	38.3	3%
Loan:deposit ratio (excluding repos)	43%	44%	(100bp)	44%	(100bp)
Risk-weighted assets					
- Credit risk (non-counterparty)	10.4	10.3	1%	10.9	(5%)
- Market risk	0.2	0.1	100%	0.1	100%
- Operational risk	1.9	1.9	-	1.9	-
	12.5	12.3	2%	12.9	(3%)

Note:

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

Key points

Q1 2013 delivered an improved performance compared with the prior year, driven by lower expenses and a significant fall in impairments.

The period saw further execution of the division's strategy for generating new prospects through improved banker coverage, with senior hires in Asia and Middle East. Revenue growth in Asian and Indian markets was buoyant as a result of growth in collateralised lending, following enhancements made to the programme in 2012.

In the UK, clients have welcomed Coutts' new advice-led model. They have also been receptive to Coutts' differentiated approach, which delivers on the division's commitment to provide clients with the best service, advice and products based on their individual needs. Also in the UK, Coutts responded to client feedback and research with the launch of a new Coutts card suite, incorporating charge, credit and debit cards for both private and commercial banking clients and offering enhanced travel and international benefits plus multi-card functionality.

During 2013, the Coutts business continues to focus on implementing and delivering the new divisional strategy outlined in 2011. Priorities include optimising newly introduced service models, driving out further benefits of the division's global technology platform and streamlining key client facing processes.

Wealth (continued)

Key points (continued)

Q1 2013 compared with Q4 2012

- Operating profit was lower than in the prior quarter, in large part reflecting the reversion of staff expenses following a significant reduction in incentive costs in Q4 2012, partially offset by an improvement in impairments.
- Net interest income reflected the continued impact of lower rates on UK deposit hedges. Small improvements in deposit and lending margins were more than offset by lower income on hedges, driving the net interest margin 14 basis points lower.
- Investment in technology and the global platform infrastructure was reflected in lower non-staff expenses, as a result of efficiency gains, and higher staff expenses, as headcount was increased to support this investment as well as to support regulatory projects. The phasing of Financial Services Compensation Scheme levies and the timing of incentive accruals also pushed expenses higher.
- Impairments fell by £11 million, reflecting the non-recurrence of one-off items in Q4 2012.
- Client assets and liabilities increased by 3%. Assets under management increased by 7%, benefiting from a recovery in markets in Q1 2013. Deposit volumes increased by 2%, while lending remained stable.

Q1 2013 compared with Q1 2012

- Operating profit increased, driven by a decrease in expenses and impairments, despite the continuation of a challenging income environment.
- Income trends reflect the wider economic environment, with muted investment activity and lower rates available on UK deposit hedges. Non-interest income was also impacted by client transfers resulting from the disposal of the Latin American, Caribbean and African businesses.
- Expenses decreased by £25 million, partially due to the non-repeat of an £8.75 million fine from the Financial Services Authority incurred in Q1 2012 and a fall in headcount.
- Client assets and liabilities increased marginally. Assets under management were largely maintained as positive market movements offset net outflows of low margin custody assets and client transfers resulting from the disposal of the Latin American, Caribbean and African businesses.

International Banking

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Income statement			
Net interest income (excluding funding costs of rental assets)	197	201	260
Funding costs of rental assets	-	-	(9)
Net interest income	197	201	251
Non-interest income	285	283	291
Total income	482	484	542
Direct expenses			
- staff	(134)	(103)	(189)
- other	(38)	(20)	(48)
Indirect expenses	(161)	(169)	(173)
	(333)	(292)	(410)
Profit before impairment losses	149	192	132
Impairment losses	(55)	(37)	(35)
Operating profit	94	155	97
Of which:			
Ongoing businesses	94	150	113
Run-off businesses	-	5	(16)
Analysis of income by product			
Cash management	187	205	268
Trade finance	70	70	72
Loan portfolio	224	207	197
Ongoing businesses	481	482	537
Run-off businesses	1	2	5
Total income	482	484	542
Analysis of impairments by sector			
Manufacturing and infrastructure	40	21	17
Property and construction	(14)	-	-
Transport and storage	24	1	(4)
Telecommunications, media and technology	-	3	9
Banks and financial institutions	-	-	12
Other	5	12	1

Total impairment losses	55	37	35
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	0.5%	0.4%	0.3%

International Banking (continued)

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios (ongoing businesses)			
Return on equity (1)	5.2%	8.3%	7.5%
Net interest margin	1.74%	1.62%	1.60%
Cost:income ratio	69%	61%	72%

	31 March 2013	31 December 2012	Change	31 March 2012	Change
	£bn	£bn		£bn	
Capital and balance sheet					
Loans and advances to customers (gross) (2)	42.5	42.2	1%	53.1	(20%)
Loan impairment provisions	(0.4)	(0.4)	-	(0.8)	(50%)
Net loans and advances to customers	42.1	41.8	1%	52.3	20%
Loans and advances to banks	5.8	4.8	21%	4.0	45%
Securities	2.5	2.6	(4%)	4.0	(38%)
Cash and eligible bills	0.4	0.5	(20%)	0.3	33%
Other	3.6	3.3	9%	3.1	16%
Total third party assets (excluding derivatives mark-to-market)	54.4	53.0	3%	63.7	(15%)
Risk elements in lending	0.6	0.4	50%	0.9	(33%)
Provision coverage (3)	60%	93%	(3,300bp)	97%	(3,700bp)
Customer deposits (excluding repos)	47.0	46.2	2%	45.0	4%
Bank deposits (excluding repos)	4.7	5.6	(16%)	10.5	(55%)
Loan:deposit ratio (excluding repos)	90%	91%	(100bp)	116%	(2,600bp)
Risk-weighted assets					
- Credit risk (non-counterparty)	44.2	46.7	(5%)	37.0	19%
- Operational risk	4.7	5.2	(10%)	4.8	(2%)
	48.9	51.9	(6%)	41.8	17%

Notes:

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

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Run-off businesses (1)			
Total income	1	2	5
Direct expenses	(1)	3	(21)
Operating profit/(loss)	-	5	(16)

Note:

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

International Banking (continued)

Key points

In Q1 2013, International Banking continued its progress in strengthening its balance sheet, in particular its liability composition. Performance, however, continued to be restricted by ongoing macroeconomic pressures.

Despite these headwinds, the division has earned external recognition for its efforts in serving its customers' needs, helping RBS Group gain awards such as:

- Best Trade Finance Bank in the UK (Global Finance Awards 2013).
- Number Two in Sterling denominated Debt Capital Markets in Q1 2013 (Dealogic).

International Banking continues its unwavering focus on its customers. It strives to build deeper long-term relationships, to understand its customers' business well and to develop solutions that help them succeed. As part of its commitment to treating customers fairly, the division has developed a framework to pro-actively redress any clients who might be adversely effected.

Q1 2013 compared with Q4 2012

- Operating profit was down £61 million, or 39%, largely reflecting the normalisation of expenses following the downward adjustment to variable compensation in Q4 2012, together with higher impairments.
- Income remained stable:
 - Loan portfolio income was up 8% following completion of one large hedging transaction.
 - Cash management decreased by 9%, driven by tighter spreads following the decline in both three month LIBOR and five year fixed rates across Europe.
 - Trade finance remained stable despite significant pressure on margins following increased competition in Asia.
- Total expenses increased by £41 million, or 14%, mainly due to the normalisation of revenue-linked expenses following the downward revision to variable compensation in Q4 2012.
- Impairments in Q1 2013 included a £38 million single-name provision.
- Return on equity was 5.2%, compared with 8.3% in Q4 2012. Excluding the single-name impairment of £38 million, return on equity was 7.2% in Q1 2013.
- Customer deposits increased by £1 billion, with an improvement in the deposit profile as the business strategically reduced short-term deposits and increased operational balances, reducing future liquidity outflow risk.
- Third party assets were up 3% as the impact of sterling weakening against the US dollar and euro more than offset reductions in the lending portfolio and increased levels of repayments.
- Risk-weighted assets decreased by 6% reflecting an active reduction in higher risk exposures. This was partially offset by exchange rate movements.

International Banking (continued)

Q1 2013 compared with Q1 2012

- Operating profit was little changed as expense reductions offset the impact on income of the strategic reduction in the loan portfolio undertaken in 2012.
- Income was 11% lower:
 - Loan portfolio income increased by 14%, mainly due to market movements associated with credit hedging activities.
 - Cash management income was affected by tighter deposit margins following reductions in both three month LIBOR and five year fixed rates across Europe. Payment fees were also lower, reflecting growth in electronic, lower-margin payments.
- Expenses declined by £77 million, reflecting planned restructuring initiatives following the formation of the International Banking division in January 2012. Savings were achieved through headcount reduction and the run-off of discontinued businesses, with a resulting decrease in infrastructure support costs. Revenue-linked expenses also fell in line with the decrease in income.
- Third party assets declined by 15%, reflecting targeted reductions in the lending portfolio carried out in 2012.
- Customer deposits increased by 4% with a focus on growing operational balances. The net funding position improved with the loan:deposit ratio moving from 116% to 90%.
- Bank deposits were down 55%, mainly as a result of lower short tenor balances, reflecting a strategic initiative to reduce liquidity outflow risk.
- Risk-weighted assets increased by 17%, reflecting the impact of regulatory uplifts partially offset by successful mitigation through balance sheet reduction. Risk-weighted asset intensity in the loan book has increased significantly given the uplifts, which will result in strategic adjustments going forward.

Ulster Bank

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Income statement			
Net interest income	154	161	165
Net fees and commissions	34	36	38
Other non-interest income	20	15	11
Non-interest income	54	51	49
Total income	208	212	214
Direct expenses			
- staff	(57)	(53)	(53)
- other	(15)	(14)	(12)
Indirect expenses	(60)	(70)	(65)
	(132)	(137)	(130)
Profit before impairment losses	76	75	84
Impairment losses	(240)	(318)	(394)
Operating loss	(164)	(243)	(310)
Analysis of income by business			
Corporate	82	85	102
Retail	89	93	88
Other	37	34	24
Total income	208	212	214
Analysis of impairments by sector			
Mortgages	90	135	215
Commercial real estate			
- investment	46	52	40
- development	14	17	14
Other corporate	75	97	114
Other lending	15	17	11
Total impairment losses	240	318	394

Loan impairment charge as % of gross customer loans and advances
(excluding reverse repurchase agreements) by sector

Mortgages	1.8%	2.8%	4.3%
Commercial real estate			
- investment	5.1%	5.8%	4.2%
- development	8.0%	9.7%	7.0%
Other corporate	3.8%	5.0%	5.6%
Other lending	4.6%	5.2%	3.4%
Total	2.9%	3.9%	4.6%

Ulster Bank (continued)

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			
Return on equity (1)	(13.5%)	(20.9%)	(25.8%)
Net interest margin	1.85%	1.93%	1.87%
Cost:income ratio	63%	65%	61%

	31		Change	31 March	
	March 2013 £bn	December 2012 £bn		2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
Mortgages	19.7	19.2	3%	19.8	(1%)
Commercial real estate					
- investment	3.6	3.6	-	3.8	(5%)
- development	0.7	0.7	-	0.8	(13%)
Other corporate	7.8	7.8	-	8.2	(5%)
Other lending	1.3	1.3	-	1.3	-
	33.1	32.6	2%	33.9	(2%)
Loan impairment provisions	(4.2)	(3.9)	8%	(3.1)	35%
Net loans and advances to customers	28.9	28.7	1%	30.8	(6%)
Risk elements in lending					
Mortgages	3.4	3.1	10%	2.5	36%
Commercial real estate					
- investment	1.6	1.6	-	1.0	60%
- development	0.4	0.4	-	0.3	33%
Other corporate	2.4	2.2	9%	1.9	26%
Other lending	0.2	0.2	-	0.2	-
Total risk elements in lending	8.0	7.5	7%	5.9	36%
Provision coverage (2)	53%	52%	100bp	53%	-
Customer deposits	22.7	22.1	3%	21.0	8%
Loan:deposit ratio (excluding repos)	127%	130%	(300bp)	147%	(2,000bp)
Risk-weighted assets					
- Credit risk					
- non-counterparty	34.3	33.6	2%	35.9	(4%)
- counterparty	0.6	0.6	-	0.7	(14%)

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- Market risk	0.2	0.2	-	0.1	100%
- Operational risk	1.7	1.7	-	1.7	-
	36.8	36.1	2%	38.4	(4%)
Spot exchange rate - €/£	1.183	1.227		1.200	

Notes:

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

Ulster Bank (continued)

Key points

Ulster Bank delivered a significant improvement in operating results with reduced impairment charges, in line with the recent stabilisation of the macroeconomic environment in the Republic of Ireland, driving a 33% reduction in operating losses. The bank continued to work with customers in arrears to find sustainable solutions, and significant investment was made in specialist resourcing to support customers in financial difficulty.

The progress made during 2012 to strengthen the balance sheet continued in Q1 2013 with deposit balances 8% higher than Q1 2012. As a result the loan:deposit ratio further improved to 127% from 147% at Q1 2012.

Ulster Bank continued to improve its support for customers. New services aimed at improving customer convenience included the launch of 'Anytime banking' for business customers, which represents further progress to simplify customers' day to day banking needs through digital channels.

Q1 2013 compared with Q4 2012

- Operating loss decreased by £79 million to £164 million primarily reflecting a significant reduction in impairment losses.
- Income fell by £4 million in the quarter largely driven by lower interest-earning assets, the cost of deposit growth at the end of 2012 and the impact of fewer days in the quarter. Net interest margin decreased by 8 basis points to 1.85%.
- Expenses were £5 million lower with the impact of an impairment charge on own property assets in Q4 2012 partly offset by higher underlying pension charges and further investment in programmes to support customers in financial difficulty in Q1 2013.
- Impairment losses declined by £78 million, 25%, while remaining elevated. Although risk elements in lending increased in both the mortgage and corporate portfolios, the pace of arrears formation has slowed, particularly in the mortgage book. Residential asset values have been stabilising over the past two to three quarters.
- Customer deposits won during Q4 2012 were retained in Q1 2013 and the loan:deposit ratio fell further to 127%. Customer loan balances decreased by £0.6 billion, or by 3%.

Q1 2013 compared with Q1 2012

- Operating loss decreased by £146 million or 47%, driven by a significant improvement in impairment losses.
- Net interest income fell by £11 million reflecting lower customer loan balances, the impact of an increased volume of impaired loans and the relatively high cost of deposit raising. Net interest margin declined by 2 basis points, despite the impact of initiatives to widen loan margins and re-price deposits.
- Non-interest income increased by £5 million, holding up well despite the low levels of new business and muted market activity.

Ulster Bank (continued)

Key points (continued)

Q1 2013 compared with Q1 2012 (continued)

- Expenses showed a modest increase, reflecting investment in resources to support customers in arrears coupled with an increase in mandatory change requirements. Expenses continued to be managed efficiently with further progress made on initiatives to simplify the bank's operations.
- Impairment losses decreased by £154 million, 39%, with a significant reduction in losses on the mortgage portfolio as underlying credit metrics improved and asset values began to stabilise.
- The loan:deposit ratio further improved to 127% from 147% in Q1 2012. Loan balances declined by 2% reflecting subdued demand for new lending coupled with customer action to reduce debt levels. Customer deposits increased by 8%, largely driven by retail and SME balances, a key focus area in the bank's deposit gathering strategy.

US Retail & Commercial (£ Sterling)

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Income statement			
Net interest income	471	465	491
Net fees and commissions	190	197	199
Other non-interest income	102	78	66
Non-interest income	292	275	265
Total income	763	740	756
Direct expenses			
- staff	(279)	(227)	(270)
- other	(246)	(263)	(243)
- litigation settlement	-	-	(88)
Indirect expenses	(30)	(27)	(34)
	(555)	(517)	(635)
Profit before impairment losses	208	223	121
Impairment losses	(19)	(23)	(19)
Operating profit	189	200	102
Average exchange rate - US\$/£	1.552	1.606	1.571
Analysis of income by product			
Mortgages and home equity	126	134	134
Personal lending and cards	100	102	98
Retail deposits	190	199	217
Commercial lending	168	154	160
Commercial deposits	102	101	112
Other	77	50	35
Total income	763	740	756
Analysis of impairments by sector			
Residential mortgages	2	2	6
Home equity	19	13	22
Corporate and commercial	(24)	(20)	(16)
Other consumer	22	24	3

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Securities	-	4	4
Total impairment losses	19	23	19
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Residential mortgages	0.1%	0.1%	0.4%
Home equity	0.6%	0.4%	0.6%
Corporate and commercial	(0.4%)	(0.3%)	(0.3%)
Other consumer	1.0%	1.2%	0.2%
Total	0.1%	0.2%	0.1%

US Retail & Commercial (£ Sterling) (continued)

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			
Return on equity (1)	8.2%	9.0%	4.5%
Net interest margin	2.93%	2.90%	3.03%
Cost:income ratio	73%	70%	84%

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- residential mortgages	6.0	5.8	3%	6.0	-
- home equity	13.8	13.3	4%	14.2	(3%)
- corporate and commercial	25.1	23.8	5%	22.6	11%
- other consumer	8.9	8.4	6%	8.1	10%
	53.8	51.3	5%	50.9	6%
Loan impairment provisions	(0.3)	(0.3)	-	(0.4)	(25%)
Net loans and advances to customers	53.5	51.0	5%	50.5	6%
Total third party assets	77.0	72.8	6%	74.0	4%
Investment securities	11.9	12.0	(1%)	14.3	(17%)
Risk elements in lending					
- retail	0.9	0.8	13%	0.6	50%
- commercial	0.4	0.3	33%	0.3	33%
Total risk elements in lending	1.3	1.1	18%	0.9	44%
Provision coverage (2)	22%	25%	(300bp)	43%	(2,100bp)
Customer deposits (excluding repos)	62.4	59.2	5%	58.7	6%
Bank deposits (excluding repos)	1.7	1.8	(6%)	4.3	(60%)
Loan:deposit ratio (excluding repos)	86%	86%	-	86%	-
Risk-weighted assets					
- Credit risk					
- non-counterparty	53.1	50.8	5%	52.8	1%
- counterparty	0.8	0.8	-	0.9	(11%)
- Operational risk	5.0	4.9	2%	4.9	2%
	58.9	56.5	4%	58.6	1%

Spot exchange rate - US\$/£	1.517	1.616	1.599
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Notes:

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

Key points

Sterling weakened against the US Dollar, with the spot exchange rate at 31 March 2013 decreasing by 6% compared with 31 December 2012.

Performance is described in full in the US dollar-based financial statements set out on pages 46 to 49.

US Retail & Commercial (US Dollar)

	Quarter ended		
	31 March 2013 \$m	31 December 2012 \$m	31 March 2012 \$m
Income statement			
Net interest income	731	747	772
Net fees and commissions	295	315	312
Other non-interest income	158	127	103
Non-interest income	453	442	415
Total income	1,184	1,189	1,187
Direct expenses			
- staff	(433)	(365)	(425)
- other	(381)	(422)	(379)
- litigation settlement	-	-	(138)
Indirect expenses	(48)	(42)	(54)
	(862)	(829)	(996)
Profit before impairment losses	322	360	191
Impairment losses	(30)	(38)	(31)
Operating profit	292	322	160
Analysis of income by product			
Mortgages and home equity	195	215	211
Personal lending and cards	155	164	154
Retail deposits	295	319	341
Commercial lending	261	247	251
Commercial deposits	158	163	176
Other	120	81	54
Total income	1,184	1,189	1,187
Analysis of impairments by sector			
Residential mortgages	3	3	9
Home equity	29	21	35
Corporate and commercial	(36)	(31)	(25)
Other consumer	34	39	6
Securities	-	6	6

Total impairment losses	30	38	31
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Residential mortgages	0.1%	0.1%	0.4%
Home equity	0.6%	0.4%	0.6%
Corporate and commercial	(0.4%)	(0.3%)	(0.3%)
Other consumer	1.0%	1.2%	0.2%
Total	0.1%	0.2%	0.1%

US Retail & Commercial (US Dollar) (continued)

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			
Return on equity (1)	8.2%	9.0%	4.5%
Net interest margin	2.93%	2.90%	3.03%
Cost:income ratio	73%	70%	84%

	31 March 2013 \$bn	31 December 2012 \$bn	Change	31 March 2012 \$bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- residential mortgages	9.1	9.4	(3%)	9.5	(4%)
- home equity	20.9	21.5	(3%)	22.6	(8%)
- corporate and commercial	38.1	38.5	(1%)	36.2	5%
- other consumer	13.5	13.5	-	13.2	2%
	81.6	82.9	(2%)	81.5	-
Loan impairment provisions	(0.4)	(0.5)	(20%)	(0.6)	(33%)
Net loans and advances to customers	81.2	82.4	(1%)	80.9	-
Total third party assets	116.8	117.7	(1%)	118.3	(1%)
Investment securities	18.1	19.5	(7%)	22.9	(21%)
Risk elements in lending					
- retail	1.4	1.3	8%	0.9	56%
- commercial	0.5	0.6	(17%)	0.6	(17%)
Total risk elements in lending	1.9	1.9	-	1.5	27%
Provision coverage (2)	22%	25%	(300bp)	43%	(2,100bp)
Customer deposits (excluding repos)	94.6	95.6	(1%)	93.9	1%
Bank deposits (excluding repos)	2.6	2.9	(10%)	6.9	(62%)
Loan:deposit ratio (excluding repos)	86%	86%	-	86%	-
Risk-weighted assets					
- Credit risk					
- non-counterparty	80.6	82.0	(2%)	84.4	(5%)
- counterparty	1.2	1.4	(14%)	1.5	(20%)
- Operational risk	7.5	7.9	(5%)	7.8	(4%)

89.3

91.3

(2%)

93.7

(5%)

Notes:

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

US Retail & Commercial (US Dollar) (continued)

Key points

In Q1 2013, US R&C continued to focus on its back-to-basics strategy, concentrating on core banking products and competing on service and product capabilities rather than price.

Consumer Banking continued to create greater convenience for its customers by addressing the shift in customer preferences and expanding its distribution presence. In Q1 2013, another 227 intelligent deposit machines were installed and additional web account opening enhancements were made. Expansion of the wealth and auto businesses continued, with the launch of Premier banking services to the Pittsburgh market and the ongoing increase of the auto dealer base (up 19% year on year).

Consumer Banking also continued to grow and deepen customer relationships, evidenced by the upward trends in online banking usage, online bill pay and direct deposit penetration. Moreover, the number of deposit customers with a consumer loan product continued to increase (up 3% year on year) indicating more effective cross-sell efforts.

To promote its thought leadership capabilities and to also help grow and deepen client relationships, Commercial Banking leveraged the 2013 M&A Outlook Research Study to develop an integrated marketing programme that includes industry webinars and targeted advertising campaigns. The division's strategic alliance with Oppenheimer further enhanced RBS Citizens commercial bankers' ability to drive forward relationships, ideas, and capabilities in the markets they serve.

Corporate Finance & Capital Markets, which was launched in 2009, continued to take market share, not only from its regional competitors but also from the large money centre banks, moving up in the traditional Middle Market league tables from unranked in 2009 to sixth position as at Q4 2012.

The Treasury Solutions division launched accessPAYMODE-X™, a business-to-business electronic settlement network. The product features improved efficiencies and security and provides web access and electronic delivery of remittance information. In partnership with NetSpend, a prepaid debit card provider, Treasury Solutions also launched a Commercial payroll card, which provides its clients' employees with an alternative to a payroll check. The card drives higher direct deposit participation, reduces overall payroll costs and minimizes exposure to check fraud.

Q1 2013 compared with Q4 2012

- Operating profit of £189 million (\$292 million) was resilient excluding the impact of a one-off £21 million (\$33 million) pension gain in Q4 2012.
- Net interest income was up 1%. In US dollar terms net interest income was down 2% as favourable funding costs and commercial loan growth were more than offset by a smaller investment portfolio and consumer loan run-off.
- Non-interest income was up £17 million (\$11 million), or 6%, reflecting higher securities gains offset by lower mortgage banking fees and deposit fees.
- Excluding the one-off £21 million (\$33 million) pension gain in Q4 2012, total expenses were flat, reflecting lower operational losses offset by phasing of the annual incentive plan accruals and a seasonal increase in payroll taxes.
-

Impairment losses were down £4 million (\$8 million), or 17%, reflecting lower impairments related to securities as well as a stable credit environment.

US Retail & Commercial (US Dollar) (continued)

Key points (continued)

Q1 2013 compared with Q1 2012

- Operating profit of £189 million (\$292 million) increased by £87 million (\$132 million), or 85%, and was broadly stable if adjusted for the £88 million (\$138 million) litigation settlement in Q1 2012.
- Net interest income was down 4% as the positive impact of commercial loan growth and lower funding costs was offset by the effect of prevailing economic conditions on asset yields and customer investment behaviour.
- Loans and advances were up 6%. In US dollar terms loans and advances were up slightly with strong commercial loan growth mostly offset by planned run-off of long-term fixed-rate consumer products.
- Customer deposits were up 6%. In US dollar terms customer deposits were up 1% with strong growth achieved in checking balances. Consumer checking balances grew by 2% while small business checking balances grew by 6% over the year.
- Non-interest income was up £27 million (\$38 million), or 10%, reflecting higher securities gains partially offset by lower deposit and mortgage banking fees.
- Excluding the £88 million (\$138 million) litigation settlement in Q1 2012 relating to a class action lawsuit regarding the way overdraft fees were assessed on customer accounts prior to 2010, total expenses were broadly in line with Q1 2012.
- Impairment losses were in line with Q1 2012. The credit environment remained broadly stable over the year.

Markets

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Income statement			
Net interest income	30	49	16
Net fees and commissions receivable	33	1	77
Income from trading activities	960	551	1,379
Other operating income	17	40	262
Non-interest income	1,010	592	1,718
Total income	1,040	641	1,734
Direct expenses			
- staff	(385)	(87)	(545)
- other	(182)	(207)	(167)
Indirect expenses	(179)	(186)	(196)
	(746)	(480)	(908)
Profit before impairment losses	294	161	826
Impairment losses	(16)	(22)	(2)
Operating profit	278	139	824
Of which:			
Ongoing businesses	279	135	861
Run-off businesses	(1)	4	(37)
Analysis of income by product			
Rates and investor products (IP) (1)	340	333	924
Currencies	192	163	246
Asset backed products (ABP)	437	139	427
Credit markets	238	179	313
Total income ongoing businesses	1,207	814	1,910
Inter-divisional revenue share	(167)	(172)	(186)
Run-off businesses	-	(1)	10
Total income	1,040	641	1,734
Memo - Fixed income and currencies			
Rates & IP/currencies/ABP/credit markets	1,207	880	1,787

Less: primary credit markets	(139)	(151)	(171)
Total fixed income and currencies	1,068	729	1,616

Note:

- (1) Following further review in Q4 2012, Investor Products and Equity Derivatives (IPED) operation was moved into Rates to form part of the Derivative Product Solutions (DPS) business. Includes IPED (31 December 2012 - £(66) million; 31 March 2012 - £123 million) which are not included in fixed income and currencies.

Markets (continued)

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios (ongoing businesses)			
Return on equity (1)	8.0%	3.6%	21.1%
Cost:income ratio	72%	76%	50%
Compensation ratio (2)	37%	16%	29%

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet (ongoing businesses)					
Loans and advances to customers (gross)	32.0	29.8	7%	28.8	11%
Loan impairment provisions	(0.2)	(0.2)	-	(0.2)	-
Net loans and advances to customers	31.8	29.6	7%	28.6	11%
Net loans and advances to banks (3)	20.1	16.6	21%	21.8	(8%)
Reverse repos	100.8	103.8	(3%)	90.8	11%
Securities	90.7	92.4	(2%)	106.6	(15%)
Cash and eligible bills	24.3	30.2	(20%)	24.2	-
Other	20.2	11.8	71%	27.8	(27%)
Total third party assets (excluding derivatives mark-to-market)	287.9	284.4	1%	299.8	(4%)
Net derivative assets (after netting)	21.7	21.9	(1%)	29.3	(26%)
Provision coverage (4)	76%	77%	(100bp)	75%	100bp
Customer deposits (excluding repos)	25.7	26.3	(2%)	34.6	(26%)
Bank deposits (excluding repos)	43.7	45.4	(4%)	46.2	(5%)
Risk-weighted assets					
- Credit risk					
- non-counterparty	12.4	14.0	(11%)	15.0	(17%)
- counterparty	32.7	34.7	(6%)	36.5	(10%)
- Market risk	33.6	36.9	(9%)	48.4	(31%)
- Operational risk	9.8	15.7	(38%)	15.7	(38%)
	88.5	101.3	(13%)	115.6	(23%)

Notes:

(1)

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

- (2) Compensation ratio is based on staff costs as a percentage of total income.
- (3) Excludes disposal groups.
- (4) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.

Markets (continued)

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Run-off businesses (1)			
Total income	-	(1)	10
Direct expenses	(1)	5	(47)
Operating (loss)/profit	(1)	4	(37)
	31 March 2013 £bn	31 December 2012 £bn	31 March 2012 £bn
Run-off businesses (1)			
Total third party assets (excluding derivatives mark-to-market)	0.1	0.1	0.8

Note:

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

Key points

Q1 2013 featured uncertainty in the Eurozone, generated by both the situation in Cyprus and weak European growth figures, in contrast with Q1 2012 when the European Central Bank's (ECB's) Long Term Refinancing Operation (LTRO) boosted markets. This uncertainty contributed to difficult trading conditions with reduced client activity and margin contraction, particularly for the Rates and investor products franchise, although this was partially offset by a positive market in Asset Backed Products. RBS specific issues contributed to relative underperformance versus peers in the quarter. The continued focus on capital resulted in the division's risk-weighted assets falling below £100 billion in Q1 2013, moving towards the 2014 objective of £80 billion, on a Basel III basis, announced in February 2013. We continue to develop the details of this plan and will communicate those no later than at the half year results.

Q1 2013 compared with Q4 2012

- Operating profit doubled to £278 million, driven by 62% growth in income and a continued focus on cost management. Staff expenses normalised following the significant reduction in variable compensation in Q4 2012 relating to the Group's LIBOR settlements.
- Rates and investor products income was broadly flat. Client activity was subdued and risk appetite was lowered. Trading performance was weak in vanilla products although this was offset by an improved performance in Derivative Product Solutions.
- The increase in Currencies was partly driven by an increase in volumes as clients responded to greater volatility.
- Asset Backed Products rallied early in the quarter as investors renewed their search for yield, compared with a seasonally quiet Q4 2012, generating both client flow and mark to market gains on trading inventory.
- The 33% increase in Credit Markets was driven by Flow Credit which benefited from a rally in credit assets at the beginning of Q1 2013. Income from Origination was slightly down on a positive Q4 2012.

- Staff expenses normalised following the reduction in variable compensation recognised in Q4 2012 relating to the Group's LIBOR settlement. Other expenses continued to benefit from effective cost management and control of discretionary expenditure.

Markets (continued)

Q1 2013 compared with Q4 2012 (continued)

- Impairments remained low, with asset quality stable.
- The normal increase in third party assets compared with the seasonally low fourth quarter was limited by management's ongoing determination to reduce and de-risk the balance sheet.
- Risk-weighted assets continued to fall, reflecting management's continued focus on risk reduction and a fall in operational risk.

Q1 2013 compared with Q1 2012

- Market conditions were more challenging than a year earlier as heightened Eurozone uncertainty during Q1 2013 contrasted with the confidence boost from the ECB's LTRO in Q1 2012. A 29% reduction in staff costs helped to mitigate the income impact of the division's balance sheet realignment.
- Rates and investor products declined, reflecting lower client volumes, de-risking and a weak trading performance. This contrasted with Q1 2012 which benefited from the impact of the LTRO and a heightened level of client activity.
- Currencies continued to suffer from margin compression and subdued volumes in a competitive and diversified market.
- Asset Backed Products benefited from investors' search for yield and a credit market rally in both Q1 2012 and Q1 2013.
- Credit Markets declined following lower income in both Flow Credit, which benefited from the LTRO in Q1 2012, and Origination, where both corporate and financial client activity was lower.
- Significant headcount reductions implemented during 2012, combined with a reduced level of performance-related pay, drove staff costs lower. Discretionary expenditure continued to be managed down, although other expenses increased as a result of higher legal costs.
- Risk-weighted assets fell by £27 billion, demonstrating the division's commitment to reduce risk and manage down the balance sheet despite ongoing regulatory pressure. This was also reflected in the £12 billion fall in third party assets over the period.

Direct Line Group

	Quarter ended		
	31 March 2013 (to 12 March) £m	31 December 2012 £m	31 March 2012 £m
Income statement			
Earned premiums	774	999	1,020
Reinsurers' share	(75)	(80)	(82)
Net premium income	699	919	938
Fees and commissions	(73)	(79)	(109)
Instalment income	24	32	31
Investment income	27	32	90
Other income	12	14	16
Share of profit as an associated undertaking (13 March 2013 - 31 March 2013)	7	-	-
Total income	696	918	966
Direct expenses			
- staff expenses	(72)	(90)	(79)
- other expenses	(90)	(109)	(91)
Total direct expenses	(162)	(199)	(170)
Indirect expenses	-	-	(63)
	(162)	(199)	(233)
Insurance net claims	(445)	(606)	(649)
Operating profit	89	113	84

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			
Loss ratio (1)	64%	66%	69%
Commission ratio (2)	10%	9%	12%
Expense ratio (3)	23%	22%	25%
Combined operating ratio (4)	97%	97%	106%

Notes:

- (1) Loss ratio is based on net claims divided by net premium income.
- (2) Commission ratio is based on fees and commissions divided by net premium income.
- (3) Expense ratio is based on expenses divided by net premium income.
- (4) Combined operating ratio is the sum of the loss, commission and expense ratios.

Direct Line Group (continued)

Key points

From 1 July 2012, Direct Line Group (DLG) has operated on a substantially standalone basis with distinct corporate functions and governance. During 2012, the DLG board became fully compliant with the UK Corporate Governance Code and an arm's length transitional services agreement was reached with RBS Group for residual services.

The Group sold 34.7% of the share capital of DLG in October 2012 via an Initial Public Offering. On 13 March 2013, the Group sold a further 16.8% of the share capital of DLG and now holds 48.5% of the issued ordinary share capital in DLG and has ceded control in advance of the European Commission requirement to do so by the end of 2013. The Group is required to completely dispose of DLG by the end of 2014.

Consequently, in the Q1 2013 RBS Group results, DLG's results are recognised as a discontinued operation until 12 March 2013. From 13 March 2013, the interest in DLG still held by the Group is recognised as an associated undertaking and no longer as a discontinued operation. The period for which DLG's results are fully consolidated by RBSG is 21% shorter than previous quarters, resulting in a commensurate expected fall in most line items. The share of profit of associates mitigates this at the operating profit level as RBSG's share of profit after tax for the period 13 March 2013 to 31 March 2013 is included.

Q1 2013 compared with Q1 2012

- Operating profit for the full quarter, including the period as an associated undertaking, of £89 million was £5 million, 6%, higher than 2012 as a fall in investment income of £63 million and net premium income of £239 million were offset by lower expenses, down £71 million, and lower insurance net claims, down £204 million.
- Investment income of £27 million was £63 million, 70%, lower than Q1 2012 primarily due to non-repeat of gains, reduced reinvestment yields and a lower average investment asset base.
- The improvement in the loss ratio was partially due to the absence of claims from major weather events in the first quarter of 2013, despite unseasonably cold weather across most of the UK.
- The commission ratio improved by 200 basis points compared with Q1 2012 due to the non-repeat of payments to Tesco Personal Finance.
- The expense ratio improved by 200 basis points reflecting lower expenses, due to the non-repeat of parallel running costs and the move to a fully stand-alone expense base, partially offset by lower net premium income.
- The combined operating ratio of 97% improved by 900 basis points compared with 2012, driven by improvements in all ratios.

Central items

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Central items not allocated	(43)	118	(170)

Note:

(1) Costs/charges are denoted by brackets.

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

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

Key points

Q1 2013 compared with Q4 2012

- Central items not allocated represented a debit of £43 million compared with a credit of £118 million in Q4 2012.
- Significant items included a gain of £105 million on available-for-sale bond disposals versus the £187 million gain recorded in Q4 2012 and a £65 million credit relating to the Group's share of profit from its stake in Saudi Hollandi, which was previously held as a disposal group.
- Other unallocated Group Treasury costs, including volatile items under IFRS, were £103 million, up from £26 million in Q4 2012.

Q1 2013 compared with Q1 2012

- Central items not allocated represented a debit of £43 million compared with £170 million in Q1 2012.
- The movement is primarily due to lower unallocated costs in Group Treasury, down £97 million, higher gains on available-for-sale bond disposals, up £15 million and the £65 million credit relating to Saudi Hollandi.

Non-Core

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Income statement			
Net interest income (excluding funding costs of rental assets)	(28)	59	115
Funding costs of rental assets	(9)	(6)	(51)
Net interest income	(37)	53	64
Net fees and commissions	20	28	31
Income/(loss) from trading activities	45	(50)	(270)
Other operating income			
- rental income	57	53	219
- other (1)	8	(116)	225
Non-interest income	130	(85)	205
Total income	93	(32)	269
Direct expenses			
- staff	(61)	(50)	(73)
- operating lease depreciation	(27)	(51)	(83)
- other	(28)	(47)	(41)
Indirect expenses	(49)	(59)	(66)
	(165)	(207)	(263)
(Loss)/profit before impairment losses	(72)	(239)	6
Impairment losses	(433)	(703)	(489)
Operating loss	(505)	(942)	(483)

Note:

(1) Includes losses on disposals of £57 million (Q4 2012 - £115 million loss; Q1 2012 - £182 million gain).

Non-Core (continued)

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Analysis of income/(loss) by business			
Banking and portfolios	(8)	(111)	177
International businesses	45	29	85
Markets	56	50	7
Total income	93	(32)	269
Income/(loss) from trading activities			
Monoline exposures	(7)	(35)	(128)
Credit derivative product companies	3	1	(38)
Asset-backed products (1)	20	16	31
Other credit exotics	15	5	20
Equities	-	(5)	(1)
Banking book hedges	3	(2)	-
Other	11	(30)	(154)
	45	(50)	(270)
Impairment losses			
Banking and portfolios (2)	441	723	484
International businesses	2	15	11
Markets	(10)	(35)	(6)
Total impairment losses	433	703	489
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) (3)			
Banking and portfolios (4)	3.4%	5.0%	2.8%
International businesses	0.8%	5.5%	2.1%
Markets	-	-	(0.8%)
Total	3.3%	4.8%	2.7%

Notes:

- (1) Asset-backed products include super senior asset-backed structures and other asset-backed products.
- (2) Includes Ulster Bank impairment losses of £242 million (Q4 2012 - £364 million; Q1 2012 - £264 million).
- (3) Includes disposal groups.
- (4) Ulster Bank - 7.4% (Q4 2012 - 11.3%; Q1 2012 - 7.7%). Banking and portfolios excluding Ulster Bank - 2.0% (Q4 2012 - 3.0%; Q1 2012 - 1.6%).

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratio			
Net interest margin	(0.25%)	0.29%	0.31%

Non-Core (continued)

Key metrics (continued)

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross) (1)	52.0	55.4	(6%)	72.7	(28%)
Loan impairment provisions	(11.2)	(11.2)	-	(11.4)	(2%)
Net loans and advances to customers	40.8	44.2	(8%)	61.3	(33%)
Total third party assets (excluding derivatives)	52.9	57.4	(8%)	83.3	(36%)
Total third party assets (including derivatives)	58.3	63.4	(8%)	91.8	(36%)
Risk elements in lending (1)	20.7	21.4	(3%)	23.5	(12%)
Provision coverage (2)	54%	52%	200bp	49%	500bp
Customer deposits (1)	2.8	2.7	4%	3.1	(10%)
Risk-weighted assets					
- Credit risk					
- non-counterparty	38.7	45.1	(14%)	60.6	(36%)
- counterparty	9.9	11.5	(14%)	18.5	(46%)
- Market risk	4.8	5.4	(11%)	12.4	(61%)
- Operational risk	1.2	(1.6)	175%	(1.6)	175%
	54.6	60.4	(10%)	89.9	(39%)

Notes:

- (1) Excludes disposal groups.
(2) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.

	31 March 2013 £bn	31 December 2012 £bn	31 March 2012 £bn
Gross customer loans and advances			
Banking and portfolios	51.2	54.5	70.8
International businesses	0.8	0.9	1.9
	52.0	55.4	72.7
Risk-weighted assets			
Banking and portfolios	48.9	53.3	66.1
International businesses	1.8	2.4	3.8

Markets	3.9	4.7	20.0
	54.6	60.4	89.9
Third party assets (excluding derivatives)			
Banking and portfolios	47.2	51.1	73.2
International businesses	1.1	1.2	2.7
Markets	4.6	5.1	7.4
	52.9	57.4	83.3

Non-Core (continued)

Third party assets (excluding derivatives)

Quarter ended 31 March 2013	31 December	Disposals/ Drawings/				FX	31
	2012	Run-off	restructuring	roll overs	Impairments		March
	£bn	£bn	£bn	£bn	£bn	£bn	2013
Commercial real estate	22.1	(1.9)	(0.2)	-	(0.4)	0.5	20.1
Corporate	25.5	(1.7)	(1.0)	0.3	-	0.8	23.9
SME	1.0	(0.2)	-	-	-	-	0.8
Retail	3.2	(0.2)	-	-	-	0.2	3.2
Other	0.5	(0.2)	-	-	-	-	0.3
Markets	5.1	(0.3)	(0.4)	-	-	0.2	4.6
Total (excluding derivatives)	57.4	(4.5)	(1.6)	0.3	(0.4)	1.7	52.9

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

Note:

- (1) Disposals of £0.3 billion have been signed as at 31 March 2013 but are pending completion (31 December 2012 - £0.2 billion; 30 September 2012 - £0.2 billion).

Commercial real estate third party assets	31 March	31 December	31 March
	2013	2012	2012
	£bn	£bn	£bn
UK (excluding NI)	7.6	8.9	10.3
Ireland (ROI and NI)	5.5	5.8	7.0
Spain	1.4	1.4	1.8
Rest of Europe	4.7	4.9	7.7
USA	0.8	0.9	1.9
RoW	0.1	0.2	0.4
Total (excluding derivatives)	20.1	22.1	29.1

Non-Core (continued)

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Impairment losses by donating division and sector (1)			
UK Retail			
Personal	(1)	-	2
Total UK Retail	(1)	-	2
UK Corporate			
Manufacturing and infrastructure	2	1	7
Property and construction	60	8	55
Transport	9	2	(2)
Financial institutions	(1)	(23)	1
Lombard	-	15	10
Other	2	53	6
Total UK Corporate	72	56	77
Ulster Bank			
Commercial real estate			
- investment	47	91	84
- development	155	256	142
Other corporate	38	16	34
Other EMEA	2	1	4
Total Ulster Bank	242	364	264
US Retail & Commercial			
Auto and consumer	13	19	9
Cards	-	(2)	5
SBO/home equity	27	22	18
Residential mortgages	2	4	3
Commercial real estate	(1)	(2)	(3)
Commercial and other	(2)	3	(4)
Total US Retail & Commercial	39	44	28
International Banking			
Manufacturing and infrastructure	(3)	3	6
Property and construction	85	96	86
Transport	7	51	13

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Telecoms, media and technology	3	5	16
Financial institutions	(10)	75	(12)
Other	(2)	8	9
Total International Banking	80	238	118
Other			
Wealth	1	-	(1)
Central items	-	1	1
Total Other	1	1	-
Total impairment losses	433	703	489

Note:

- (1) Impairment losses include those relating to AFS securities; sector analyses above include allocation of latent impairment charges.

Non-Core (continued)

	31 March 2013 £bn	31 December 2012 £bn	31 March 2012 £bn
Gross loans and advances to customers (excluding reverse repurchase agreements) by donating division and sector			
UK Retail			
Personal	-	-	0.1
Total UK Retail	-	-	0.1
UK Corporate			
Manufacturing and infrastructure	0.1	0.1	0.1
Property and construction	3.3	3.6	4.8
Transport	3.9	3.8	4.3
Financial institutions	0.1	0.2	0.6
Lombard	0.3	0.4	0.9
Other	3.5	4.2	7.0
Total UK Corporate	11.2	12.3	17.7
Ulster Bank			
Commercial real estate			
- investment	3.4	3.4	3.7
- development	7.6	7.6	8.0
Other corporate	1.6	1.6	1.7
Other EMEA	0.4	0.3	0.4
Total Ulster Bank	13.0	12.9	13.8
US Retail & Commercial			
Auto and consumer	0.6	0.6	0.8
Cards	-	-	0.1
SBO/home equity	2.0	2.0	2.4
Residential mortgages	0.4	0.4	0.5
Commercial real estate	0.4	0.4	0.9
Commercial and other	0.1	0.1	-
Total US Retail & Commercial	3.5	3.5	4.7
International Banking			
Manufacturing and infrastructure	2.7	3.9	5.8
Property and construction	11.1	12.3	15.4
Transport	1.6	1.7	2.4
Telecoms, media and technology	1.0	0.4	0.7

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Financial institutions	4.6	4.7	5.7
Other	3.3	3.7	6.4
Total International Banking	24.3	26.7	36.4
Other			
Wealth	-	-	0.2
Central items	-	-	(0.3)
Total Other	-	-	(0.1)
Gross loans and advances to customers (excluding reverse repurchase agreements)	52.0	55.4	72.6

Non-Core (continued)

Key points

Non-Core third party assets fell to £53 billion, a reduction of £5 billion, or 8% during the quarter and an overall reduction of £205 billion, or 79%, since the division was set up. This was achieved through a mixture of disposals, run-off and impairments. As of 31 March 2013, the Non-Core funded balance sheet was under 7% of the Group's funded balance sheet compared with 21% when the division was created. Non-Core remains on target to reach its third party asset target of c.£40 billion, a reduction of approximately 85% of its original portfolio, by the end of 2013.

Q1 2013 compared with Q4 2012

- Third party assets were further reduced by £5 billion, or 8%, largely reflecting run-off of £5 billion and disposals of £2 billion, partially offset by an increase due to exchange rate and other movements of £2 billion.
- Risk-weighted assets were £6 billion lower, principally driven by disposals and run-off.
- An operating loss of £505 million was almost half of that in Q4 2012, principally due to significantly lower impairments, lower disposal losses and improved trading activity.
- Impairment losses fell by £270 million to £433 million, with £122 million of this reduction from the Ulster Bank portfolio. Ulster Bank impairments increased from 52% to 56% of the Non-Core total impairment losses.
- Income increased by £125 million principally as a result of improved income from trading activities (up £95 million with asset price improvements and tighter spreads on indices and corporate credit) and disposal losses (down £58 million to £57 million), partially offset by falling net interest income as a result of continued divestment and run-off.
- Headcount declined by 16% to 2,600 reflecting run-off across the business.

Q1 2013 compared with Q1 2012

- Third party assets fell by £30 billion, or 36%, largely reflecting disposals of £15 billion and run-off of £17 billion. The disposal of RBS Aviation Capital in Q2 2012 contributed c.£5 billion to this reduction.
- Risk-weighted assets were £35 billion lower, principally driven by disposals, run-off and restructuring of existing positions.
- Operating loss reflected higher disposal losses and lower rental income, largely offset by gains in trading income and improved impairments.
- Impairment losses fell by £56 million to £433 million, principally reflecting provisions falling in line with the reducing size of the portfolio. Ulster Bank impairments increased from 54% to 56% of the Non-Core total.
- Trading income improved by £315 million. Overall income reflected £57 million of disposal losses in Q1 2013 compared with gains on disposal of £182 million in Q1 2012 and £120 million lower rental income (largely due to the disposal of RBS Aviation Capital in Q2 2012).
- Costs decreased by £98 million, largely as a result of a £56 million reduction in operating lease depreciation predominantly due to the disposal of RBS Aviation Capital in Q2 2012.

- Since Q1 2012 headcount decreased by 1,700, or 40%, reflecting divestment activity and run-off across the business.

Condensed consolidated income statement
for the quarter ended 31 March 2013

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Interest receivable	4,279	4,439	4,934
Interest payable	(1,609)	(1,666)	(2,019)
Net interest income	2,670	2,773	2,915
Fees and commissions receivable	1,316	1,374	1,485
Fees and commissions payable	(210)	(245)	(179)
Income from trading activities	1,115	474	212
(Loss)/gain on redemption of own debt	(51)	-	577
Other operating income	612	227	(800)
Non-interest income	2,782	1,830	1,295
Total income	5,452	4,603	4,210
Staff costs	(1,887)	(1,656)	(2,508)
Premises and equipment	(556)	(592)	(562)
Other administrative expenses	(763)	(2,506)	(883)
Depreciation and amortisation	(387)	(498)	(457)
Write-down of goodwill and other intangible assets	-	(124)	-
Operating expenses	(3,593)	(5,376)	(4,410)
Profit/(loss) before impairment losses	1,859	(773)	(200)
Impairment losses	(1,033)	(1,454)	(1,314)
Operating profit/(loss) before tax	826	(2,227)	(1,514)
Tax charge	(350)	(39)	(138)
Profit/(loss) from continuing operations	476	(2,266)	(1,652)
Profit/(loss) from discontinued operations, net of tax			
- Direct Line Group (1)	127	(351)	88
- Other	2	6	5
Profit/(loss) from discontinued operations, net of tax	129	(345)	93
Profit/(loss) for the period	605	(2,611)	(1,559)
Non-controlling interests	(131)	108	14
Preference share and other dividends	(81)	(115)	-

Profit/(loss) attributable to ordinary and B shareholders	393	(2,618)	(1,545)
Basic and diluted earnings/(loss) per ordinary and B share from continuing operations (2)	2.6p	(21.6p)	(15.0p)
Basic and diluted earnings/(loss) per ordinary and B share from continuing and discontinued operations (2)	3.5p	(23.6p)	(14.2p)

Notes:

- (1) Includes a gain on disposal of £72 million in Q1 2013 and the write-down of goodwill of £394 million in Q4 2012.
- (2) Data for the quarter ended 31 March 2012 have been adjusted for the sub-division and one-for-ten consolidation of ordinary shares in June 2012.

Condensed consolidated statement of comprehensive income
for the quarter ended 31 March 2013

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Profit/(loss) for the period	605	(2,611)	(1,559)
Items that do not qualify for reclassification			
Actuarial losses on defined benefit plans	-	(2,158)	-
Income tax on items that do not qualify for reclassification	-	429	(38)
	-	(1,729)	(38)
Items that do qualify for reclassification			
Available-for-sale financial assets	276	(70)	525
Cash flow hedges	(34)	(126)	33
Currency translation	1,197	169	(554)
Income tax on items that do qualify for reclassification	48	118	19
	1,487	91	23
Other comprehensive income/(loss) after tax	1,487	(1,638)	(15)
Total comprehensive income/(loss) for the period	2,092	(4,249)	(1,574)
Total comprehensive income/(loss) is attributable to:			
Non-controlling interests	149	(104)	(3)
Preference shareholders	71	99	-
Paid-in equity holders	10	16	-
Ordinary and B shareholders	1,862	(4,260)	(1,571)
	2,092	(4,249)	(1,574)

Key points

The movement in available-for-sale financial assets during Q1 2013 represents net unrealised gains on high quality UK, US and German sovereign bonds.

Currency translation gains during the quarter are principally due to the weakening of Sterling against both the US Dollar by 6.2%, and the Euro by 3.6%. Whilst these currency movements benefited the tangible net asset value per share, they did however reduce the Core Tier 1 capital ratio by c.6 basis points given the impact on risk weighted assets.

Condensed consolidated balance sheet
at 31 March 2013

	31 March 2013	31 December 2012
	£m	£m
Assets		
Cash and balances at central banks	86,718	79,290
Net loans and advances to banks	34,025	29,168
Reverse repurchase agreements and stock borrowing	43,678	34,783
Loans and advances to banks	77,703	63,951
Net loans and advances to customers	432,360	430,088
Reverse repurchase agreements and stock borrowing	59,427	70,047
Loans and advances to customers	491,787	500,135
Debt securities	153,248	157,438
Equity shares	11,861	15,232
Settlement balances	15,805	5,741
Derivatives	432,435	441,903
Intangible assets	13,928	13,545
Property, plant and equipment	9,482	9,784
Deferred tax	3,280	3,443
Interests in associated undertakings	2,604	776
Prepayments, accrued income and other assets	7,596	7,044
Assets of disposal groups	1,726	14,013
Total assets	1,308,173	1,312,295
Liabilities		
Bank deposits	54,536	57,073
Repurchase agreements and stock lending	39,575	44,332
Deposits by banks	94,111	101,405
Customer deposits	437,437	433,239
Repurchase agreements and stock lending	88,658	88,040
Customer accounts	526,095	521,279
Debt securities in issue	92,740	94,592
Settlement balances	14,640	5,878
Short positions	30,610	27,591
Derivatives	429,881	434,333
Accruals, deferred income and other liabilities	15,630	14,801
Retirement benefit liabilities	3,533	3,884
Deferred tax	1,019	1,141
Subordinated liabilities	27,788	26,773
Liabilities of disposal groups	961	10,170
Total liabilities	1,237,008	1,241,847
Equity		

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Non-controlling interests	532	1,770
Owners' equity*		
Called up share capital	6,619	6,582
Reserves	64,014	62,096
Total equity	71,165	70,448
Total liabilities and equity	1,308,173	1,312,295
* Owners' equity attributable to:		
Ordinary and B shareholders	65,341	63,386
Other equity owners	5,292	5,292
	70,633	68,678

Average balance sheet

	Quarter ended	
	31 March 2013	31 December 2012
	%	%
Average yields, spreads and margins of the banking business		
Gross yield on interest-earning assets of banking business	3.10	3.12
Cost of interest-bearing liabilities of banking business	(1.54)	(1.55)
Interest spread of banking business	1.56	1.57
Benefit from interest-free funds	0.37	0.38
Net interest margin of banking business	1.93	1.95
Average interest rates		
The Group's base rate	0.50	0.50
London inter-bank three month offered rates		
- Sterling	0.51	0.53
- Eurodollar	0.29	0.32
- Euro	0.21	0.20

Average balance sheet (continued)

	Quarter ended 31 March 2013			Quarter ended 31 December 2012		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	70,945	108	0.62	70,752	114	0.64
Loans and advances to customers	410,222	3,831	3.79	414,857	3,940	3.78
Debt securities	78,505	340	1.76	80,624	385	1.90
Interest-earning assets - banking business (1)	559,672	4,279	3.10	566,233	4,439	3.12
Trading business (2)	238,205			231,113		
Non-interest earning assets	532,982			545,677		
Total assets	1,330,859			1,343,023		
Liabilities						
Deposits by banks	28,408	116	1.66	30,929	122	1.57
Customer accounts	332,628	837	1.02	329,074	849	1.03
Debt securities in issue	55,227	353	2.59	59,492	404	2.70
Subordinated liabilities	23,147	222	3.89	21,139	201	3.78
Internal funding of trading business	(15,422)	81	(2.13)	(12,609)	90	(2.84)
Interest-bearing liabilities - banking business	423,988	1,609	1.54	428,025	1,666	1.55
Trading business (2)	240,519			234,792		
Non-interest-bearing liabilities						
- demand deposits	76,039			74,957		
- other liabilities	520,515			533,282		
Owners' equity	69,798			71,967		
Total liabilities and owners' equity	1,330,859			1,343,023		

Notes:

- (1) Interest income includes amounts (unwind of discount) recognised on impaired loans and receivables. The average balances of such loans are included in average loans and advances to banks and loans and advances to customers.
- (2) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.

Condensed consolidated statement of changes in equity
for the quarter ended 31 March 2013

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Called-up share capital			
At beginning of period	6,582	6,581	15,318
Ordinary shares issued	37	1	79
At end of period	6,619	6,582	15,397
Paid-in equity			
At beginning and end of period	979	979	979
Share premium account			
At beginning of period	24,361	24,268	24,001
Ordinary shares issued	94	93	26
At end of period	24,455	24,361	24,027
Merger reserve			
At beginning and end of period	13,222	13,222	13,222
Available-for-sale reserve (1)			
At beginning of period	(346)	(291)	(957)
Unrealised gains	582	136	724
Realised gains	(164)	(209)	(212)
Tax	28	77	6
Recycled to profit or loss on disposal of businesses (2)	(110)	-	-
Transfer to retained earnings	-	(59)	-
At end of period	(10)	(346)	(439)
Cash flow hedging reserve			
At beginning of period	1,666	1,746	879
Amount recognised in equity	259	162	290
Amount transferred from equity to earnings	(293)	(288)	(257)
Tax	3	46	9
At end of period	1,635	1,666	921
Foreign exchange reserve			
At beginning of period	3,908	3,747	4,775
Retranslation of net assets	1,386	147	(648)
Foreign currency (losses)/gains on hedges of net assets	(201)	21	96

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Transfer to retained earnings	-	(2)	-
Tax	(18)	(5)	4
Recycled to profit or loss on disposal of businesses	(3)	-	-
At end of period	5,072	3,908	4,227
Capital redemption reserve			
At beginning and end of period	9,131	9,131	198
Contingent capital reserve			
At beginning and end of period	(1,208)	(1,208)	(1,208)

Notes:

- (1) Analysis provided on page 80.
- (2) Net of tax - £35 million charge.
- (3) Net of tax - £1 million charge.

Condensed consolidated statement of changes in equity
for the quarter ended 31 March 2013 (continued)

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
	£m	£m	£m
Retained earnings			
At beginning of period	10,596	15,216	18,929
Transfer to non-controlling interests	-	(361)	-
Profit/(loss) attributable to ordinary and B shareholders and other equity owners			
- continuing operations	366	(2,278)	(1,633)
- discontinued operations	108	(225)	88
Equity preference dividends paid	(71)	(99)	-
Paid-in equity dividends paid, net of tax	(10)	(16)	-
Transfer from available-for-sale reserve	-	59	-
Transfer from foreign exchange reserve	-	2	-
Actuarial losses recognised in retirement benefit schemes			
- gross	-	(2,158)	-
- tax	-	429	(38)
Shares released for employee benefits	-	43	(13)
Share-based payments			
- gross	(37)	(19)	45
- tax	(3)	3	6
At end of period	10,949	10,596	17,384
Own shares held			
At beginning of period	(213)	(207)	(769)
Disposal/(purchase) of own shares	2	(6)	(2)
Shares released for employee benefits	-	-	6
At end of period	(211)	(213)	(765)
Owners' equity at end of period	70,633	68,678	73,943
Non-controlling interests			
At beginning of period	1,770	646	686
Currency translation adjustments and other movements	15	1	(2)
Profit/(loss) attributable to non-controlling interests			
- continuing operations	110	12	(19)
- discontinued operations	21	(120)	5
Movements in available-for-sale securities			
- unrealised gains/(losses)	9	(1)	(4)
- realised losses	-	4	17
- tax	(1)	-	-
- recycled to profit or loss on disposal of businesses (3)	(5)	-	-

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Equity raised	-	874	-
Equity withdrawn and disposals	(1,387)	(7)	(16)
Transfer from retained earnings	-	361	-
At end of period	532	1,770	667
Total equity at end of period	71,165	70,448	74,610
Total comprehensive income/(loss) recognised in the statement of changes in equity is attributable to:			
Non-controlling interests	149	(104)	(3)
Preference shareholders	71	99	-
Paid-in equity holders	10	16	-
Ordinary and B shareholders	1,862	(4,260)	(1,571)
	2,092	(4,249)	(1,574)

For the notes to this table refer to page 69.

Notes

1. Basis of preparation

The annual accounts are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS). There have been no significant changes to the Group's principal accounting policies as set out on pages 320 to 331 of the Group's 2012 annual report on Form 20-F apart from the adoption of a number of new and revised IFRSs that are effective from 1 January 2013 as described below.

IFRS 11 'Joint Arrangements', which supersedes IAS 31 'Interests in Joint Ventures', distinguishes between joint operations and joint ventures. Joint operations are accounted for by the investor recognising its assets and liabilities including its share of any assets held and liabilities incurred jointly and its share of revenues and costs. Joint ventures are accounted for in the investor's consolidated accounts using the equity method. IFRS 11 requires retrospective application.

IAS 28 'Investments in Associates and Joint Ventures' covers joint ventures as well as associates; both must be accounted for using the equity method. The mechanics of the equity method are unchanged.

IFRS 13 'Fair Value Measurement' sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements.

'Amendments to IAS 1 'Presentation of Items of Other Comprehensive Income' require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those items that are subject to subsequent reclassification.

'Annual Improvements 2009-2011 Cycle' also made a number of minor changes to IFRSs.

Implementation of the standards above has not had a material effect on the Group's results.

IAS 19 'Employee Benefits' (revised) requires: the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach'; interest cost to be calculated on the net pension liability or asset at the long-term bond rate, an expected rate of return will no longer be applied to assets; and all past service costs to be recognised immediately when a scheme is curtailed or amended. Implementation of IAS19 resulted in an increase in the loss after tax for the quarters ended 31 December 2012 and 31 March 2012 of £21 million.

IFRS 10 'Consolidated Financial Statements' replaces SIC-12 'Consolidation - Special Purpose Entities' and the consolidation elements of the existing IAS 27 'Consolidated and Separate Financial Statements'. IFRS 10 adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity so as to vary returns for the reporting entity. IFRS 10 requires retrospective application. Following implementation of IFRS 10, certain entities that have trust preferred securities in issue are no longer consolidated by the Group. As a result there has been a reduction in non-controlling interests of £0.5 billion with a corresponding increase in Owners' equity (Paid-in equity); prior periods have been restated.

Notes

1. Basis of preparation (continued)

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition are those relating to pensions; goodwill; provisions for liabilities; deferred tax; loan impairment provisions and financial instrument fair values. These critical accounting policies and judgments are described on pages 328 to 331 of the Group's 2012 annual report on Form 20-F.

Direct Line Group (DLG)

With effect from 13 March 2013, when the Group's shareholding in DLG fell below 50%, the Group no longer controls DLG. Consequently, in the Q1 results DLG is treated as a discontinued operation until 12 March 2013 and as an associated undertaking thereafter.

Going concern

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. Accordingly, the Interim Management Statement for the quarter ended 31 March 2013 has been prepared on a going concern basis.

Notes (continued)

2. Analysis of income, expenses and impairment losses

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Loans and advances to customers	3,831	3,940	4,221
Loans and advances to banks	108	114	143
Debt securities	340	385	570
Interest receivable	4,279	4,439	4,934
Customer accounts	837	849	915
Deposits by banks	116	122	191
Debt securities in issue	353	404	698
Subordinated liabilities	222	201	190
Internal funding of trading businesses	81	90	25
Interest payable	1,609	1,666	2,019
Net interest income	2,670	2,773	2,915
Fees and commissions receivable			
- payment services	333	317	347
- credit and debit card fees	254	280	262
- lending (credit facilities)	353	368	358
- brokerage	109	122	154
- investment management	113	106	131
- trade finance	78	64	99
- other	76	117	134
	1,316	1,374	1,485
Fees and commissions payable - banking	(210)	(245)	(179)
Net fees and commissions	1,106	1,129	1,306
Foreign exchange	195	86	225
Interest rate	199	456	672
Credit	552	118	210
Own credit adjustments	99	(98)	(1,009)
Other	70	(88)	114
Income from trading activities	1,115	474	212
(Loss)/gain on redemption of own debt	(51)	-	577

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Operating lease and other rental income	138	152	301
Own credit adjustments	150	(122)	(1,447)
Changes in the fair value of:			
- securities and other financial assets and liabilities	12	19	81
- investment properties	(9)	(77)	32
Profit on sale of securities	153	237	190
Profit/(loss) on sale of:			
- property, plant and equipment	18	(1)	5
- subsidiaries and associated undertakings	(6)	(21)	(12)
Life business profits	-	1	1
Dividend income	14	16	14
Share of profits less losses of associated undertakings (1)	177	21	(4)
Other income	(35)	2	39
Other operating income	612	227	(800)

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

Notes (continued)

2. Analysis of income, expenses and impairment losses (continued)

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Total non-interest income	2,782	1,830	1,295
Total income	5,452	4,603	4,210
Staff costs	1,887	1,656	2,508
Premises and equipment	556	592	562
Other (2)	763	2,506	883
Administrative expenses	3,206	4,754	3,953
Depreciation and amortisation	387	498	457
Write-down of goodwill and other intangible assets (3)	-	124	-
Operating expenses	3,593	5,376	4,410
Loan impairment losses	1,036	1,402	1,295
Securities impairment losses	(3)	52	19
Impairment losses	1,033	1,454	1,314

Notes:

- (1) Includes the Group's share of DLG's profit for the period 13 March to 31 March 2013 of £7 million.
- (2) Includes bank levy of £175 million in Q4 2012, Payment Protection Insurance costs of nil (Q4 2012 - £450 million; Q1 2012 - £125 million), Interest Rate Hedging Products redress and related costs of £50 million (Q4 2012 - £700 million) and regulatory fines of £381 million in Q4 2012.
- (3) Excludes £394 million of goodwill written-off in Q4 2012 in respect of Direct Line Group.

Payment Protection Insurance (PPI)

There was no increase to the Group's provision for PPI in Q1 2013 (Q4 2012 - £450 million; Q1 2012 - £125 million). The cumulative charge in respect of PPI is £2.2 billion, of which £1.5 billion (68%) in redress had been paid by 31 March 2013. Of the £2.2 billion cumulative charge, £2.0 billion relates to redress and £0.2 billion to administrative expenses. The eventual cost is dependent upon complaint volumes, uphold rates and average redress costs. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different than the amount provided. The Group will continue to monitor the position closely and refresh its assumptions as more information becomes available.

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m

At beginning of period	895	684	745
Charge to income statement	-	450	125
Utilisations	(190)	(239)	(181)
At end of period	705	895	689

74

Notes (continued)

2. Analysis of income, expenses and impairment losses (continued)

Interest Rate Hedging Products (IRHP) redress and related costs

Following an industry-wide review conducted in conjunction with the Financial Services Authority, a charge of £700 million was booked in 2012 for redress in relation to certain interest-rate hedging products sold to small and medium-sized retail clients under FSA rules. £575 million was earmarked for client redress, and £125 million for administrative expenses. The Group continues to monitor the level of provision given the uncertainties over the number of transactions that will qualify for redress and the nature and cost of that redress. As a result of full development of the plan for administering this process in accordance with FSA guidelines, the estimate for administrative costs has been increased by £50 million in Q1 2013.

	Quarter ended		
	31 March	December	31 March
	2013	2012	2012
	£m	£m	£m
At beginning of period	676	-	-
Charge to income statement	50	700	-
Utilisations	(24)	(24)	-
At end of period	702	676	-

3. Loan impairment provisions

Operating loss is stated after charging loan impairment losses of £1,036 million (Q4 2012 - £1,402 million; Q1 2012 - £1,295 million). The balance sheet loan impairment provisions increased in the quarter ended 31 March 2013 from £21,250 million to £21,494 million and the movements thereon were:

	31 March 2013			Quarter ended				31 March 2012		
	Core	Non- Core	Total	Core	Non- Core	RFS MI	Total	Core	Non- Core	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At beginning of period	10,062	11,188	21,250	9,203	11,115	-	20,318	8,414	11,469	19,883
Transfers from disposal groups	-	-	-	764	-	-	764	-	-	-
Currency translation and other adjustments	136	266	402	57	139	-	196	(8)	(80)	(88)
Disposals	-	-	-	-	(1)	(4)	(5)	-	-	-
Amounts written-off	(529)	(627)	(1,156)	(688)	(733)	-	(1,421)	(405)	(440)	(845)
Recoveries of amounts previously written-off	49	16	65	50	46	-	96	62	33	95
Charge to income statement										

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- continuing operations	599	437	1,036	729	673	-	1,402	796	499	1,295
- discontinued operations	-	-	-	-	-	4	4	-	-	-
Unwind of discount (recognised in interest income)	(51)	(52)	(103)	(53)	(51)	-	(104)	(62)	(67)	(129)
At end of period	10,266	11,228	21,494	10,062	11,188	-	21,250	8,797	11,414	20,211

Provisions at 31 March 2013 include £119 million in respect of loans and advances to banks (31 December 2012 - £114 million; 31 March 2012 - £135 million).

The table above excludes impairments relating to securities (refer to page 11 in Appendix 3).

Notes (continued)

4. Tax

The actual tax charge differs from the expected tax (charge)/credit computed by applying the standard UK corporation tax rate of 23.25% (2012 - 24.5%).

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Profit/(loss) before tax	826	(2,227)	(1,514)
Expected tax (charge)/credit	(192)	546	371
Losses in period where no deferred tax asset recognised	(72)	(129)	(173)
Foreign profits taxed at other rates	(88)	(77)	(102)
UK tax rate change impact	-	(14)	(30)
Unrecognised timing differences			