ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
November 07, 2013

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

7 November 2013

The Royal Bank of Scotland Group plc

Gogarburn

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Scotland

United Kingdom

(Address of principal executive offices)

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

Form 20-F X Form 40-F __

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

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

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

Yes __ No X

If "Yes" is marked, indicate below the file number assigned to

the registrant in connection with Rule 12g3-2(b): 82-_______

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-184147 and 333-184147-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Contents

Forward-looking statements

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

In particular, this document includes forward-looking statements relating, but not limited to: the Group’s restructuring and new strategic 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 exposure to political risks and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: 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 assets to be included in the internal “bad bank” and the disposal of certain other assets and businesses as stated in the new strategic plan or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to capital adequacy or liquidity requirements; 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 and foreign exchange trading activities; 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; 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; 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 2 (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 2. 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, liquidity coverage ratio, stressed outflow coverage and further metrics included in the Risk and balance sheet management section and Appendix 1 of this document 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.

Revisions

Direct Line Group

The Group sold the first tranche of ordinary shares representing 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 ordinary shares in DLG and ceded control. This fulfilled the Group's plan to cede control of DLG by the end of 2013. On 20 September 2013, the Group sold a further 20% of the ordinary shares in DLG which is a further step towards complete disposal by the end of 2014, as required by the European Commission.

The Group now holds 28.5% of the issued ordinary share capital of DLG. Consequently, in the Group results DLG is treated as a discontinued operation until 12 March 2013 and as an associated undertaking thereafter, with associate income reported in Group Centre from 13 March 2013.

Revised allocation of Business Services costs

In the first quarter of 2013, the Group 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; interest cost to be calculated on the net pension liability or asset at the long-term bond rate, such that 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 of £21 million for the quarter ended 30 September 2012 and £63 million for the nine months ended 30 September 2012. Prior periods have been restated accordingly.

Presentation of information

Revisions (continued)

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 accordingly.

Condensed consolidated income statement

for the period ended 30 September 2013

	Quarter ended				Nine months ended	
	30 September 2013	30 June 2013	30 September 2012*		**30 September 2013**	30 September 2012*
	£m	£m	£m		**£m**	£m
Interest receivable	**4,207**	4,281	4,456		**12,767**	14,091
Interest payable	**(1,427)**	(1,514)	(1,647)		**(4,550)**	(5,462)
Net interest income	**2,780**	2,767	2,809		**8,217**	8,629
Fees and commissions receivable	**1,382**	1,392	1,400		**4,090**	4,335
Fees and commissions payable	**(238)**	(250)	(209)		**(698)**	(589)
Income from trading activities	**444**	949	334		**2,508**	1,201
Gain/(loss) on redemption of own debt	**13**	242	(123)		**204**	454
Other operating income/(loss)	**35**	720	(252)		**1,367**	(692)
Non-interest income	**1,636**	3,053	1,150		**7,471**	4,709
Total income	**4,416**	5,820	3,959		**15,688**	13,338
Staff costs	**(1,895)**	(1,840)	(1,987)		**(5,622)**	(6,532)
Premises and equipment	**(544)**	(548)	(550)		**(1,648)**	(1,640)
Other administrative expenses	**(1,103)**	(1,418)	(1,193)		**(3,284)**	(3,087)
Depreciation and amortisation	**(338)**	(349)	(421)		**(1,074)**	(1,304)
Operating expenses	**(3,880)**	(4,155)	(4,151)		**(11,628)**	(12,563)
Profit/(loss) before impairment losses	**536**	1,665	(192)		**4,060**	775
Impairment losses	**(1,170)**	(1,117)	(1,176)		**(3,320)**	(3,825)
Operating (loss)/profit before tax	**(634)**	548	(1,368)		**740**	(3,050)
Tax charge	**(81)**	(328)	(3)		**(759)**	(402)
(Loss)/profit from continuing operations	**(715)**	220	(1,371)		**(19)**	(3,452)

(Loss)/profit from discontinued operations, net of tax						
- Direct Line Group	**-**	-	62		**127**	167
- Other	**(5)**	9	5		**6**	6
(Loss)/profit from discontinued operations,						
net of tax	**(5)**	9	67		**133**	173
(Loss)/profit for the period	**(720)**	229	(1,304)		**114**	(3,279)
Non-controlling interests	**(6)**	14	3		**(123)**	28
Preference share and other dividends	**(102)**	(101)	(104)		**(284)**	(186)
(Loss)/profit attributable to ordinary and						
B shareholders	**(828)**	142	(1,405)		**(293)**	(3,437)
Basic and diluted (loss)/earnings per ordinary and B						
share from continuing operations	**(7.4p)**	1.2p	(13.3p)		**(3.6p)**	(32.8p)
Basic and diluted (loss)/earnings per ordinary and B						
share from continuing and discontinued operations	**(7.4p)**	1.2p	(12.7p)		**(2.6p)**	(31.3p)

* Restated - see page 76.

5

Core summary consolidated income statement

for the quarter ended 30 September 2013

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
	£m	£m	£m		**£m**	£m
Net interest income	**2,826**	2,751	2,732		**8,286**	8,450
Non-interest income	**2,187**	2,423	2,776		**6,969**	8,473
Total income	**5,013**	5,174	5,508		**15,255**	16,923
Operating expenses	**(3,141)**	(3,243)	(3,261)		**(9,600)**	(10,169)
Profit before impairment losses	**1,872**	1,931	2,247		**5,655**	6,754
Impairment losses	**(589)**	(719)	(752)		**(1,908)**	(2,305)
Operating profit	**1,283**	1,212	1,495		**3,747**	4,449
Key metrics						
Core performance ratios						
- Net interest margin	**2.24%**	2.21%	2.15%		**2.21%**	2.15%
- Cost:income ratio	**63%**	63%	59%		**63%**	60%
- Return on equity	**7.7%**	7.2%	8.8%		**7.5%**	9.2%

Analysis of results is set out on pages 19 to 27.

Chief Executive's message

This is my first message to you as Chief Executive. I took on the job because I believe we can make this a great bank for our customers. That's also the best way to make RBS an attractive investment and a good place to work for all our employees. As I write today, we still have a long way to travel to achieve all of these goals.

We are a bank with a significant international reach but the UK is our home. It accounts for the majority of our income and it's where our reputation for customer service, community support and corporate governance will be won or lost. It is also the place where we have the most opportunity to build long-term shareholder value. We have unique responsibilities to the UK and meeting them will have financial rewards for our business.

Our purpose is to serve our customers and to meet more of their financial needs. And we need to find a way to serve them from a more efficient, effective and agile business platform than the one we have today. I will provide full details in February 2014 on how we intend to do this. Today, I want to set out my assessment of our current performance and the management actions we must take on capital and risk to ensure nothing distracts us from the task of making this a great customer bank again.

Recent performance

Our third quarter results show the areas where the bank is making progress and those where we still have more to do. I joined RBS just over a year ago because I respect Stephen Hester and admired the work he and his team had done to bring this bank back from the brink. I have seen at first hand both the scale of the challenge they took on and the success they had in what will go down as a remarkable corporate rescue. This has been a major achievement.

I know, however, that a balance sheet clean-up does not make a great bank on its own. We have posted our seventh consecutive quarterly operating profit today. But for the most part our improved profitability is driven by a fall in impairments rather than an increase in income. Revenue growth in our main business franchise - UK Retail and Commercial - is not what we would like it to be at this point in our recovery. I'm encouraged that costs are down 8% on last year, but they are still unsustainably high. Our Core Return on Equity was 7.7% in Q3 2013 - down from 8.9% and 9.3% for the full year 2012 and 2011 rspectively. We must do better and we can do better.

RBS is a very complex business that is difficult for our employees and the outside world to navigate. But the heart of our performance problem is quite easy to understand: we make it too hard for customers to do business with us and too hard for our people to serve those customers well.

Our personal customers do only part of their everyday banking with us and there is no reason why we can't do more to support more of our customers' needs. We still receive far too many complaints, often on issues that would never arise if our systems and processes were more effective. We are the biggest backer of small businesses in the UK. Every year we speak to thousands of potential new small business customers but at the moment we don't convert enough of those conversations into actual new loans. And we haven't made the most of the opportunities in our international network by connecting the different parts of our corporate franchise to the needs of our customers. There is a big opportunity here and we are already beginning to seize it. The restructuring of our investment bank to lower its risk profile is in full swing and it is encouraging to see some signs of delivery from the business focus on our corporate and institutional customers.

No-one is more frustrated by this gap between our potential and our performance than our own people. I will make turning this situation around the top priority of everyone at RBS. We must become a company that knows what it means to obsess about our customers. This is a fundamental challenge that will involve the whole organisation.

7

Chief Executive's message

Improving our customer performance - February 2014

So realising the full potential of our customer businesses is now our major challenge and opportunity. I am confident that we can do it. The potential I saw in the Retail Bank exists across the other businesses - strong market positions, stable businesses and good staff who are eager to serve the customer better. I have launched a full review of our ongoing businesses that places the needs of our customers at its centre. It will consider three broad areas:

1) What can we do to meet more of our customers' needs and make ourselves simple and easy to do business with?
2) How do our operations and IT systems function for the benefit of customers? How do our core systems help or impede our employees in their work for customers?
3) How well does RBS work together as an organisation built to serve our customers? What can we do to make life simpler for employees and how can we simplify things so the whole of RBS can be greater than the sum of its parts?

The business review will also capture the tough calls on costs where they are needed to improve the performance and effectiveness of the bank. We currently have a cost:income ratio of 65%. That means we only have 35p left from every £1 we earn to invest in making our business better for customers and improving returns for shareholders. Our cost:income percentage needs to be down in the mid 50s. I will announce a new plan for the way the bank serves its customers around the time of our full year results in February 2014. That plan will require full focus from all our people.

Good Bank/Bad Bank Review

While everyone at RBS has been working hard for the last five years and the vast bulk of our balance sheet restructuring is now complete, we still have some hard work ahead of us. An important early challenge for me is to resolve the remaining legacy issues that have taken up a lot of the top management's time for the last few years. Without doing so we will not make the most of the plan I will set out in February.

Five years ago, our Non-Core assets totalled £258 billion. Through the good bank/bad bank review we have, over the last few months, been working with our major shareholder, the UK Government and their advisers to assess how far we've come in tackling the assets that continue to be a drag on our performance. We have a richer shared understanding of where we are today than we would have if we had not applied the rigour of this process. It is important for investors, regulators, and the management of the company that we have an agreed, robust assessment of our problematic assets.

We worked closely with HM Treasury and their advisers and identified a pool of £38 billion that we agreed would be a drag on our performance. These assets consume 20% of our capital and are made up predominantly of the most high risk assets we have in RBS.

8

Chief Executive's message

Good Bank/Bad Bank Review (continued)

Through this review it has become clear that the effort, risk and expense involved in the creation of an external bad bank is not justified. The good bank/bad bank review has from the start been carried out in conjunction with the Prudential Regulation Authority (PRA). This has allowed us to address our shared objective of identifying ways in which to strengthen the capital position of the bank, speed up the recovery in our core UK businesses and accelerate the path to privatisation. The options open to the Group have been debated extensively by the Board and the Board has decided that RBS should take the actions we are announcing today.

One of the first steps we are taking is to create an internal "bad bank" to manage these assets down so as to release capital. Our goal is to remove between 55% and 70% of these assets over the next two years. While there is inevitable uncertainty associated with running down such assets, we have a clear aspiration to remove all these assets from the balance sheet in three years. Our track record in delivering the Non-Core run-down to date should give everyone confidence that we can deliver on this plan. It will be called RBS Capital Resolution Group and will have strong and transparent governance and disclosure via an oversight committee which reports regularly to the main Board.

Disposing of these assets over a shorter timeframe will reduce the value we can expect to recover, and will lead to accelerated and increased impairments. This will result in an immediate reduction in our expected loss capital deduction. The net impact of this on our CT1 capital ratio today is a reduction of c.10 basis points. However, by the end of 2016 we anticipate an incremental £35 billion reduction in RWAs; and a net incremental improvement in our CT1 ratio and a strong improvement in our stressed capital ratio. This is the right thing to do as we sharpen our focus on our customer businesses, which account for over 90% of our assets.

Actions to improve our capital

Great banks have strong liquidity and capital positions. Our liquidity position is already strong without question. I also want to dispel any impression that RBS is travelling light on capital.

The Board has decided to lift our capital targets and take new actions in order to meet them. There are three drivers of our decisions:

1. You only have to pick up the newspaper every day to know that the sector faces capital risks from the continued cost of litigation and charges for bad conduct with our customers. As we have been disclosing for some time, we are squarely in the mix on some of the issues that have proved expensive elsewhere. The only option is to plan to carry more capital so we can absorb these costs as we work to put things right for customers.
2. The PRA has established a capital regime which gives it sufficient scope to vary capital requirements based on its assessment of the risk an individual bank poses to the UK financial system. Having completed a consultation period with relevant institutions, the PRA is expected to publish finalised rules for the new capital regime in December 2013. We expect that the PRA will require banks to hold a higher quality of capital in greater amounts and it is therefore prudent that RBS respond in a pro-active manner.
3. The current pace of momentum in our core businesses means we are not rebuilding capital as quickly as we planned.

Chief Executive's message

Actions to improve our capital (continued)

There is a range of possible outcomes on the actual capital position at different points in time. It is our prudent judgment that RBS should now be targeting a fully loaded Basel III Core Tier 1 ratio of c.11% by the end of 2015, rising to 12% or beyond by the end of 2016 - an increase of 300 basis points from our current position.

In order to meet our new capital targets we are announcing several new actions today:

We will accelerate our divestment of Citizens with a partial IPO now planned for next year. We plan to fully divest the business by the end of 2016. It is a good business, with the potential to build profitability and its own shareholder base, but it's not one that is an essential element of our strategy. The rationale for the original IPO holds and we envisage secondary sell-downs to complete the process, as we have done successfully with Direct Line Group.

Across the business we are intensifying management action to reduce risk-weighted-assets. The creation of our internal bad bank will on its own have a significant positive impact on our capital in the latter period of its rundown. The reduction of risk-weighted assets should position us safely above regulatory requirements and alongside the world's strongest financial institutions.

Ulster Bank

Like all of our businesses, Ulster Bank will form part of our February 2014 review. Subject to regulatory approval, a number of Ulster Bank assets (approximately £9 billion) will be managed by the "bad bank" and run down. But we also need to have full confidence that the rest of the Ulster Bank business is doing all it can for its customers and is playing its part within the wider company. We need to ensure that we have a viable and sustainable business model for Ulster Bank as part of this review. It's an important business for the whole island of Ireland and we understand the need to get this right.

Dividend Access Share

We are in advanced discussions with the UK Government about the removal of the Dividend Access Share. We are making very good progress in dealing with this issue which I know is important to many current and prospective investors in the company.

Lending

Today Sir Andrew Large will publish the summary of his review into lending to small and medium-sized businesses, which we commissioned earlier this year. The picture he will paint will not be an entirely comfortable one, but it's one we have to confront. I know that a successful, vibrant, and well-regarded SME bank is central to the overall value and reputation of this company. We must ensure our policies, processes and systems help our people to do the best job they can for customers and shareholders in this area. Our aim is to become the number one bank for SME customer service in the UK – including as measured in a new survey of SMEs by the Federation of Small Businesses and the British Chambers of Commerce – and to grow our lending along the way.

We have taken a number of steps to change and improve the way we do business but the Large review will show that there is significantly more we can do to expand our lending to small and medium-sized businesses. More recently, some of our competitors have managed to increase their lending in this area while we continue to contract. The detailed report will be published in one month's time. Its thematic findings are difficult to argue with and we will address all of the detailed issues it raises in the comprehensive business review I mentioned earlier in this letter.

Chief Executive's message

Conclusion

We now have a shared vision for the bank that includes the Board, our principal prudential regulator and the UK Government. I believe this is beneficial for all of our shareholders. The actions we are announcing today, when complete, will create a less complex, more effective customer business capable of delivering returns that will be attractive to prospective shareholders. They will create a bank that can reward the faith of UK taxpayers and all our investors.

RBS has made a lot of progress since 2009. As ever with any long and difficult job, a degree of weariness and even defensiveness has crept in. We have got to move on as a company. The bar has been set at a higher level for RBS than for other UK banks because we were rescued at the public's expense. I have asked all our people to embrace the higher expectations that people have placed on our bank. That's the only way we will build a really great business for our customers, our people and our shareholders. That's my aim.

Ross McEwan

1 November 2013

Relationship with HM Treasury

Following the Report from the UK Parliamentary Commission on Banking Standards in June 2013, HMT announced its intention to conduct a "good bank"/"bad bank" review in relation to RBS. Throughout this review, the Group worked closely with HMT and its advisors to consider whether the separation and transfer of a pool of the Group's assets into an external "bad bank" was in the interests of the Group, HMT and the Group's other shareholders. As the review progressed, it became clear that the benefit of removing those assets from the Group to an external bad bank would not justify the effort, risk and expense which such separation would entail.

During this process, HMT and the PRA proposed certain actions for consideration by the Board. Key elements of these proposals were already being contemplated by the Board. In conjunction the Group has also been having discussions, initiated by the PRA, in relation to its capital planning and actions which the Group might take to enhance its capital position.

Separately, the Group's new executive management team has been reviewing with the Board, and continues to review, the Group's strategy including its business mix, operating structure and cost base. This has included a review of the Group's current capital plan and market guidance with a view to improving the Group's capital strength in the light of potential regulatory changes, conduct and litigation headwinds and other developments which may impact the Group's future capital position.

Throughout this period, the Board has met several times to discuss these issues, determine how best to approach them and ultimately to take decisions in the interests of all of the Group's shareholders and other stakeholders in accordance with its statutory duties. The announcement on 1 November 2013 relating to the Group's strategy as well as revised guidance on the Group's capital targets reflect the Board's decisions.

Internal Bad Bank

Background

In June 2013, in response to a recommendation by the Parliamentary Commission on Banking Standards, the UK Government announced that it would review the case for an external "bad bank" to deal with RBS's legacy and poorly-performing assets, based on three objectives:

- accelerating the return of RBS to the private sector;
- supporting the British economy; and
- getting best value for the taxpayer.

Following this announcement, RBS worked closely with HMT and its advisers and identified a pool of c.£38 billion of assets with particularly high long-term capital intensity and/or potentially volatile outcomes in stressed environments.

HMT is publishing the results of its own review separately. The review concluded that the effort, risk and expense involved in the creation of an external bad bank could not be justified.

The options open to the Group for addressing its highest risk assets were reviewed and debated extensively by the Board, which decided to create an internal "bad bank" ('IBB') to manage these assets down so as to release capital. The IBB will bring assets under common management and increase focus on the run down (much as Non-Core does now).

Based on the July 2013 forecast of the 31 December 2013 balance sheet, c.£38 billion of funded assets were identified (see page 15), which together with associated derivatives, attract c.£116 billion of RWA equivalent.

While the IBB is of a similar size to the current Non-Core division, the assets have been selected on a different basis and no direct comparisons can be drawn:

- Non-Core assets were selected in 2009 on the basis of five strategic tests and comprised non-strategic businesses and countries; the lift and drop of entire activities; creditworthy assets and activities with low returns or low growth potential; high or volatile wholesale funding requirements; and assets with credit losses or capital intensity; whereas
- The IBB will comprise assets with potentially volatile outcomes in stressed environments or with long-term capital intensity.

The IBB being established to manage these assets will be fully operational on 1 January 2014. It will be separately managed, but within the existing legal and governance structures of the Group including the creation of an IBB oversight board.

As part of its external reporting, the Group will provide comprehensive and transparent disclosures on the progress of the IBB, including funding and capital employed and released.

At 31 December 2013, approximately 50% of the portfolio's funded assets are from Non-Core (excluding Ulster Bank), 20% from Ulster Bank (Core and Non-Core) and the remainder are from UK Corporate, International Banking and Markets, most of which are managed by the Global Restructuring

Group (GRG). Additional details are set out on page 15.

Approximately £10 billion to £12 billion of assets currently managed in Non-Core will be returned to relevant Core divisions.

Internal Bad Bank

Impact of the revised strategy

The IBB will target a reduction of between 55% and 70% of assets by the end of 2015. While there is inevitable uncertainty associated with running down such assets, it is the Group's aspiration to remove most of these assets from the balance sheet in three years. RBS believes that under many of the possible outcomes, and assuming favourable market conditions, no more than 15% of the IBB assets should be left on the RBS balance sheet after 3 years. The IBB is expected to be capital accretive and neutral for shareholder value, taking account of the benefits of a material reduction in the credit risk profile of the Group.

The new strategy to exit these assets over a shorter timeframe than envisaged in current plans will lead to accelerated and increased impairment losses on the non-performing assets. An estimated £4.0 billion to £4.5 billion is expected to be recognised in Q4 2013.

At the same time, there will be an immediate reduction in the Group's expected loss capital deduction and a net capital benefit of c.£2 billion to the Group's fully loaded Basel III Common Equity Tier 1 (CET1) capital is expected by the end of 2016.

The Group's regulatory stress capital requirements and Pillar 2B stressed loss capital buffer are also expected to be reduced over time.

The new strategy will also normalise credit metrics, particularly REIL, contributing approximately 50% of the planned reductions in the Group NPL ratio from c.9% to c.3% (the original plan had a reduction to 6% by the end of 2016).

An additional c.£1 billion of impairments is expected to be incurred during the period 2014 to 2016 on assets which are currently performing.

Of the total c.£5.0 billion to £5.5 billion of IBB accelerated and increased impairment losses noted above, approximately 50% to 60% were expected in the original plan to be incurred in 2017 or later.

The cost of disposal of the IBB assets is expected to be in the range of c.£1.5 billion to £2.0 billion over 2014 to 2016.

As many of the IBB assets are in Ireland, the tax relief on the losses is expected to be relatively limited.

Operating and funding costs of the IBB in 2014 to 2016 of c.£1.5 billion are already included in previous Group forecasts.

Other aspects

All numbers are indicative only at this stage.

The new IBB will formally commence on 1 January 2014 and will be called RBS Capital Resolution Group. For the fourth quarter of 2013 and 2013 as a whole, the Group's results will continue to be reported on the existing basis.

Internal Bad Bank

Estimated funded assets and RWAe of the IBB

Analysis of the estimated funded assets and RWAe of the IBB at 31 December 2013 and the related position at 30 June 2013 (the starting point for the identification of the portfolios of the IBB) are set out below.

	31 December 2013 Forecast total			30 June 2013 Non-performing			Performing			Total		
	Gross TPA £bn	**Net TPA £bn**	**RWAe £bn**	Gross TPA £bn	Net TPA £bn	RWAe £bn	Gross TPA £bn	Net TPA £bn	RWAe £bn	Gross TPA £bn	Net TPA £bn	RWAe £bn
Non-Core												
- CRE	**10.4**	**8.4**	**17.5**	7.2	4.8	14.2	6.1	6.1	13.2	13.3	10.9	27.4
- Ulster Bank	**10.9**	**4.6**	**15.6**	12.5	5.3	20.8	-	-	-	12.5	5.3	20.8
- Corporate	**4.6**	**3.7**	**17.1**	1.6	1.0	3.0	4.8	4.7	7.6	6.4	5.7	10.6
- Asset Finance	**2.9**	**2.7**	**4.8**	0.6	0.4	1.2	2.4	2.5	4.2	3.0	2.9	5.4
- Markets	**4.1**	**4.1**	**5.8**	0.4	0.3	0.2	4.6	4.6	6.6	5.0	4.9	6.8
Total Non-Core	**32.9**	**23.5**	**60.8**	22.3	11.8	39.4	17.9	17.9	31.6	40.2	29.7	71.0
Core												
Ulster Bank	**6.2**	**4.1**	**17.4**	5.1	2.8	12.9	1.4	1.4	5.2	6.5	4.2	18.1
UK Corporate												
- CRE	**2.1**	**1.8**	**5.5**	1.5	1.2	3.6	1.8	1.8	5.7	3.3	3.0	9.3
- Asset Finance	**2.2**	**2.2**	**5.0**	1.0	1.0	3.5	1.4	1.4	2.5	2.4	2.4	6.0
- Corporate	**1.6**	**1.5**	**4.1**	0.4	0.3	0.5	1.4	1.4	4.1	1.8	1.7	4.6
Total UK Corporate	**5.9**	**5.5**	**14.6**	2.9	2.5	7.6	4.6	4.6	12.3	7.5	7.1	19.9
International Banking	**2.9**	**2.6**	**7.3**	0.9	0.6	3.2	2.4	2.4	4.8	3.3	3.0	8.0
Markets	**2.7**	**2.6**	**15.5**	-	-	-	2.8	2.8	19.8	2.8	2.8	19.8
Total Core	**17.7**	**14.8**	**54.8**	8.9	5.9	23.7	11.2	11.2	42.1	20.1	17.1	65.8
Total IBB	**50.6**	**38.3**	**115.6**	31.2	17.7	63.1	29.1	29.1	73.7	60.3	46.8	136.8

Notes:

(1) The amounts at 31 December 2013 are based on the July 2013 forecast of the 31 December 2013 balance sheet.
(2) Funded assets or third party assets excluding derivatives (TPA) are shown gross and net of impairment provisions.
(3) Performing assets are shown gross and net of latent provisions and valuation adjustments.
(4) RWAs and RWA equivalent (RWAe) are on a fully loaded Basel III basis. RWAe include RWA equivalent of capital deductions.
(5) Non-Core Ulster Bank predominantly comprises commercial real estate lending (CRE).
(6) Core Ulster Bank comprises corporate and CRE lending.

Highlights

RBS announces actions to accelerate capital strengthening and enhance strategic focus

Full review of bank to improve customer service reporting February 2014

Q3 2013 pre-tax loss £634 million, after £496 million accounting charge for improved own credit

Core Tier 1 ratio up to 11.6%, or 9.1% on a fully loaded Basel III basis

Highlights

Restoring financial strength

RBS announces management actions to accelerate the building of its capital strength and to enhance its strategic focus on its core UK businesses and its international corporate capabilities.

The measures will include the creation of an internal “bad bank” to manage the run-down of high risk assets projected to be £38 billion by the end of 2013. The goal is to remove 55-70% of these assets over the next two years. While there is inevitable uncertainty associated with running down such assets, there is a clear aspiration to remove all these assets from the balance sheet in three years.

Faster run-down of high risk assets is expected to entail accelerated and increased impairments in Q4 2013 of £4.0 billion to £4.5 billion but the capital impact of this will be neutralised by a commensurate reduction in expected loss capital deductions. The net impact on the current Core Tier 1 ratio is expected to be a reduction of c.10 basis points. However, the new strategy will result in a strengthening of the Group’s capital ratios in the medium term.

In light of a changing regulatory landscape and other capital headwinds RBS will target a Core Tier 1 ratio of c.11% on a fully loaded Basel III basis by the end of 2015, 200 basis points higher than the current position, rising to 12% or beyond by the end of 2016.

The Group will accelerate the divestment of Citizens, the Group’s US banking subsidiary. A partial initial public offering is now planned for 2014 and the Group intends to fully divest the business by the end of 2016.

RBS’s capital strength improved in Q3 2013 as the Group delivered a Core Tier 1 ratio of 11.6%. On a fully loaded Basel III basis Core Tier 1 ratio was 9.1%, up from 8.7% at 30 June 2013.

Sharpening our customer focus

To capture the full potential of its customer businesses RBS is undertaking a comprehensive business review of its:

- Customer-facing businesses
- IT and operations
- Organisational and decision-making structures

The review will aim to improve the bank's performance and effectiveness in serving its customers, shareholders and wider stakeholders. The results of the review will be announced in February 2014 alongside the 2013 annual results. This will include detailed plans to realign the Group's cost base, with a cost:income percentage target in the mid 50s, down from 65% currently.

Highlights

Q3 2013 operating results

Q3 2013 Core operating profit of £1,283 million was 6% higher than the prior quarter, driven by continuing reductions in impairment losses in Retail & Commercial and an improvement in Markets operating profits. Core operating profit was down 14% from Q3 2012, driven by ongoing strategic contraction of the Markets business, with income down 9% and costs down 4%. Core return on equity was 7.7%.

Non-Core operating losses of £845 million compared with losses of £281 million in the prior quarter and £586 million in Q3 2012, reflecting exit and restructuring costs as the division saw accelerated disposals and asset run-off, and higher impairment losses.

Group operating loss before tax was £634 million. On a managed basis, Group operating profit was £438 million in Q3 2013, compared with £931 million in Q2 2013 and £909 million in Q3 2012. After one-off items totalling £576 million, including £99 million of regulatory provisions and an additional charge of £250 million for Payment Protection Insurance redress, a pre-tax loss of £138 million was recorded, excluding own credit adjustments of £496 million.

Own credit adjustments represented a charge of £496 million, reflecting the strengthening of Group's credit profile during the quarter. After these and a tax charge of £81 million (including a £197 million charge relating to the UK corporation tax change) and preference and other dividends of £102 million, the Group reported a loss attributable to ordinary and B shareholders of £828 million.

RBS maintained its strong track record of running off legacy assets, with Non-Core's funded balance sheet down £8 billion to £37 billion, hitting its year-end target three months ahead of schedule. The reshaping of the Markets business also made strong progress, with funded assets down £20 billion to £248 billion and RWAs down £14 billion to £73 billion.

Serving our customers

UK Retail made good progress in the UK mortgage market, with applications up 14% in Q3 2013 from the prior quarter to £6.4 billion and net new lending of £607 million representing the strongest quarterly performance since 2010. Mortgage balances remained strong at £99 billion.

- RBS and NatWest were first to make mortgages available to customers with smaller deposits under the second phase of the UK Government's Help To Buy mortgage guarantee scheme, with strong demand evident in the early days of the scheme's operation.

- During Q3 2013 UK Retail has simplified pricing on its savings accounts and launched Cashback Plus, which rewards current account holders for using their debit cards in selected retailers.

- The detailed recommendations of Sir Andrew Large's independent review of RBS's lending to SMEs will be addressed in the Group's comprehensive business review, due in February 2014.

- UK Business & Commercial has received a positive response to 10,000 letters sent to advise customers of its appetite to lend to them if they should wish to increase their borrowing or take out new credit. Over £3.8 billion of funding had been offered through these statements of appetite by the end of Q3 2013.

- In Q3 2013 RBS offered more than £15.0 billion of loans and facilities to UK businesses, of which £7.7 billion was to SMEs. In addition, the Group renewed £7.3 billion of UK business overdrafts, including £1.5 billion to SMEs.

- There have been continuing signs of improving credit demand, with Q3 2013 SME loan and overdraft applications up 6% from Q2 2013.

Highlights

Serving our customers (continued)

- RBS continues to support the Bank of England's Funding for Lending Scheme (FLS). Net lending within the scope of the extended FLS was £273 million in Q3 2013, despite £1,240 million of run-off in Non-Core and commercial real estate portfolios. This compares with a reduction in net lending of £2,793 million in Q2 2013.

- In Q3 2013 Markets helped UK corporates raise £2.4 billion, by acting as bookrunner for debt capital market issues, including £1.0 billion sterling bonds, meeting UK customers' needs in both domestic and international markets.

Outlook

We see signs that the UK economic recovery is gaining traction and have observed higher levels of activity and confidence among our customers. Nevertheless, we expect a continued muted performance from our core businesses in the short term, due primarily to the continued effects of low interest rates, excess liquidity, a smaller balance sheet, and lower securities gains from our liquidity portfolio. We expect Markets performance in Q4 2013 to reflect normal seasonal trends. Our strategic review will start to drive cost reductions and improve efficiencies from our core businesses during 2014 but will take two to three years to embed.

We expect margins to be stable or slightly up, our underlying cost base to be at c.£13 billion for 2013 (excluding penalties and fines). Non-Core is forecast to be below £35 billion of funded assets, well ahead of our recent guidance. Whilst timings are uncertain, conduct and litigation charges are expected to continue as we work through the remaining outstanding issues.

In light of the new strategy to deal with our high risk assets we expect a significant increase in impairments in Q4 2013 which is likely to result in the Group reporting a substantial loss for the full year. The effect on the Group's Core Tier 1 ratio is however anticipated to be minimal.

Analysis of results

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
Net interest income	**£m**	£m	£m		**£m**	£m
Net interest income	**2,780**	2,767	2,809		**8,217**	8,629
Average interest-earning assets	**538,748**	551,375	576,085		**549,855**	602,466
Net interest margin						
- Group	**2.05%**	2.01%	1.94%		**2.00%**	1.91%
- Retail & Commercial (2)	**2.95%**	2.92%	2.91%		**2.92%**	2.92%
- Non-Core	**(0.35%)**	0.15%	0.41%		**(0.15%)**	0.32%

Notes:

(1) For further analysis and details refer to pages 70 to 72.
(2) Retail & Commercial (R&C) comprises the UK Retail, UK Corporate, Wealth, International Banking, Ulster Bank and US R&C divisions.

Key points

Q3 2013 compared with Q2 2013

- Retail & Commercial net interest income increased by £52 million, 2%. Net interest margin rose by 3 basis points as deposit repricing took effect, with asset spreads broadly stable in most R&C businesses.

- Non-Core net interest income decreased by £63 million compared with Q2 2013, which included a one-off interest in suspense recovery of £54 million.

- Group net interest margin (NIM) increased by 4 basis point in Q3 2013. Reduced funding costs in Markets, margin improvement in R&C and a non-recurring one-off adjustment, of £38 million, were partially offset by the non-repeat of the Non-Core recovery in Q2 2013.

Q3 2013 compared with Q3 2012

- Group net interest income decreased by £29 million, 1%, largely due to a decline in interest earning assets, down 6%, partially offset by deposit repricing.

- Group NIM increased by 11 basis points to 2.05%, driven by deposit repricing partially offset by a reduction in higher yielding securities and a non-recurring one-off adjustment, of £38 million.

- The reduction in rates on rolling current account hedges continued to have a negative impact, though the drag on net interest income has started to diminish.

Analysis of results

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

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
Non-interest income	**£m**	£m	£m		**£m**	£m
Fees and commissions receivable	**1,382**	1,392	1,400		**4,090**	4,335
Fees and commissions payable	**(238)**	(250)	(209)		**(698)**	(589)
Managed and statutory basis	**1,144**	1,142	1,191		**3,392**	3,746
Income from trading activities						
- managed basis	**599**	874	769		**2,489**	2,962
- Asset Protection Scheme	**-**	-	1		**-**	(44)
- own credit adjustments*	**(155)**	76	(435)		**20**	(1,715)
- RFS Holdings minority interest	**-**	(1)	(1)		**(1)**	(2)
Statutory basis	**444**	949	334		**2,508**	1,201
Gain/(loss) on redemption of own debt	**13**	242	(123)		**204**	454
Other operating income						
- managed basis	**368**	661	787		**1,396**	1,894
- Strategic disposals**	**(7)**	6	(23)		**(7)**	129
- own credit adjustments*	**(341)**	51	(1,020)		**(140)**	(2,714)
- RFS Holdings minority interest	**15**	2	4		**118**	(1)
Statutory basis	**35**	720	(252)		**1,367**	(692)
Total non-interest income - managed basis	**2,111**	2,677	2,747		**7,277**	8,602

Total non-interest income - statutory basis	**1,636**	3,053	1,150		**7,471**	4,709
* Own credit adjustments impact:						
Income from trading activities	**(155)**	76	(435)		**20**	(1,715)
Other operating income	**(341)**	51	(1,020)		**(140)**	(2,714)
Own credit adjustments	**(496)**	127	(1,455)		**(120)**	(4,429)
**Strategic disposals						
Gain/(loss) on sale and provision for loss on						
disposal of investments in:						
- Direct Line Group	**(13)**	-	-		**(13)**	197
- Other	**6**	6	(23)		**6**	(68)
	(7)	6	(23)		**(7)**	129

Key points

Q3 2013 compared with Q2 2013

- Income from trading activities decreased by £505 million which included a charge for own credit (OCA) of £155 million compared with a credit of £76 million in Q2 2013. On a managed basis income from trading activities was £275 million lower. While Markets income remained steady, with improved results from flow rates trading, Non-Core was a loss of £109 million in Q3 2013 compared with a £134 million gain in Q2 2013 reflecting the exit and restructuring costs on a number of transactions.

- Disposal gains on available-for-sale securities, primarily in Group Treasury, were £251 million lower at £168 million.

- OCA represented a charge of £496 million as the Group's credit spreads tightened, reversing the OCA credits booked in the first half of the year.

Analysis of results

Key points (continued)

Q3 2013 compared with Q3 2012

- Non-interest income increased by £486 million primarily due to a reduction in the charge for OCA, down £959 million. On a managed basis lower non-interest income primarily reflects the targeted reduction in Markets balance sheet and risk-weighted assets.

- The increase in other operating income principally reflected a smaller charge for OCA. On a managed basis the decrease in other operating income reflects lower disposal gains on available-for-sale securities as noted above and lower operating lease income, together with higher Non-Core disposal losses in Q3 2013.

Analysis of results

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

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
Operating expenses	**£m**	£m	£m		**£m**	£m
Staff expenses						
- managed basis	**1,758**	1,764	1,882		**5,343**	5,998
- integration and restructuring costs	**137**	76	106		**279**	535
- RFS Holdings minority interest	**-**	-	(1)		**-**	(1)
Statutory basis	**1,895**	1,840	1,987		**5,622**	6,532
Premises and equipment						
- managed basis	**540**	526	510		**1,619**	1,572
- integration and restructuring costs	**4**	22	38		**29**	66
- RFS Holdings minority interest	**-**	-	2		**-**	2
Statutory basis	**544**	548	550		**1,648**	1,640
Other administrative expenses						
- managed basis	**683**	801	716		**2,162**	2,214
- Payment Protection Insurance costs	**250**	185	400		**435**	660
- Interest Rate Hedging Products redress and						
related costs	**-**	-	-		**50**	-
- regulatory and legal actions	**99**	385	-		**484**	-
- integration and restructuring costs	**70**	48	76		**154**	211
- RFS Holdings minority interest	**1**	(1)	1		**(1)**	2

Statutory basis	**1,103**	1,418	1,193		**3,284**	3,087
Depreciation and amortisation						
- managed basis	**305**	308	365		**942**	1,122
- amortisation of purchased intangible assets	**39**	38	47		**118**	146
- integration and restructuring costs	**(6)**	3	9		**14**	36
Statutory basis	**338**	349	421		**1,074**	1,304
Operating expenses - managed basis	**3,286**	3,399	3,473		**10,066**	10,906
Operating expenses - statutory basis	**3,880**	4,155	4,151		**11,628**	12,563

Key points

Q3 2013 compared with Q2 2013

- Operating expenses decreased by £275 million to £3,880 million primarily driven by a reduction in regulatory and legal actions partially offset by an increase in Payment Protection Insurance costs (PPI) and integration and restructuring costs. These principally related to the strategic reshaping of the Markets division and streamlining of UK Retail operations.

- Staff expenses were £55 million lower. Staff expenses on a managed basis were £6 million lower, with headcount down by 1,400, principally in UK Retail, Markets and Non-Core. Premises and equipment costs, however, were £14 million higher, as the Group stepped up investment to improve its IT delivery capability.

- Conduct-related costs were £83 million lower, including reduced legal costs in Centre and customer remediation charges in UK Corporate.

Analysis of results

Key points (continued)

Q3 2013 compared with Q3 2012

- The reduction in operating expenses primarily relates to a reduction in PPI costs partially offset by an increase in regulatory and legal action costs.

- Staff costs were £92 million lower. Staff costs on a managed basis were 7% lower, driven by the Markets headcount reductions implemented since Q3 2012. Markets’ compensation ratio in the first nine months of the year was 37%, an increase of 1% compared with the same period of 2012.

Analysis of results

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
Impairment losses	**£m**	£m	£m		**£m**	£m
Loan impairment losses	**1,120**	1,125	1,183		**3,281**	3,913
Securities	**50**	(8)	(7)		**39**	(88)
Group impairment losses - managed and						
statutory basis	**1,170**	1,117	1,176		**3,320**	3,825
Loan impairment losses						
- individually assessed	**580**	826	661		**2,052**	2,351
- collectively assessed	**287**	293	562		**1,021**	1,691
- latent	**253**	15	(40)		**217**	(153)
Customer loans	**1,120**	1,134	1,183		**3,290**	3,889
Bank loans	**-**	(9)	-		**(9)**	24
Loan impairment losses	**1,120**	1,125	1,183		**3,281**	3,913
Core	**584**	659	751		**1,842**	2,266
Non-Core	**536**	466	432		**1,439**	1,647
Group	**1,120**	1,125	1,183		**3,281**	3,913
Customer loan impairment charge as a % of						
gross loans and advances to customers (1)						
Group	**1.0%**	1.0%	1.0%		**1.0%**	1.1%
Core	**0.6%**	0.7%	0.7%		**0.6%**	0.8%
Non-Core	**5.2%**	4.0%	2.8%		**4.7%**	3.6%

Note:

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

Key points

Q3 2013 compared with Q2 2013

- Core Retail & Commercial loan impairments fell by £158 million, or 23%, with charges relating to a small number of large single name cases in International Banking and UK Corporate in Q2 not being repeated. Core Ulster Bank also showed improvements, with a reduction in losses on the mortgage portfolio as arrears formation continued to fall and residential property prices stabilised.

- Non-Core loan impairments were up £70 million to £536 million. The increase primarily related to Ulster Bank's CRE development portfolio. This was partially offset by reduced losses on the UK Corporate portfolio.

Q3 2013 compared with Q3 2012

- Core Retail & Commercial loan impairments fell by £238 million or 31%, including a £125 million reduction in Core Ulster Bank, accompanied by significant improvements in UK Retail and UK Corporate.

- Non-Core loan impairments increased by £104 million due to higher impairment charges on commercial real estate loans in the Ulster Bank-originated book, partly offset by continued portfolio run-off.

For further details of the Group's exposures and provisioning refer to page 97 and Appendix 1.

Analysis of results

Capital resources and ratios	30 September 2013	30 June 2013	31 December 2012
Core Tier 1 capital	**£48bn**	£48bn	£47bn
Tier 1 capital	**£57bn**	£58bn	£57bn
Total capital	**£67bn**	£69bn	£67bn
Risk-weighted assets (RWAs)	**£410bn**	£436bn	£460bn
Core Tier 1 ratio	**11.6%**	11.1%	10.3%
Tier 1 ratio	**13.8%**	13.3%	12.4%
Total capital ratio	**16.2%**	15.8%	14.5%

Key points

30 September 2013 compared with 30 June 2013

- The Group's Core Tier 1 ratio strengthened further to 11.6%, driven by a substantial reduction in risk-weighted assets, principally reflecting the strategic reshaping of the Markets division.

- Group RWAs fell by £26 billion to £410 billion. Markets was £14 billion lower, with a reduced balance sheet and declining market risk while Non-Core fell £5 billion. Retail & Commercial RWAs were down £6 billion, largely driven by foreign exchange movements.

- On a fully loaded Basel III basis, the Core Tier 1 ratio strengthened by 40 basis points to 9.1%, above the Group's year end capital target of over 9%.

30 September 2013 compared with 31 December 2012

- The Group's Core Tier 1 ratio was 130 basis points higher at 11.6%. On a fully loaded Basel III basis, the Core Tier 1 ratio was 140 basis points higher.

- Since 31 December 2012, Group RWAs have fallen by £50 billion, with Markets declining by £28 billion and Non-Core £19 billion lower.

- The total capital ratio increased by 170 basis points to 16.2%.

For further details of the Group’s capital resources refer to page 90.

Analysis of results

Balance sheet	30 September 2013	30 June 2013	31 December 2012
Total assets	**£1,129bn**	£1,216bn	£1,312bn
Derivatives	**£323bn**	£373bn	£442bn
Funded balance sheet (1)	**£806bn**	£843bn	£870bn
Loans and advances to customers (2)	**£408bn**	£420bn	£432bn
Customer deposits (3)	**£434bn**	£437bn	£434bn
Loan:deposit ratio - Core (4)	**87%**	88%	90%
Loan:deposit ratio - Group (4)	**94%**	96%	100%

Notes:

(1) Funded balance sheet represents total assets less derivatives.
(2) Excluding reverse repurchase agreements and stock borrowing.
(3) Excluding repurchase agreements and stock lending.
(4) Net of provisions, including disposal groups and excluding repurchase agreements. Excluding disposal groups, the loan:deposit ratios of Core and Group at 30 September 2013 were 87% and 94% respectively (30 June 2013 - 88% and 96%; 31 December 2012 - 90% and 99%)

Key points

30 September 2013 compared with 30 June 2013

- The Group's funding position remained strong, reflecting continuing Non-Core run-off and reduced Markets collateral requirements. Total customer deposits declined by only 1% despite tighter pricing.

- Retail & Commercial loans and advances were down £2 billion, as the strength of sterling reduced dollar and euro-denominated balances. UK Corporate property balances declined, offset by growth in International Banking trade finance balances.

30 September 2013 compared with 31 December 2012

- The Group loan:deposit ratio was 94% compared with 100% at the end of 2012. The Group has continued to attract deposits despite tightening its pricing, leaving a significant customer funding surplus as Non-Core loans and advances continue to run off.

- Funded assets fell to £806 billion, a reduction of £64 billion since 31 December 2012, principally reflecting strategic reshaping of Markets and Non-Core run-off.

- The Group's funded balance sheet has been reduced by £757 billion from its worst point, with only £37 billion of Non-Core assets remaining.

Analysis of results

Funding and liquidity metrics	30 September 2013	30 June 2013	31 December 2012
Deposits (1)	**£473bn**	£482bn	£491bn
Deposits as a percentage of funded balance sheet	**59%**	57%	56%
Short-term wholesale funding (2)	**£35bn**	£37bn	£42bn
Wholesale funding (2)	**£114bn**	£129bn	£150bn
Short-term wholesale funding as a percentage of funded balance sheet	**4%**	4%	5%
Short-term wholesale funding as a percentage of total wholesale funding	**31%**	29%	28%
Liquidity portfolio	**£151bn**	£158bn	£147bn
Liquidity portfolio as a percentage of funded balance sheet	**19%**	19%	17%
Liquidity portfolio as a percentage of short-term wholesale funding	**431%**	427%	350%
Net stable funding ratio	**119%**	120%	117%

Notes:

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

Key points

30 September 2013 compared with 30 June 2013

- Short-term wholesale funding fell in the quarter to £35 billion, just 4% of the funded balance sheet.

- The Group’s liquidity portfolio was reduced to £151 billion compared with £158 billion at 30 June 2013, but remained flat as a proportion of the total funded balance sheet at 19%.

30 September 2013 compared with 31 December 2012

- Short-term wholesale funding fell by £7 billion in the year-to-date to £35 billion, 4% of the funded balance sheet and 31% of total wholesale funding.

- Liquidity metrics improved during the year-to-date reflecting continuing balance sheet improvements.

For further details of the Group’s funding and liquidity metrics refer to page 94.

Divisional performance

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

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
	£m	£m	£m		**£m**	£m
Operating profit/(loss) by division						
UK Retail	**517**	477	464		**1,471**	1,378
UK Corporate	**422**	395	368		**1,175**	1,372
Wealth	**60**	56	63		**172**	167
International Banking	**83**	42	175		**219**	439
Ulster Bank	**(132)**	(165)	(242)		**(461)**	(797)
US Retail & Commercial	**142**	174	223		**505**	554
Retail & Commercial	**1,092**	979	1,051		**3,081**	3,113
Markets	**210**	93	295		**581**	1,370
Central items	**(19)**	140	149		**85**	(34)
Core	**1,283**	1,212	1,495		**3,747**	4,449
Non-Core	**(845)**	(281)	(586)		**(1,631)**	(1,937)
Managed basis	**438**	931	909		**2,116**	2,512
Reconciling items:						
Own credit adjustments	**(496)**	127	(1,455)		**(120)**	(4,429)
Payment Protection Insurance costs	**(250)**	(185)	(400)		**(435)**	(660)
Interest Rate Hedging Products redress and related						
costs	**-**	-	-		**(50)**	-
Regulatory and legal actions	**(99)**	(385)	-		**(484)**	-
Integration and restructuring costs	**(205)**	(149)	(229)		**(476)**	(848)
Gain on redemption of own debt	**13**	242	(123)		**204**	454
Asset Protection Scheme	**-**	-	1		**-**	(44)
Amortisation of purchased intangible assets	**(39)**	(38)	(47)		**(118)**	(146)
Strategic disposals	**(7)**	6	(23)		**(7)**	129

RFS Holdings minority interest	**11**	(1)	(1)		**110**	(18)
Statutory basis	**(634)**	548	(1,368)		**740**	(3,050)

Impairment losses/(recoveries) by division						
UK Retail	**82**	89	141		**251**	436
UK Corporate	**150**	194	247		**529**	604
Wealth	**1**	2	8		**8**	30
International Banking	**28**	99	12		**182**	74
Ulster Bank	**204**	263	329		**707**	1,046
US Retail & Commercial	**59**	32	21		**110**	68
Retail & Commercial	**524**	679	758		**1,787**	2,258
Markets	**(1)**	43	(6)		**58**	15
Central items	**66**	(3)	-		**63**	32
Core	**589**	719	752		**1,908**	2,305
Non-Core	**581**	398	424		**1,412**	1,520
Group impairment losses	**1,170**	1,117	1,176		**3,320**	3,825

28

Divisional performance

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
	%	%	%		**%**	%
Net interest margin by division						
UK Retail	**3.62**	3.56	3.53		**3.56**	3.57
UK Corporate	**3.09**	3.05	2.99		**3.05**	3.08
Wealth	**3.56**	3.41	3.88		**3.51**	3.74
International Banking	**1.47**	1.62	1.70		**1.61**	1.65
Ulster Bank	**1.86**	1.85	1.92		**1.85**	1.87
US Retail & Commercial	**2.99**	2.91	2.96		**2.94**	3.00
Retail & Commercial	**2.95**	2.92	2.91		**2.92**	2.92
Non-Core	**(0.35)**	0.15	0.41		**(0.15)**	0.32
Group net interest margin	**2.05**	2.01	1.94		**2.00**	1.91

	30 September	30 June	31 December
	2013	2013	2012
	£bn	£bn	£bn
Total funded assets by division			
UK Retail	**117.0**	116.1	117.4
UK Corporate	**107.0**	107.6	110.2
Wealth	**21.0**	21.3	21.4
International Banking	**53.3**	51.9	53.0
Ulster Bank	**29.2**	30.3	30.6
US Retail & Commercial	**71.4**	74.1	72.1
Retail & Commercial	**398.9**	401.3	404.7
Markets	**248.2**	267.9	284.5
Central items	**120.5**	126.9	110.3

Core	**767.6**	796.1	799.5
Non-Core	**37.3**	45.4	57.4
	804.9	841.5	856.9
Direct Line Group	**-**	-	12.7
RFS Holdings minority interest	**0.9**	1.0	0.8
Group	**805.8**	842.5	870.4

29

Divisional performance

	30 September 2013	30 June 2013		31 December 2012	
	£bn	£bn	Change	£bn	Change
Risk-weighted assets by division					
UK Retail	**44.8**	44.1	2%	45.7	(2%)
UK Corporate	**87.2**	88.1	(1%)	86.3	1%
Wealth	**12.1**	12.5	(3%)	12.3	(2%)
International Banking	**48.4**	49.7	(3%)	51.9	(7%)
Ulster Bank	**31.8**	33.9	(6%)	36.1	(12%)
US Retail & Commercial	**56.1**	58.2	(4%)	56.5	(1%)
Retail & Commercial	**280.4**	286.5	(2%)	288.8	(3%)
Markets	**73.2**	86.8	(16%)	101.3	(28%)
Other (primarily Group Treasury)	**11.6**	12.3	(6%)	5.8	100%
Core	**365.2**	385.6	(5%)	395.9	(8%)
Non-Core	**40.9**	46.3	(12%)	60.4	(32%)
Group before RFS Holdings minority interest	**406.1**	431.9	(6%)	456.3	(11%)
RFS Holdings minority interest	**3.9**	4.1	(5%)	3.3	18%
Group	**410.0**	436.0	(6%)	459.6	(11%)

Employee numbers by division **(full time equivalents rounded to the nearest hundred)**	**30 September 2013**	30 June 2013	31 December 2012
UK Retail	**23,900**	25,300	26,000
UK Corporate	**13,700**	13,800	13,300
Wealth	**5,000**	5,100	5,100

International Banking	**4,800**	4,800	4,600
Ulster Bank	**4,800**	4,800	4,500
US Retail & Commercial	**18,300**	18,500	18,700
Retail & Commercial	**70,500**	72,300	72,200
Markets	**10,900**	11,200	11,300
Group Centre	**7,300**	6,700	6,800
Core	**88,700**	90,200	90,300
Non-Core	**1,900**	2,200	3,100
	90,600	92,400	93,400
Business Services	**29,500**	29,000	29,100
Integration and restructuring	**200**	300	500
Group	**120,300**	121,700	123,000

30

UK Retail

	Quarter ended			Nine months ended	
	30 September	30 June	30 September	**30 September**	30 September
	2013	2013	2012	**2013**	2012
	£m	£m	£m	**£m**	£m
Income statement					
Net interest income	**1,013**	987	990	**2,965**	2,979
Net fees and commissions	**243**	215	231	**670**	682
Other non-interest income	**11**	10	21	**35**	78
Non-interest income	**254**	225	252	**705**	760
Total income	**1,267**	1,212	1,242	**3,670**	3,739
Direct expenses					
- staff	**(177)**	(180)	(201)	**(535)**	(625)
- other	**(137)**	(115)	(93)	**(364)**	(282)
Indirect expenses	**(354)**	(351)	(343)	**(1,049)**	(1,018)
	(668)	(646)	(637)	**(1,948)**	(1,925)
Profit before impairment losses	**599**	566	605	**1,722**	1,814
Impairment losses	**(82)**	(89)	(141)	**(251)**	(436)
Operating profit	**517**	477	464	**1,471**	1,378
Analysis of income by product					
Personal advances	**233**	220	230	**676**	688
Personal deposits	**125**	124	158	**352**	511
Mortgages	**664**	649	598	**1,941**	1,757
Cards	**213**	210	218	**632**	649
Other	**32**	9	38	**69**	134
Total income	**1,267**	1,212	1,242	**3,670**	3,739
Analysis of impairments by sector					

Mortgages	**18**	15	29		**43**	87
Personal	**34**	50	77		**119**	243
Cards	**30**	24	35		**89**	106
Total impairment losses	**82**	89	141		**251**	436
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector						
Mortgages	**0.1%**	0.1%	0.1%		**0.1%**	0.1%
Personal	**1.7%**	2.4%	3.5%		**2.0%**	3.6%
Cards	**2.1%**	1.7%	2.5%		**2.1%**	2.5%
Total	**0.3%**	0.3%	0.5%		**0.3%**	0.5%

31

UK Retail

Key metrics						
	Quarter ended				Nine months ended	
	30 September 2013	30 June 2013	30 September 2012		**30 September 2013**	30 September 2012
Performance ratios						
Return on equity (1)	**28.0%**	26.1%	23.8%		**26.5%**	23.5%
Net interest margin	**3.62%**	3.56%	3.53%		**3.56%**	3.57%
Cost:income ratio	**53%**	53%	51%		**53%**	51%

	30 September 2013	30 June 2013			31 December 2012	
	£bn	£bn	Change		£bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)						
- mortgages	**98.9**	98.3	1%		99.1	-
- personal	**8.1**	8.3	(2%)		8.8	(8%)
- cards	**5.7**	5.6	2%		5.7	-
	112.7	112.2	-		113.6	(1%)
Loan impairment provisions	**(2.2)**	(2.5)	(12%)		(2.6)	(15%)
Net loans and advances to customers	**110.5**	109.7	1%		111.0	-
Risk elements in lending	**3.8**	4.3	(12%)		4.6	(17%)
Provision coverage (2)	**59%**	58%	100bp		58%	100bp
Customer deposits						
- Current accounts	**31.5**	31.2	1%		28.9	9%
- Savings	**81.9**	80.4	2%		78.7	4%
Total customer deposits	**113.4**	111.6	2%		107.6	5%
	5.9	5.8	2%		6.0	(2%)

Assets under management (excluding deposits)						
Loan:deposit ratio (excluding repos)	**97%**	98%	(100bp)		103%	(600bp)
Risk-weighted assets (3)						
- Credit risk (non-counterparty)	**37.0**	36.3	2%		37.9	(2%)
- Operational risk	**7.8**	7.8	-		7.8	-
Total risk-weighted assets	**44.8**	44.1	2%		45.7	(2%)

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

UK Retail continues to work towards being the best retail bank in the UK. In August 2013, it was announced that the division's then CEO, Ross McEwan, would take up the position of RBS Group CEO and a comprehensive internal and external search for his successor commenced. Les Matheson (previously Managing Director of Products and Marketing) has been appointed as interim CEO of UK Retail to lead the business in achieving its goals.

The division's newly retrained mortgage advisors continued to make good progress with new mortgage lending, growing application values by a further 14% in Q3 2013 following a 72% rebound in Q2 2013. Completion values increased by 64% following the high volume of applications in Q2 2013. RBS was the first bank to be ready to deliver the second phase of the Government's Help to Buy scheme, launched in early October 2013, and the very strong early response from customers has further reinforced UK Retail's determination to help young people and families across Britain buy their next home.

UK Retail

Key points (continued)

During Q3 2013, the division also continued to focus on making banking simple and easy for customers. The pricing on Cash/Instant Access ISAs was simplified, with fewer interest rate tiers and improved entry level interest rates.

Cashback Plus rewarding customers with a cash rebate for using their debit card in selected stores was launched for current account holders in the quarter. This is the first free debit card cashback scheme to launch in the UK, offering something innovative to RBS and NatWest customers. Over 400,000 customers had signed up for Cashback Plus by the end of Q3 2013. In addition, more than one million credit card customers were using the Your Points loyalty scheme by the quarter end, receiving a variety of benefits for transacting on their card.

Q3 2013 compared with Q2 2013

- Operating profit increased by £40 million, or 8%, reflecting good income performance and stable, low levels of impairments.

- Loans and advances to customers increased as mortgage completions rebounded following advisor retraining during H1 2013. Credit card balances increased slightly, offset by a small decline in personal advances.

- Customer deposit balances increased by 2%, with strong balance growth of 5% in instant access savings products. The volume of new instant access accounts increased by 3% to 7.6 million during the quarter.

- Net interest income was 3% higher.

  Savings margins improved slightly as fixed rate products rolled off and strong growth in instant access products continued. This was offset by current account margin decline.
  Mortgage new business margins continued to fall in line with market conditions; however, mortgage volumes increased and overall mortgage book margins remained stable.

- Non-interest income increased by £29 million as minimal regulatory provisions were taken compared with Q2 2013. Strong transactional income from both debit and credit cards, supported by Cashback Plus and Your Points loyalty schemes respectively also contributed to this increase.

-

Direct costs were 6% higher as continued lower staff costs were more than offset by increased non-staff charges.

Direct staff costs declined further as headcount was reduced by 1,400.
Direct other costs increased due to a higher FSCS levy and other regulatory charges.
Indirect costs increased due to higher technology investment costs.

- Impairments were 8% lower, driven by lower customer defaults. Recoveries remained strong across the portfolio of impaired debt.

- Risk elements in lending reduced by £0.5 billion primarily reflecting the write down of unsecured assets and the reclassification of certain mortgage loans.

- Risk-weighted assets increased as a result of volume growth and minor model recalibrations, primarily in mortgages.

Q3 2013 compared with Q3 2012

- Operating profit increased by 11% with lower impairment losses and higher income, partly offset by increased costs.

- Net interest income increased, reflecting higher mortgage balances. Current account balances have grown strongly, however, this has been more than offset by lower rates on hedges.

33

UK Retail

Key points (continued)

Q3 2013 compared with Q3 2012 (continued)

- Non-interest income remained broadly flat. Strong transactional income from debit and credit cards, with volumes 10% higher, was offset by lower investment and advice income following the Retail Distribution Review.

- Direct staff costs decreased, reflecting a 3,200 headcount reduction. Other direct costs increased principally due to higher FSCS levies, regulatory charges and increased marketing activity. Indirect costs reflected higher technology investment expenditure.

- Impairments were 42% lower as a result of improved asset quality and significantly lower default volumes.

UK Corporate

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
	£m	£m	£m		**£m**	£m
Income statement						
Net interest income	**725**	715	729		**2,146**	2,257
Net fees and commissions	**328**	335	334		**984**	1,016
Other non-interest income	**59**	92	75		**208**	277
Non-interest income	**387**	427	409		**1,192**	1,293
Total income	**1,112**	1,142	1,138		**3,338**	3,550
Direct expenses						
- staff	**(229)**	(226)	(229)		**(683)**	(714)
- other	**(90)**	(113)	(91)		**(308)**	(265)
Indirect expenses	**(221)**	(214)	(203)		**(643)**	(595)
	(540)	(553)	(523)		**(1,634)**	(1,574)
Profit before impairment losses	**572**	589	615		**1,704**	1,976
Impairment losses	**(150)**	(194)	(247)		**(529)**	(604)
Operating profit	**422**	395	368		**1,175**	1,372
Analysis of income by business						
Corporate and commercial lending	**631**	665	613		**1,918**	1,964
Asset and invoice finance	**169**	170	176		**503**	509
Corporate deposits	**88**	83	141		**244**	481
Other	**224**	224	208		**673**	596
Total income	**1,112**	1,142	1,138		**3,338**	3,550
Analysis of impairments by sector						

Financial institutions	**5**	(1)	8		**6**	12
Hotels and restaurants	**7**	12	6		**37**	29
Housebuilding and construction	**9**	6	14		**27**	118
Manufacturing	**17**	5	20		**30**	39
Private sector education, health, social work,						
recreational and community services	**36**	44	(8)		**105**	35
Property	**41**	93	117		**203**	181
Wholesale and retail trade, repairs	**20**	7	16		**59**	65
Asset and invoice finance	**5**	5	10		**11**	30
Shipping	**(1)**	24	29		**31**	40
Other	**11**	(1)	35		**20**	55
Total impairment losses	**150**	194	247		**529**	604

35

UK Corporate

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	**30 September 2013**	30 September 2012
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Financial institutions	**0.4%**	(0.1%)	0.6%	**0.2%**	0.3%
Hotels and restaurants	**0.5%**	0.9%	0.4%	**0.9%**	0.7%
Housebuilding and construction	**1.2%**	0.8%	1.6%	**1.2%**	4.5%
Manufacturing	**1.6%**	0.5%	1.7%	**0.9%**	1.1%
Private sector education, health, social work, recreational and community services	**1.7%**	2.0%	(0.4%)	**1.6%**	0.5%
Property	**0.7%**	1.5%	1.8%	**1.2%**	0.9%
Wholesale and retail trade, repairs	**1.0%**	0.3%	0.7%	**0.9%**	1.0%
Asset and invoice finance	**0.2%**	0.2%	0.4%	**0.1%**	0.4%
Shipping	**(0.1%)**	1.3%	1.5%	**0.6%**	0.7%
Other	**0.2%**	-	0.5%	**0.1%**	0.3%
Total	**0.6%**	0.7%	0.9%	**0.7%**	0.7%

Key metrics

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	**30 September 2013**	30 September 2012
Performance ratios					
Return on equity (1)	**12.4%**	11.8%	11.9%	**11.7%**	15.0%
Net interest margin	**3.09%**	3.05%	2.99%	**3.05%**	3.08%
Cost:income ratio	**49%**	48%	46%	**49%**	44%

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).

UK Corporate

	30 September 2013	30 June 2013		31 December 2012	
	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- financial institutions	**4.7**	4.6	2%	5.8	(19%)
- hotels and restaurants	**5.5**	5.5	-	5.6	(2%)
- housebuilding and construction	**2.9**	2.9	-	3.4	(15%)
- manufacturing	**4.3**	4.4	(2%)	4.7	(9%)
- private sector education, health, social					
work, recreational and community services	**8.6**	8.7	(1%)	8.7	(1%)
- property	**23.1**	24.1	(4%)	24.8	(7%)
- wholesale and retail trade, repairs	**8.4**	8.2	2%	8.5	(1%)
- asset and invoice finance	**11.6**	11.6	-	11.2	4%
- shipping	**7.0**	7.3	(4%)	7.6	(8%)
- other	**27.7**	27.3	1%	26.7	4%
	103.8	104.6	(1%)	107.0	(3%)
Loan impairment provisions	**(2.3)**	(2.4)	(4%)	(2.4)	(4%)
Net loans and advances to customers	**101.5**	102.2	(1%)	104.6	(3%)
Total third party assets	**107.0**	107.6	(1%)	110.2	(3%)
Risk elements in lending	**6.0**	6.2	(3%)	5.5	9%
Provision coverage (1)	**39%**	39%	-	45%	(600bp)
Customer deposits	**124.9**	126.2	(1%)	127.1	(2%)
Loan:deposit ratio (excluding repos)	**81%**	81%	-	82%	(100bp)
Risk-weighted assets					
- Credit risk (non-counterparty)	**78.8**	79.7	(1%)	77.7	1%
- Operational risk	**8.4**	8.4	-	8.6	(2%)
	87.2	88.1	(1%)	86.3	1%

Note:

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

Key points

UK Corporate continues to pursue new initiatives to deliver on its commitment to UK businesses and the communities it operates in.

As part of the division's concerted effort to support its SME customers, UK Corporate is proactively reviewing the business needs of SME customers to understand if they could benefit from the offer of additional facilities. By the end of September 2013, over 10,000 customers had been identified for additional funding under UK Corporate's 'Statements of Appetite' initiative with over £3.8 billion of funding offered to customers.

In Q3 2013 UK Corporate received more lending applications from SME customers than in any other period of 2013. For our larger customers UK Corporate has set aside £1.25 billion of funding for targeted support to housing associations, education sector clients and strategic infrastructure projects.

The division has continued to support the government-backed Funding for Lending Scheme (FLS). Surpassing its original FLS commitment, UK Corporate has now allocated in excess of £4.6 billion of new FLS-related lending to over 26,000 customers, £2.9 billion of which has been drawn. Mid-sized manufacturers are being offered targeted support, with interest rates reduced by more than 1% in some cases. SME customers have benefited from both lower interest rates and the removal of arrangement fees.

UK Corporate

Key points (continued)

In July 2013, RBS announced an independent review by Sir Andrew Large of the lending standards and practices used by RBS and NatWest. The detailed findings of Sir Andrew's report will be addressed in full in the Group's comprehensive business review. UK corporate is committed to adopting a revised strategy and capabilities to enhance support to SMEs and the wider UK economic recovery while maintaining safe and sound lending practices.

Over 8,000 members of the public have benefited from UK Corporate's Business Banking Enterprise Programme in 2013. Through its combination of nationwide start-up surgeries, mobile business schools and business academies, the programme offers support and advice to aspiring entrepreneurs, start-up businesses and established SMEs looking to grow.

Q3 2013 compared with Q2 2013

- Following growth of 10% in Q2 2013, operating profit increased by a further 7% with a return on equity of 12.4%.
- Net interest income increased by 1%, benefiting from deposit and asset repricing. The additional day in the quarter helped offset the continued impact of lower yields on current accounts.
- Non-interest income declined by 9%, primarily from the non-repeat of an equity gain of £20 million recorded in Q2 2013.
- Total expenses were 2% lower, with no additional customer remediation costs in the quarter.
- Impairments improved by £44 million, or 23%, with fewer significant individual cases in the mid-to-large corporate business.
- Risk-weighted assets were £1 billion lower as reduced asset volumes offset the increase resulting from the implementation of regulatory capital model change for shipping exposures.

Q3 2013 compared with Q3 2012

- Operating profit improved by 15%, principally driven by lower impairment charges.
- Net interest income declined by 1% with economic factors affecting deposit returns combined with a 4% reduction in lending volumes, partially offset by the repricing initiatives.

- Non-interest income was down 5%, due to an £18 million reduction in operating lease income (offset by an associated reduction in operating lease depreciation in expenses), lower lending fees and higher derivative close-out costs on impaired assets. These were partially offset by a one-off fair value charge of £25 million recorded on investments in Q3 2012.

- Total expenses were up 3%, reflecting a £15 million increased allocation of branch network costs. Direct costs remained flat with higher investment spend and costs of the lending review, offset by a £14 million reduction in operating lease depreciation.

- Impairments improved by £97 million due to fewer significant individual cases.

- The loan to deposit ratio moved to 81% from 84% in Q3 2012. Lending volumes were down 4% as business demand for credit remained weak, whilst deposits were down 1% reflecting the rebalancing of the Group’s liquidity position.

- Risk-weighted assets increased as a result of regulatory capital model changes, in part offset by reduced asset volumes and movements into default.

Wealth

	Quarter ended			Nine months ended	
	30 September	30 June	30 September	**30 September**	30 September
	2013	2013	2012	**2013**	2012
	£m	£m	£m	**£m**	£m
Income statement					
Net interest income	**169**	162	185	**500**	542
Net fees and commissions	**90**	91	94	**270**	277
Other non-interest income	**12**	19	13	**46**	66
Non-interest income	**102**	110	107	**316**	343
Total income	**271**	272	292	**816**	885
Direct expenses					
- staff	**(102)**	(110)	(103)	**(320)**	(334)
- other	**(30)**	(27)	(43)	**(81)**	(128)
Indirect expenses	**(78)**	(77)	(75)	**(235)**	(226)
	(210)	(214)	(221)	**(636)**	(688)
Profit before impairment losses	**61**	58	71	**180**	197
Impairment losses	**(1)**	(2)	(8)	**(8)**	(30)
Operating profit	**60**	56	63	**172**	167
Analysis of income					
Private banking	**222**	223	237	**669**	726
Investments	**49**	49	55	**147**	159
Total income	**271**	272	292	**816**	885

Key metrics	Quarter ended			Nine months ended	
	30 September	30 June	30 September	**30 September**	30 September

	2013	2013	2012		2013	2012
Performance ratios						
Return on equity (1)	**13.1%**	12.1%	13.8%		**12.4%**	12.0%
Net interest margin	**3.56%**	3.41%	3.88%		**3.51%**	3.74%
Cost:income ratio	**77%**	79%	76%		**78%**	78%

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

	30 September 2013	30 June 2013		31 December 2012	
	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	**8.7**	8.7	-	8.8	(1%)
- personal	**5.6**	5.7	(2%)	5.5	2%
- other	**2.6**	2.7	(4%)	2.8	(7%)
	16.9	17.1	(1%)	17.1	(1%)
Loan impairment provisions	**(0.1)**	(0.1)	-	(0.1)	-
Net loans and advances to customers	**16.8**	17.0	(1%)	17.0	(1%)
Risk elements in lending	**0.3**	0.3	-	0.2	50%
Provision coverage (1)	**38%**	39%	(100bp)	44%	(600bp)
Assets under management (excluding deposits)	**30.5**	31.1	(2%)	28.9	6%
Customer deposits	**38.1**	38.9	(2%)	38.9	(2%)
Loan:deposit ratio (excluding repos)	**44%**	44%	-	44%	-
Risk-weighted assets					
- Credit risk (non-counterparty)	**10.1**	10.6	(5%)	10.3	(2%)
- Market risk	**0.1**	-	100%	0.1	-
- Operational risk	**1.9**	1.9	-	1.9	-
	12.1	12.5	(3%)	12.3	(2%)

Note:

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

Key points

In Q3 2013, Coutts made further progress in implementing its UK strategy. The new advice proposition, post the UK's Retail Distribution Review, has delivered over £2 billion of assets under advice year to date.

Coutts continues to streamline client-facing processes and drive greater benefits from its global technology platform. It recently announced a reduction in the London property footprint from 11 buildings to 2 in order to drive further synergies. Good progress continues with the restructuring and investment in the international trust business including the closure of the Berne office in Q3 2013.

Q3 2013 compared with Q2 2013

- Operating profit was up £4 million primarily due to lower expenses reflecting the continued focus on cost reduction.
- Income was down £1 million, with a 7% decrease in non-interest income partially offset by a 4% increase in net interest income. The increase in net interest income is a result of Wealth's repricing initiatives on deposits. This follows a reduction in the spread earned on a number of deposit products, reflecting lower Group funding requirements. Lower non-interest income was largely due to lower transactional activity in the international businesses.
- Expenses decreased by 2% reflecting reduced headcount, from efficiency gains following investment in the global platform infrastructure, and a continued focus on discretionary costs.
- Client assets and liabilities managed by the division declined by 2% with a reduction in deposits, following repricing initiatives in the UK, and a reduction in assets under management, due to movements in exchange rates. Lending remained broadly stable.
- Impairments were £1 million lower, as the credit quality of the loan book remained strong.

Wealth

Key points (continued)

Q3 2013 compared with Q3 2012

- Operating profit was down 5% with lower income only partially offset by reduced expenses and impairment losses.

- Net interest income declined by 9%, reflecting lower spreads on a number of deposit products. Non-interest income was 5% lower as market volatility led to a decrease in investment income.

- Expenses fell by 5% due to reduced headcount and continued management of the cost base.

- Client assets and liabilities managed by the division were flat. Lending was stable while deposits declined by 2% as a result of repricing activity in Q3 2013. Assets under management increased by 3% due to net inflows of £1 billion primarily in the international business.

- Impairments were £7 million lower.

International Banking

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
	£m	£m	£m		**£m**	£m
Income statement						
Net interest income (excluding funding costs of rental assets)	**166**	177	227		**540**	721
Funding costs of rental assets	**-**	-	-		**-**	(9)
Net interest income	**166**	177	227		**540**	712
Non-interest income	**288**	291	308		**864**	926
Total income	**454**	468	535		**1,404**	1,638
Direct expenses						
- staff	**(137)**	(136)	(134)		**(407)**	(477)
- other	**(41)**	(34)	(48)		**(113)**	(144)
Indirect expenses	**(165)**	(157)	(166)		**(483)**	(504)
	(343)	(327)	(348)		**(1,003)**	(1,125)
Profit before impairment losses	**111**	141	187		**401**	513
Impairment losses	**(28)**	(99)	(12)		**(182)**	(74)
Operating profit	**83**	42	175		**219**	439
Of which:						
Ongoing businesses	**83**	42	171		**219**	452
Run-off businesses	**-**	-	4		**-**	(13)
Analysis of income by product						
Cash management	**189**	177	224		**553**	738
Trade finance	**77**	71	76		**218**	221
Loan portfolio	**188**	220	228		**632**	658
Ongoing businesses	**454**	468	528		**1,403**	1,617

Run-off businesses	**-**	-	7	**1**	21
Total income	**454**	468	535	**1,404**	1,638
Analysis of impairments by sector					
Manufacturing and infrastructure	**-**	87	2	**127**	21
Property and construction	**20**	9	-	**15**	7
Transport and storage	**8**	-	-	**32**	(4)
Telecommunications, media and technology	**-**	(7)	-	**(7)**	9
Banks and financial institutions	**-**	-	12	**-**	43
Other	**-**	10	(2)	**15**	(2)
Total impairment losses	**28**	99	12	**182**	74
Loan impairment charge as % of gross					
customer loans and advances (excluding					
reverse repurchase agreements)	**0.3%**	1.0%	0.1%	**0.6%**	0.2%

International Banking

Key metrics	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
Performance ratios (ongoing businesses)						
Return on equity (1)	**4.7%**	2.3%	10.3%		**4.1%**	9.5%
Net interest margin	**1.47%**	1.62%	1.70%		**1.61%**	1.65%
Cost:income ratio	**76%**	70%	65%		**71%**	67%

	30 September	30 June			31 December	
	2013	2013			2012	
	£bn	£bn	Change		£bn	Change
Capital and balance sheet						
Loans and advances to customers (gross) (2)						
- manufacturing and infrastructure	**15.0**	16.6	(10%)		15.8	(5%)
- property and construction	**2.2**	2.4	(8%)		2.4	(8%)
- transport and storage	**3.2**	3.5	(9%)		2.5	28%
- telecommunications, media and technology	**2.3**	1.7	35%		2.2	5%
- banks and financial institutions	**8.4**	7.7	9%		9.1	(8%)
- other	**10.8**	8.7	24%		10.2	6%
	41.9	40.6	3%		42.2	(1%)
Loan impairment provisions	**(0.3)**	(0.4)	(25%)		(0.4)	(25%)
Net loans and advances to customers	**41.6**	40.2	3%		41.8	-
Loans and advances to banks	**5.5**	5.6	(2%)		4.8	15%
Securities	**2.4**	2.5	(4%)		2.6	(8%)
Cash and eligible bills	**0.3**	0.2	50%		0.5	(40%)
Other	**3.5**	3.4	3%		3.3	6%

Total third party assets (excluding derivatives					
mark-to-market)	**53.3**	51.9	3%	53.0	1%
Risk elements in lending	**0.5**	0.5	-	0.4	25%
Provision coverage (3)	**64%**	75%	(1,100bp)	93%	(2,900bp)
Customer deposits (excluding repos)	**47.6**	46.0	3%	46.2	3%
Bank deposits (excluding repos)	**5.3**	6.1	(13%)	5.6	(5%)
Loan:deposit ratio (excluding repos)	**87%**	87%	-	91%	(400bp)
Risk-weighted assets					
- Credit risk (non-counterparty)	**43.7**	45.0	(3%)	46.7	(6%)
- Operational risk	**4.7**	4.7	-	5.2	(10%)
	48.4	49.7	(3%)	51.9	(7%)

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			Nine months ended	
	30 September	30 June	30 September	**30 September**	30 September
	2013	2013	2012	**2013**	2012
	£m	£m	£m	**£m**	£m
Run-off businesses (1)					
Total income	**-**	-	7	**1**	21
Direct expenses	**-**	-	(3)	**(1)**	(34)
Operating profit/(loss)	**-**	-	4	**-**	(13)

Note:

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

43

International Banking

Key points

International Banking remains focused on serving customers through its country network using its core strengths: debt financing, risk management and transaction services. Business conditions remained difficult during Q3 2013, with persistent low interest rates and broader margin compression.

In Q3 2013, International Banking continued to strengthen its balance sheet. Despite an underlying increase from the ongoing roll out of credit models, the division's risk-weighted assets were down 3% year on year.

Q3 2013 compared with Q2 2013

- Operating profit was up £41 million, driven by lower impairments.
- Income decreased by £14 million, or 3%:

  Loan portfolio income was down 15%, with lower net interest income from a smaller portfolio asset base (due to increased repayments by customers actively managing their debt profiles) partially offset by increased revenues from capital management and hedging activities.
  Cash management income was up £12 million, reflecting strategic improvements in the deposit mix.
  Trade finance was up 8%, driven by loan growth, particularly in Asia.

- Total expenses increased by £16 million, due to a £6 million increase related to risk management activities and an £8 million increase in indirect costs.
- Impairment losses were £71 million lower than in Q2 2013, which included two large single-name provisions.
- Third party assets were up 3%, reflecting growth in Trade finance as the business continues to grow capital efficient lending. This was partially offset by a lower asset base in the loan portfolio due to increased levels of customer repayments.
- Risk-weighted assets decreased by 3%, partly due to movements in exchange rates.
- Return on equity was 5% compared with 2% in Q2 2013.

Q3 2013 compared with Q3 2012

- Operating profit decreased by £92 million as a result of a decline in income and increased impairments, partially offset by lower costs.

- Income was 15% lower:

  Cash management income was down 16% reflecting a decline in three-month LIBOR as well as increased funding costs of liquidity buffer requirements.
  Loan portfolio income was down 18% as a result of a lower asset base, resulting in decreased net interest income year on year.

- Expenses declined by £5 million, reflecting continued emphasis on cost control with timely run-off of discontinued business. Tighter management of technology and infrastructure support costs also delivered savings.

- Impairments were £16 million higher primarily due to a single provision in Q3 2013.

- Third party assets declined by 9% following increased levels of customer repayments as customers continued to manage down their debt profile.

- Risk-weighted assets were down 3%, as management action mitigated credit model increases.

Ulster Bank

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
	£m	£m	£m		**£m**	£m
Income statement						
Net interest income	**154**	154	163		**462**	488
Net fees and commissions	**35**	35	36		**104**	109
Other non-interest income	**25**	53	14		**98**	36
Non-interest income	**60**	88	50		**202**	145
Total income	**214**	242	213		**664**	633
Direct expenses						
- staff	**(64)**	(67)	(54)		**(188)**	(161)
- other	**(15)**	(12)	(13)		**(42)**	(35)
Indirect expenses	**(63)**	(65)	(59)		**(188)**	(188)
	(142)	(144)	(126)		**(418)**	(384)
Profit before impairment losses	**72**	98	87		**246**	249
Impairment losses	**(204)**	(263)	(329)		**(707)**	(1,046)
Operating loss	**(132)**	(165)	(242)		**(461)**	(797)
Analysis of income by business						
Corporate	**76**	88	85		**246**	275
Retail	**101**	120	93		**310**	267
Other	**37**	34	35		**108**	91
Total income	**214**	242	213		**664**	633
Analysis of impairments by sector						
Mortgages	**30**	91	155		**211**	511

Commercial real estate						
- investment	**104**	51	78		**201**	169
- development	**12**	12	14		**38**	38
Other corporate	**51**	111	75		**237**	292
Other lending	**7**	(2)	7		**20**	36
Total impairment losses	**204**	263	329		**707**	1,046
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector						
Mortgages	**0.6%**	1.8%	3.3%		**1.5%**	3.6%
Commercial real estate						-
- investment	**11.6%**	5.7%	8.7%		**7.4%**	6.3%
- development	**6.9%**	6.9%	8.0%		**7.2%**	7.2%
Other corporate	**2.8%**	5.9%	3.9%		**4.4%**	5.1%
Other lending	**2.3%**	(0.6%)	2.2%		**2.2%**	3.7%
Total	**2.6%**	3.2%	4.1%		**3.0%**	4.3%

Ulster Bank

Key metrics	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
Performance ratios						
Return on equity (1)	**(12.0%)**	(14.1%)	(20.4%)		**(13.2%)**	(22.0%)
Net interest margin	**1.86%**	1.85%	1.92%		**1.85%**	1.87%
Cost:income ratio	**66%**	60%	59%		**63%**	61%

	30 September	30 June			31 December	
	2013	2013			2012	
	£bn	£bn		Change	£bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)						
Mortgages	**19.2**	19.8		(3%)	19.2	-
Commercial real estate						
- investment	**3.6**	3.6		-	3.6	-
- development	**0.7**	0.7		-	0.7	-
Other corporate	**7.2**	7.5		(4%)	7.8	(8%)
Other lending	**1.2**	1.3		(8%)	1.3	(8%)
	31.9	32.9		(3%)	32.6	(2%)
Loan impairment provisions	**(4.5)**	(4.4)		2%	(3.9)	15%
Net loans and advances to customers	**27.4**	28.5		(4%)	28.7	(5%)
Risk elements in lending						
Mortgages	**3.3**	3.4		(3%)	3.1	6%
Commercial real estate						
- investment	**2.1**	1.9		11%	1.6	31%
- development	**0.4**	0.5		(20%)	0.4	-
Other corporate	**2.5**	2.6		(4%)	2.2	14%
Other lending	**0.2**	0.2		-	0.2	-

Total risk elements in lending	**8.5**	8.6		(1%)	7.5	13%
Provision coverage (2)	**52%**	52%		-	52%	-
Customer deposits	**22.2**	23.1		(4%)	22.1	-
Loan:deposit ratio (excluding repos)	**123%**	123%		-	130%	(700bp)
Risk-weighted assets						
- Credit risk						
- non-counterparty	**29.6**	31.3		(5%)	33.6	(12%)
- counterparty	**0.4**	0.6		(33%)	0.6	(33%)
- Market risk	**0.1**	0.3		(67%)	0.2	(50%)
- Operational risk	**1.7**	1.7		-	1.7	-
	31.8	33.9		(6%)	36.1	(12%)
Spot exchange rate - €/£	**1.196**	1.169			1.227	

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.

46

Ulster Bank

Key points

Operating results showed further improvement in Q3 2013 primarily due to lower impairment losses. Ulster Bank's investment in programmes to assist customers in financial difficulty has resulted in six consecutive months of declining mortgage arrears and this, coupled with stabilising economic conditions, has driven an improved impairment performance.

Ulster Bank is committed to supporting economic recovery across the island of Ireland. The bank continued to re-affirm its commitment to serving customers well, supporting business and giving back to the communities where it operates. A number of new initiatives were delivered in Q3 2013 that demonstrate Ulster Bank's core values.

Serving our customers well

In the quarter, Ulster Bank customers completed 46% of transactions through digital channels. This was supported by further enhancements to mobile services and smart phone apps that allow customers to withdraw money from an ATM without a debit card, make payments using only a mobile number and view up to seven years of transaction history.

Over 7,000 business customers have registered for the "Anytime for Business" online banking service since its launch in Q2 2013.

Customers now have access to a customer advisor in real time via Webchat 24 hours a day, 7 days a week.

Supporting Enterprise and Communities:

Working in partnership with others, Ulster Bank provides funding for a range of initiatives such as SmallBusinessCan and BusinessWomenCan to build long-term financial health and employability. During Q3 2013 this was recognised in the National Chambers Ireland Corporate Social Responsibility Awards where Ulster Bank won the Marketplace award for BusinessWomenCan.

Through the Bank of England and HM Treasury Funding for Lending Scheme Ulster Bank has committed over £100 million of new lending to Northern Ireland businesses.

The bank's "One Week in June" initiative raised £430,000 for a number of Irish charities through a series of fundraising events involving both staff and customers.

Helping customers in financial difficulty

Ulster Bank has invested strategically in people, systems and a suite of tailored solutions to make it easier for customers to enter into arrangements to stay in their homes and remain economically active. Customers in financial difficulty are continuously encouraged to engage with the bank.

Q3 2013 compared with Q2 2013

Operating results improved by £33 million, or 20%, primarily due to lower impairment losses on the mortgage portfolio reflecting investment in programmes to support customers in arrears.

Income fell by £28 million in the quarter reflecting a reduced mark-to-market benefit on derivative instruments executed to hedge interest rate basis risk in the mortgage portfolio. Net interest income remained stable at £154 million with net interest margin increasing by 1 basis point to 1.86%.

Total expenses were £2 million, or 1%, lower, driven by the benefits of cost saving initiatives and the non-recurrence of an impairment charge on own property assets in Q2 2013.

Impairment losses fell by £59 million, or 22%, with a significant reduction in losses on the mortgage portfolio as residential property prices stabilised. Impairment losses within the corporate portfolio remained elevated with a small number of significant charges on individual counterparty exposures.

Ulster Bank

Key points (continued)

Q3 2013 compared with Q2 2013 (continued)

The loan:deposit ratio remained steady at 123%. Loan balances fell by 3% reflecting limited new lending due to low levels of demand. Retail and SME deposit balances were stable during the quarter, although total deposit balances declined by 4% driven by a reduction in Corporate Term balances.

Q3 2013 compared with Q3 2012

Operating results improved significantly, by £110 million or 45%, driven by lower impairment losses.

Income was marginally higher at £214 million. Net interest income was down £9 million reflecting a lower return on the bank's capital base coupled with the cost of deposit raising. Net interest margin decreased by 6 basis points to 1.86%. Non-interest income increased by £10 million primarily due to a mark-to-market benefit on derivative instruments.

Expenses increased by £16 million, or 13%, reflecting further investment in programmes to support customers in financial difficulty, the cost of mandatory change programmes and higher pension charges.

Impairment losses decreased by £125 million, or 38%, reflecting a reduction in losses on the mortgage portfolio as residential property prices stabilised.

The progress made during 2012 to strengthen the balance sheet continued into 2013 with deposit balances 9% higher than Q3 2012. As a result, the loan to deposit ratio improved to 123% from 141% at Q3 2012.

Risk-weighted assets decreased by 9% reflecting a smaller performing loan book and stabilising credit metrics.

US Retail & Commercial (£ Sterling)

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
	£m	£m	£m		**£m**	£m
Income statement						
Net interest income	**493**	473	488		**1,437**	1,467
Net fees and commissions	**197**	192	197		**579**	594
Other non-interest income	**66**	86	95		**254**	290
Non-interest income	**263**	278	292		**833**	884
Total income	**756**	751	780		**2,270**	2,351
Direct expenses						
- staff	**(264)**	(278)	(254)		**(821)**	(786)
- other	**(249)**	(231)	(247)		**(726)**	(751)
- litigation settlement	**-**	-	-		**-**	(88)
Indirect expenses	**(42)**	(36)	(35)		**(108)**	(104)
	(555)	(545)	(536)		**(1,655)**	(1,729)
Profit before impairment losses	**201**	206	244		**615**	622
Impairment losses	**(59)**	(32)	(21)		**(110)**	(68)
Operating profit	**142**	174	223		**505**	554
Average exchange rate - US$/£	**1.551**	1.536	1.581		**1.543**	1.578
Analysis of income by product						
Mortgages and home equity	**109**	123	139		**358**	406
Personal lending and cards	**106**	104	101		**310**	300
Retail deposits	**197**	189	213		**576**	653
Commercial lending	**175**	167	144		**510**	455

Commercial deposits	**103**	98	109		**303**	333
Other	**66**	70	74		**213**	204
Total income	**756**	751	780		**2,270**	2,351
Analysis of impairments by sector						
Residential mortgages	**16**	10	(5)		**28**	(3)
Home equity	**27**	18	40		**64**	82
Corporate and commercial	**(13)**	(11)	(35)		**(48)**	(57)
Other consumer	**24**	15	21		**61**	41
Securities	**5**	-	-		**5**	5
Total impairment losses	**59**	32	21		**110**	68
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector						
Residential mortgages	**1.1%**	0.7%	(0.3%)		**0.6%**	(0.1%)
Home equity	**0.9%**	0.5%	1.2%		**0.7%**	0.8%
Corporate and commercial	**(0.2%)**	(0.2%)	(0.6%)		**(0.3%)**	(0.3%)
Other consumer	**1.1%**	0.7%	1.0%		**0.9%**	0.7%
Total	**0.4%**	0.2%	0.2%		**0.3%**	0.2%

US Retail & Commercial (£ Sterling)

Key metrics	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
Performance ratios						
Return on equity (1)	**6.3%**	7.7%	9.7%		**7.4%**	8.1%
Net interest margin	**2.99%**	2.91%	2.96%		**2.94%**	3.00%
Cost:income ratio	**73%**	73%	69%		**73%**	74%

	30 September	30 June			31 December	
	2013	2013			2012	
	£bn	£bn	Change		£bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)						
- residential mortgages	**5.6**	5.8	(3%)		5.8	(3%)
- home equity	**12.5**	13.5	(7%)		13.3	(6%)
- corporate and commercial	**24.1**	25.2	(4%)		23.8	1%
- other consumer	**8.6**	8.8	(2%)		8.4	2%
	50.8	53.3	(5%)		51.3	(1%)
Loan impairment provisions	**(0.3)**	(0.3)	-		(0.3)	-
Net loans and advances to customers	**50.5**	53.0	(5%)		51.0	(1%)
Total third party assets	**71.9**	74.6	(4%)		72.8	(1%)
Investment securities	**12.9**	11.5	12%		12.0	8%
Risk elements in lending						
- retail	**0.9**	0.9	-		0.8	13%
- commercial	**0.2**	0.2	-		0.3	(33%)
Total risk elements in lending	**1.1**	1.1	-		1.1	-
Provision coverage (3)	**25%**	23%	200bp		25%	-

Customer deposits (excluding repos)	**58.0**	60.1	(3%)		59.2	(2%)
Bank deposits (excluding repos)	**0.7**	1.6	(56%)		1.8	(61%)
Loan:deposit ratio (excluding repos)	**87%**	88%	(100bp)		86%	100bp
Risk-weighted assets						
- Credit risk						
- non-counterparty	**50.6**	52.7	(4%)		50.8	-
- counterparty	**0.6**	0.6	-		0.8	(25%)
- Operational risk	**4.9**	4.9	-		4.9	-
	56.1	58.2	(4%)		56.5	(1%)
Spot exchange rate - US$/£	**1.618**	1.520			1.616	

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).
(2) Excludes the litigation settlement in Q1 2012 and net gain on sale of Visa B shares in Q2 2012.
(3) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.

Key points

Performance is described in full in the US dollar-based financial statements set out on pages 51 to 54.

Sterling strengthened relative to the US dollar during Q3 2013, with the spot rate returning to the year end level.

US Retail & Commercial (US Dollar)

	Quarter ended			Nine months ended	
	30 September	30 June	30 September	**30 September**	30 September
	2013	2013	2012	**2013**	2012
	$m	$m	$m	**$m**	$m
Income statement					
Net interest income	**760**	726	771	**2,217**	2,315
Net fees and commissions	**302**	295	313	**892**	938
Other non-interest income	**101**	133	150	**392**	457
Non-interest income	**403**	428	463	**1,284**	1,395
Total income	**1,163**	1,154	1,234	**3,501**	3,710
Direct expenses					
- staff	**(406)**	(428)	(401)	**(1,267)**	(1,240)
- other	**(382)**	(356)	(393)	**(1,119)**	(1,187)
- litigation settlement	**-**	-	-	**-**	(138)
Indirect expenses	**(65)**	(54)	(56)	**(167)**	(164)
	(853)	(838)	(850)	**(2,553)**	(2,729)
Profit before impairment losses	**310**	316	384	**948**	981
Impairment losses	**(91)**	(48)	(33)	**(169)**	(107)
Operating profit	**219**	268	351	**779**	874
Analysis of income by product					
Mortgages and home equity	**168**	189	219	**552**	641
Personal lending and cards	**164**	159	159	**478**	473
Retail deposits	**302**	291	336	**888**	1,029
Commercial lending	**269**	257	228	**787**	718
Commercial deposits	**159**	151	173	**468**	526
Other	**101**	107	119	**328**	323

Total income	**1,163**	1,154	1,234		**3,501**	3,710
Analysis of impairments by sector						
Residential mortgages	**24**	16	(8)		**43**	(5)
Home equity	**43**	27	64		**99**	129
Corporate and commercial	**(21)**	(17)	(55)		**(74)**	(89)
Other consumer	**38**	22	32		**94**	65
Securities	**7**	-	-		**7**	7
Total impairment losses	**91**	48	33		**169**	107
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector						
Residential mortgages	**1.1%**	0.7%	(0.3%)		**0.6%**	(0.1%)
Home equity	**0.9%**	0.5%	1.2%		**0.7%**	0.8%
Corporate and commercial	**(0.2%)**	(0.2%)	(0.6%)		**(0.3%)**	(0.3%)
Other consumer	**1.1%**	0.7%	1.0%		**0.9%**	0.7%
Total	**0.4%**	0.2%	0.2%		**0.3%**	0.2%

US Retail & Commercial (US Dollar)

Key metrics						
	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
Performance ratios						
Return on equity (1)	**6.3%**	7.7%	9.7%		**7.4%**	8.1%
Net interest margin	**2.99%**	2.91%	2.96%		**2.94%**	3.00%
Cost:income ratio	**73%**	73%	69%		**73%**	74%

	30 September	30 June			31 December	
	2013	2013			2012	
	$bn	$bn	Change		$bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)						
- residential mortgages	**9.1**	8.9	2%		9.4	(3%)
- home equity	**20.2**	20.4	(1%)		21.5	(6%)
- corporate and commercial	**39.0**	38.3	2%		38.5	1%
- other consumer	**13.9**	13.4	4%		13.5	3%
	82.2	81.0	1%		82.9	(1%)
Loan impairment provisions	**(0.4)**	(0.4)	-		(0.5)	(20%)
Net loans and advances to customers	**81.8**	80.6	1%		82.4	(1%)
Total third party assets	**116.4**	113.3	3%		117.7	(1%)
Investment securities	**20.9**	17.4	20%		19.5	7%
Risk elements in lending						
- retail	**1.4**	1.3	8%		1.3	8%
- commercial	**0.3**	0.4	(25%)		0.6	(50%)
Total risk elements in lending	**1.7**	1.7	-		1.9	(11%)
Provision coverage (3)	**25%**	23%	200bp		25%	-

Customer deposits (excluding repos)	**93.9**	91.4	3%		95.6	(2%)
Bank deposits (excluding repos)	**1.1**	2.4	(54%)		2.9	(62%)
Loan:deposit ratio (excluding repos)	**87%**	88%	(100bp)		86%	100bp
Risk-weighted assets						
- Credit risk						
- non-counterparty	**81.9**	79.9	3%		82.0	-
- counterparty	**0.9**	1.0	(10%)		1.4	(36%)
- Operational risk	**8.0**	7.5	7%		7.9	1%
	90.8	88.4	3%		91.3	(1%)

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of monthly average of divisional RWAs, adjusted for capital deductions).
(2) Excludes the litigation settlement in Q1 2012 and net gain on sale of Visa B shares in Q2 2012.
(3) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.

US Retail & Commercial (US Dollar)

Key points

In Q3 2013, US R&C continued to make progress in developing a differentiated customer proposition across both its consumer and commercial activities. We continue to make significant investments to deliver enhanced products and services to customers, to improve our operating platforms, and to increase efficiency. We have commenced our IPO preparation and are developing and implementing plans to improve operating performance and to prepare for public company readiness.

Consumer Banking continued to improve customer service with the installation of an additional 357 intelligent deposit machines in the quarter. Consumer Banking also continued to grow and deepen customer relationships, evidenced by the upward trends in online banking usage and online bill payments. Moreover, our mobile banking application was ranked the “highest customer rated” app on both Android and iOS platforms by Extreme Labs in July 2013.

Commercial Banking continued to see results from investments in its value proposition, which is based on thought leadership and product capabilities. Specifically, Q2 2013 Greenwich Middle Market Syndicated Study results versus Q1 2013 showed an increase for client satisfaction, increasing from 66% to 75%, an increase in Lead Relationships as a percentage of customers, increasing from 54% to 59% and an increase in Proactively Provides Advice & Solutions, increasing from 58% to 68%. Our US Middle Market Syndications Bookrunner most recent ranking also improved from #10 in Q1 2013 to #9.

Commercial Banking also launched several growth initiatives, including expanding the Mid-Corporate segment nationally as well as growing the Franchise Finance, Lender Finance, Commercial Real Estate and other key industry verticals. While initial efforts have been focused on securing approvals and on-boarding new talent, the initiatives have already led to incremental loan growth.

Q3 2013 compared with Q2 2013

- Operating profit of £142 million ($219 million) was down £32 million ($49 million), or 18%, largely driven by an increase in impairment losses. A sluggish economic recovery, combined with significant market liquidity resulted in intensified competition in loan markets. Low short-term rates limited net interest margin expansion and the rise in long-term rates dramatically slowed mortgage refinance volumes.

- Higher rates led us to purchase incremental investment securities of £1.4 billion ($3.5 billion) during the quarter, reversing first half run-off.

- Net interest income was up £20 million ($34 million), or 4% (5% in US dollar terms), due to the larger investment portfolio, commercial loan growth and favourable funding costs. Net interest margin increased by 8 basis points to 2.99%.

- Loans and advances decreased 5%, an increase of 1% in US dollar terms. Commercial loans were down 4%, an increase of 1% in US dollar terms despite competition for lending opportunities. Consumer loans decreased 5%, a 1% increase in US dollar terms driven by a strategic initiative to purchase residential mortgages and hold more originations on balance sheet.

- Non-interest income was down £15 million ($25 million), or 5% (6% in US dollar terms), reflecting lower securities gains, down £11 million ($17 million) to £16 million ($25 million), and mortgage banking fees, down £11 million ($17 million) to £19 million ($30 million), as refinancing volumes slowed, partially offset by higher commercial banking fee income.

US Retail & Commercial (US Dollar)

Key points (continued)

Q3 2013 compared with Q2 2013 (continued)

- Direct expenses were broadly in line with Q2 2013 reflecting the phasing of the annual incentive accruals and a seasonal decrease in payroll taxes, largely offset by a lower mortgage servicing rights impairment recapture.

- Impairment losses remained relatively low at £59 million ($91 million), or 0.4% of loans and advances to customers. The credit environment remained broadly stable in the quarter. The increase in impairment losses was driven by a moderate increase in consumer charge-offs and a lower level of reserve release.

Q3 2013 compared with Q3 2012

- Operating profit of £142 million ($219 million) decreased by £81 million ($132 million), or 36% (38% in US dollar terms), largely driven by lower income and an increase in impairment losses. The operating environment and market conditions remained challenging, with intense competition for loans and an extended period of low short-term rates.

- Net interest income was up 1%, down 1% in US dollar terms due to consumer loan run-off and the effect of prevailing economic conditions on asset yields partially offset by commercial loan growth and the benefit of interest rate swaps.

- Loans and advances were flat with strong commercial loan growth of 5% offset by run-off of long-term fixed-rate consumer products.

- Customer deposits were down 3% due to planned run-off of high priced time deposits partially offset by growth achieved in checking balances. Consumer checking balances grew by 4% while small business checking balances grew by 6% over the year.

- Non-interest income was down £29 million ($60 million), or 10% (13% in US dollar terms), reflecting lower mortgage banking fees, down £26 million ($41 million) to £19 million ($30 million), deposit fees, down £7 million ($11 million) to £84 million ($130 million), and securities gains, down £17 million ($27 million) to £16 million ($25 million), partially offset by higher commercial banking fee income.

- Direct expenses were up £12 million, or 2%, a decrease in US dollar terms of $6 million, or 1%, reflecting a mortgage servicing rights recapture partially offset by the cost of regulatory compliance and new technology investments.

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The credit environment remained broadly stable over the year. The increase in impairment losses was driven by lower levels of reserve release.

54

Markets

	Quarter ended			Nine months ended	
	30 September	30 June	30 September	**30 September**	30 September
	2013	2013	2012	**2013**	2012
	£m	£m	£m	**£m**	£m
Income statement					
Net interest income	**41**	25	14	**96**	62
Net fees and commissions receivable	**16**	6	27	**55**	127
Income from trading activities	**764**	791	1,250	**2,515**	3,554
Other operating income/(loss)	**13**	-	(249)	**30**	99
Non-interest income	**793**	797	1,028	**2,600**	3,780
Total income	**834**	822	1,042	**2,696**	3,842
Direct expenses					
- staff	**(299)**	(301)	(396)	**(985)**	(1,366)
- other	**(148)**	(207)	(163)	**(537)**	(515)
Indirect expenses	**(178)**	(178)	(194)	**(535)**	(576)
	(625)	(686)	(753)	**(2,057)**	(2,457)
Profit before impairment losses	**209**	136	289	**639**	1,385
Impairment recoveries/(losses)	**1**	(43)	6	**(58)**	(15)
Operating profit	**210**	93	295	**581**	1,370
Of which:					
Ongoing businesses (1)	**217**	92	317	**563**	1,162
Run-off and recovery businesses	**(7)**	1	(22)	**18**	208
Analysis of income by product					
Rates	**390**	246	384	**864**	1,599
Currencies	**257**	306	202	**786**	568
Asset backed products	**125**	166	394	**739**	1,153

Credit markets	**187**	152	178		**556**	578
Total income ongoing businesses	**959**	870	1,158		**2,945**	3,898
Inter-divisional revenue share	**(162)**	(149)	(161)		**(480)**	(539)
Run-off businesses	**37**	101	45		**231**	483
Total income	**834**	822	1,042		**2,696**	3,842
Memo - Fixed income and currencies						
Total income ongoing businesses	**959**	870	1,158		**2,945**	3,898
Less: primary credit markets	**(146)**	(136)	(113)		**(433)**	(414)
Total fixed income and currencies	**813**	734	1,045		**2,512**	3,484

Note:

(1) The ongoing businesses include the Rates, Currencies, Asset backed products and Credit markets areas.

Markets

Key metrics	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
Performance ratios						
Return on equity (1)	**7.0%**	2.8%	7.6%		**5.9%**	11.5%
Cost:income ratio	**75%**	83%	72%		**76%**	64%
Compensation ratio (2)	**36%**	37%	38%		**37%**	36%

	30 September	30 June			31 December	
	2013	2013			2012	
	£bn	£bn	Change		£bn	Change
Capital and balance sheet						
Loans and advances to customers (gross)	**24.4**	28.2	(13%)		29.8	(18%)
Loan impairment provisions	**(0.2)**	(0.2)	-		(0.2)	-
Net loans and advances to customers	**24.2**	28.0	(14%)		29.6	(18%)
Net loans and advances to banks	**15.5**	16.0	(3%)		16.6	(7%)
Reverse repos	**95.6**	98.9	(3%)		103.8	(8%)
Securities	**71.4**	84.9	(16%)		92.4	(23%)
Cash and eligible bills	**19.6**	18.0	9%		30.2	(35%)
Other	**21.9**	22.1	(1%)		11.9	84%
Total third party assets (excluding derivatives						
mark-to-market)	**248.2**	267.9	(7%)		284.5	(13%)
Net derivative assets (after netting)	**18.6**	21.0	(11%)		21.9	(15%)
Provision coverage (3)	**77%**	78%	(100bp)		77%	-
Customer deposits (excluding repos)	**25.8**	26.4	(2%)		26.3	(2%)
Bank deposits (excluding repos)	**29.3**	34.0	(14%)		45.4	(35%)

Risk-weighted assets						
- Credit risk						
- non-counterparty	**10.5**	12.5	(16%)		14.0	(25%)
- counterparty	**26.5**	30.8	(14%)		34.7	(24%)
- Market risk	**26.4**	33.7	(22%)		36.9	(28%)
- Operational risk	**9.8**	9.8	-		15.7	(38%)
	73.2	86.8	(16%)		101.3	(28%)

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

Markets

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
Income statement (ongoing business)	**£m**	£m	£m		**£m**	£m
Total income	**800**	724	1,004		**2,475**	3,385
Direct expenses	**(408)**	(464)	(508)		**(1,397)**	(1,655)
Indirect expenses	**(176)**	(176)	(192)		**(528)**	(570)
Impairment recoveries	**1**	8	13		**13**	2
Operating profit	**217**	92	317		**563**	1,162
Performance ratios (ongoing business)						
Return on equity (1)	**9.3%**	3.6%	10.2%		**7.4%**	12.3%
Cost:income ratio	**73%**	88%	70%		**78%**	66%
Compensation ratio (2)	**34%**	38%	36%		**37%**	36%

			30 September	30 June	31 December
			2013	2013	2012
Balance sheet (ongoing business)			**£bn**	£bn	£bn
Total third party assets (excluding derivatives mark-to-market)			**231.4**	247.5	259.3
Risk-weighted assets			**56.9**	68.6	79.1

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 ongoing businesses.

(2) Compensation ratio is based on staff costs as a percentage of total income.

Key points

Markets operating profit recovered in Q3 2013, compared with the prior quarter, despite client activity remaining subdued. The trading performance in the Rates business improved and Credit benefitted from a strong performance in Corporate Debt Capital Markets. Costs were significantly lower than both Q2 2013 and Q3 2012, reflecting headcount reductions and tight control of discretionary expenditure.

Markets continued to focus on reducing its balance sheet and managing risk. Third party assets were £36 billion lower than at 31 December 2012 and risk-weighted assets were down £28 billion, consistent with the previously announced objective of reaching £80 billion Basel III risk-weighted assets by the end of 2014.

Q3 2013 compared with Q2 2013

- Operating profit increased by £117 million. Income improved, despite the summer slowdown, weak recovery in the European economy and uncertainty surrounding the Federal Reserve's tapering of quantitative easing. Costs fell by 9% and impairment losses were negligible.

- Rates income rebounded following an improved trading performance.

- Currencies continued to perform well. Spot FX remained strong and FX Options continued to benefit from opportunities in a volatile market, albeit to a lesser extent than in Q2 2013.

- Asset Backed Products was affected by market expectations of a tapering of the Federal Reserve's programme of quantitative easing and subdued client activity. This, combined with the deliberate reduction in balance sheet deployed by the business, resulted in lower income.

- Credit Markets benefited from good levels of activity in Corporate Debt Capital Market income and gains in Flow Credit as credit spreads generally tightened.

- Costs fell by 9%, driven by ongoing cost saving initiatives and a lower level of legal expenditure.

- Markets continued to make significant progress in reducing the scale of its balance sheet and capital. Third party assets fell by a further £20 billion. Risk-weighted assets also fell, by £14 billion, driven by management action to reduce exposures and mitigate risk.

Markets

Key points (continued)

Q3 2013 compared with Q3 2012

- The strategic repositioning of Markets drove a significant reduction in third party assets and risk-weighted assets.

- Costs fell by 17%, driven by a reduction in headcount of 1,000 and a continued focus on discretionary expenditure.

- Income was lower as Asset Backed Products, in particular, was down due an aggressive reduction in balance sheet deployed by the business coupled with limited demand as the market anticipated a tapering of quantitative easing by the Federal Reserve. This contrasted with Q3 2012, which benefited from a sustained rally as investors searched for yield.

- Rates increased slightly despite the uncertainty surrounding the Federal Reserve’s quantitative easing programme and the slow recovery of the European market.

- Currencies income was up, Spot FX continued to perform well and FX Options benefited from recent volatility in emerging markets currencies.

- Credit Markets benefitted from a stronger performance in Corporate Debt Capital Markets.

Central items

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
	£m	£m	£m		**£m**	£m
Central items not allocated	**(19)**	140	149		**85**	(34)

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

Q3 2013 compared with Q2 2013

- Central items not allocated were a debit of £19 million compared with a credit of £140 million in Q2 2013.
- The movement was primarily due to lower gains of £150 million on disposals of available-for-sale securities, down £205 million compared with Q2 2013, and a one-off impairment charge of £65 million in Q3 2013 in respect of a real estate loan. These reductions were partially offset by a £38 million increase in investment income to £55 million and a £50 million reduction in the charge for litigation and conduct matters to £45 million from £95 million in Q2 2013.

Q3 2013 compared with Q3 2012

- Central items not allocated represented a debit of £19 million compared with a credit of £149 million in Q3 2012.

- The movement was primarily due to lower gains of £150 million on disposals of available-for-sale securities, down £314 million compared with Q3 2012, and the one-off impairment charge of £65 million. These were partially offset by lower unallocated costs in Group Treasury, down £63 million, higher investment income, up £55 million, a £30 million reduction in the charge for litigation and conduct matters and the non-repeat of IT incident costs of £50 million in Q3 2012.

Non-Core

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
	£m	£m	£m		**£m**	£m
Income statement						
Net interest income (excluding funding costs						
of rental assets)	**(34)**	29	91		**(33)**	294
Funding costs of rental assets	**(9)**	(10)	(12)		**(28)**	(103)
Net interest income	**(43)**	19	79		**(61)**	191
Net fees and commissions	**6**	18	17		**44**	77
(Loss)/income from trading activities	**(109)**	134	(203)		**70**	(604)
Other operating income						
- rental income	**49**	43	85		**149**	477
- other (1)	**(22)**	59	72		**45**	179
Non-interest income	**(76)**	254	(29)		**308**	129
Total income	**(119)**	273	50		**247**	320
Direct expenses						
- staff	**(50)**	(55)	(71)		**(166)**	(226)
- operating lease depreciation	**(17)**	(14)	(43)		**(58)**	(195)
- other	**(30)**	(36)	(30)		**(94)**	(117)
Indirect expenses	**(48)**	(51)	(68)		**(148)**	(199)
	(145)	(156)	(212)		**(466)**	(737)
Operating (loss)/profit before impairment losses	**(264)**	117	(162)		**(219)**	(417)
Impairment losses	**(581)**	(398)	(424)		**(1,412)**	(1,520)
Operating loss	**(845)**	(281)	(586)		**(1,631)**	(1,937)

Note:

(1) Includes (losses)/gains on disposals (Q3 2013 - £73 million loss; Q2 2013 - £11 million loss; Q3 2012 - £42 million loss; nine months ended 30 September 2013 - £141 million loss; nine months ended 30 September 2012 - £101 million gain).

Non-Core

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
	£m	£m	£m		**£m**	£m
Analysis of (loss)/income by business						
Banking and portfolios	**(84)**	152	91		**60**	151
International businesses	**(31)**	27	60		**41**	221
Markets	**(4)**	94	(101)		**146**	(52)
Total (loss)/income	**(119)**	273	50		**247**	320
(Loss)/income from trading activities						
Monoline exposures	**(21)**	25	21		**(3)**	(170)
Credit derivative product companies	**(9)**	6	(199)		**-**	(206)
Asset-backed products	**7**	16	17		**43**	85
Other credit exotics	**13**	-	16		**28**	(33)
Equities	**1**	1	1		**2**	3
Banking book hedges	**-**	-	(14)		**3**	(36)
Other	**(100)**	86	(45)		**(3)**	(247)
	(109)	134	(203)		**70**	(604)
Impairment losses						
Banking and portfolios (1)	**589**	415	433		**1,445**	1,623
International businesses	**4**	4	16		**10**	41
Markets	**(12)**	(21)	(25)		**(43)**	(144)
Total impairment losses	**581**	398	424		**1,412**	1,520
Loan impairment charge as % of gross						
customer loans and advances (excluding						
reverse repurchase agreements) (2)						
Banking and portfolios (3)	**5.2%**	4.0%	2.8%		**4.7%**	3.6%

International businesses	**4.0%**	2.0%	4.5%		**3.3%**	3.9%
Markets	**-**	-	0.4%		**-**	(1.6%)
Total	**5.2%**	4.0%	2.8%		**4.7%**	3.6%

Key metrics						
	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
Performance ratio						
Net interest margin	**(0.35%)**	0.15%	0.41%		**(0.15%)**	0.32%

Notes:

(1) Includes Ulster Bank impairment losses of £398 million (Q2 2013 - £189 million; Q3 2012 - £164 million; nine months ended 30 September 2013 - £829 million; nine months ended 30 September 2012 - £619 million).

(2) Includes disposal groups.

(3) Ulster Bank - 13.2% (Q2 2013 - 5.9%; Q3 2012 - 5.0%; nine months ended 30 September 2013 - 9.1%; nine months ended 30 September 2012 - 6.3%). Banking and portfolios excluding Ulster Bank - 1.9% (Q2 2013 - 3.3%; Q3 2012 - 2.1%; nine months ended 30 September 2013 - 2.8%; nine months ended 30 September 2012 - 2.8%).

Non-Core

	30 September 2013	30 June 2013		31 December 2012	
	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross) (1)	**40.4**	46.4	(13%)	55.4	(27%)
Loan impairment provisions	**(11.3)**	(11.4)	(1%)	(11.2)	1%
Net loans and advances to customers	**29.1**	35.0	(17%)	44.2	(34%)
Total third party assets (excluding derivatives)	**37.3**	45.4	(18%)	57.4	(35%)
Total third party assets (including derivatives)	**41.1**	50.0	(18%)	63.4	(35%)
Risk elements in lending (1)	**19.8**	20.9	(5%)	21.4	(7%)
Provision coverage (2)	**57%**	55%	200bp	52%	500bp
Customer deposits (1)	**2.4**	2.7	(11%)	2.7	(11%)
Risk-weighted assets					
- Credit risk					
- non-counterparty	**29.2**	33.0	(12%)	45.1	(35%)
- counterparty	**6.5**	7.8	(17%)	11.5	(43%)
- Market risk	**4.0**	4.3	(7%)	5.4	(26%)
- Operational risk	**1.2**	1.2	-	(1.6)	175%
	40.9	46.3	(12%)	60.4	(32%)

Notes:

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

	30 September 2013	30 June 2013	31 December 2012
	£bn	£bn	£bn
Gross customer loans and advances			
Banking and portfolios	**40.0**	45.6	54.5
International businesses	**0.4**	0.8	0.9
	40.4	46.4	55.4
Risk-weighted assets			
Banking and portfolios	**36.7**	41.4	53.3
International businesses	**1.0**	1.4	2.4
Markets	**3.2**	3.5	4.7
	40.9	46.3	60.4
Third party assets (excluding derivatives)			
Banking and portfolios	**34.8**	41.1	51.1
International businesses	**0.4**	0.8	1.2
Markets	**2.1**	3.5	5.1
	37.3	45.4	57.4

Non-Core

Third party assets (excluding derivatives)							
	30 June 2013	Run-off	Disposals/ restructuring	Drawings/ roll overs	Impairments	FX	**30 September 2013**
Quarter ended 30 September 2013	£bn	£bn	£bn	£bn	£bn	£bn	**£bn**
Commercial real estate	18.3	(1.1)	(0.5)	-	(0.5)	(0.2)	**16.0**
Corporate	19.9	(2.0)	(1.0)	0.2	-	(0.6)	**16.5**
SME	0.5	(0.1)	-	-	-	-	**0.4**
Retail	3.0	(0.1)	(0.6)	-	(0.1)	(0.1)	**2.1**
Other	0.2	-	-	-	-	-	**0.2**
Markets	3.5	(0.1)	(1.1)	-	-	(0.2)	**2.1**
Total (excluding derivatives)	45.4	(3.4)	(3.2)	0.2	(0.6)	(1.1)	**37.3**
	31 March 2013	Run-off	Disposals/ restructuring	Drawings/ roll overs	Impairments	FX	30 June 2013
Quarter ended 30 June 2013	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Commercial real estate	20.1	(0.7)	(0.8)	-	(0.4)	0.1	18.3
Corporate	23.9	(3.1)	(0.9)	0.2	-	(0.2)	19.9
SME	0.8	(0.1)	(0.2)	-	-	-	0.5
Retail	3.2	(0.2)	-	-	-	-	3.0
Other	0.3	(0.1)	-	-	-	-	0.2
Markets	4.6	-	(1.1)	-	-	-	3.5
Total (excluding derivatives)	52.9	(4.2)	(3.0)	0.2	(0.4)	(0.1)	45.4
	30 June 2012	Run-off	Disposals/ restructuring	Drawings/ roll overs	Impairments	FX	30 September 2012

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

Note:

(1) Disposals of £0.2 billion have been signed as at 30 September 2013 but are pending completion (30 June 2013 - £0.4 billion; 30 September 2012 - £0.2 billion).

	30 September	30 June	31 December
	2013	2013	2012
Commercial real estate third party assets	**£bn**	£bn	£bn
UK (excluding NI)	**5.6**	6.5	8.9
Ireland (ROI and NI)	**4.7**	5.3	5.8
Spain	**1.2**	1.4	1.4
Rest of Europe	**4.0**	4.4	4.9
USA	**0.5**	0.7	0.9
RoW	**-**	-	0.2
Total (excluding derivatives)	**16.0**	18.3	22.1

Non-Core

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012		**2013**	2012
	£m	£m	£m		**£m**	£m
Impairment losses by donating division						
and sector (1)						
UK Retail						
Personal	**-**	-	1		**(1)**	4
Total UK Retail	**-**	-	1		**(1)**	4
UK Corporate						
Manufacturing and infrastructure	**(3)**	(5)	4		**(6)**	18
Property and construction	**16**	63	2		**139**	80
Transport	**2**	25	-		**36**	14
Financial institutions	**-**	(7)	(13)		**(8)**	(15)
Lombard	**2**	2	11		**4**	33
Other	**9**	6	37		**17**	54
Total UK Corporate	**26**	84	41		**182**	184
Ulster Bank						
Commercial real estate						
- investment	**29**	82	61		**158**	197
- development	**356**	88	93		**599**	355
Other corporate	**12**	16	10		**66**	61
Other EMEA	**1**	3	-		**6**	6
Total Ulster Bank	**398**	189	164		**829**	619
US Retail & Commercial						
Auto and consumer	**15**	15	10		**43**	30
Cards	**-**	-	(1)		**-**	3
SBO/home equity	**14**	19	46		**60**	108
Residential mortgages	**5**	1	10		**8**	17

Commercial real estate	**4**	7	(9)		**10**	(10)
Commercial and other	**1**	-	(8)		**(1)**	(15)
Total US Retail & Commercial	**39**	42	48		**120**	133
International Banking						
Manufacturing and infrastructure	**9**	(49)	(5)		**(43)**	-
Property and construction	**92**	124	205		**301**	527
Transport	**(1)**	(1)	1		**5**	148
Telecoms, media and technology	**1**	1	-		**5**	27
Financial institutions	**(17)**	(20)	(19)		**(47)**	(133)
Other	**33**	30	(13)		**61**	10
Total International Banking	**117**	85	169		**282**	579
Other						
Wealth	**-**	(1)	1		**-**	1
Central items	**1**	(1)	-		**-**	-
Total Other	**1**	(2)	1		**-**	1
Total impairment losses	**581**	398	424		**1,412**	1,520

Note:

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

64

Non-Core

	30 September 2013	30 June 2013	31 December 2012
	£bn	£bn	£bn
Gross loans and advances to customers (excluding reverse repurchase agreements) by donating division and sector			
UK Corporate			
Manufacturing and infrastructure	**-**	-	0.1
Property and construction	**2.2**	2.4	3.6
Transport	**3.5**	3.7	3.8
Financial institutions	**-**	0.1	0.2
Lombard	**0.2**	0.3	0.4
Other	**0.9**	1.4	4.2
Total UK Corporate	**6.8**	7.9	12.3
Ulster Bank			
Commercial real estate			
- investment	**3.4**	3.4	3.4
- development	**7.2**	7.4	7.6
Other corporate	**1.5**	1.6	1.6
Other EMEA	**-**	0.3	0.3
Total Ulster Bank	**12.1**	12.7	12.9
US Retail & Commercial			
Auto and consumer	**0.2**	0.6	0.6
SBO/home equity	**1.7**	1.9	2.0
Residential mortgages	**0.3**	0.4	0.4
Commercial real estate	**0.2**	0.3	0.4
Commercial and other	**0.1**	0.1	0.1
Total US Retail & Commercial	**2.5**	3.3	3.5
International Banking			

Manufacturing and infrastructure	**1.6**	2.1	3.9
Property and construction	**9.2**	10.5	12.3
Transport	**1.6**	1.4	1.7
Telecoms, media and technology	**0.7**	0.8	0.4
Financial institutions	**3.4**	4.3	4.7
Other	**2.4**	3.2	3.7
Total International Banking	**18.9**	22.3	26.7
Other			
Wealth	**0.1**	0.1	-
Central items	**-**	0.1	-
Total Other	**0.1**	0.2	-
Gross loans and advances to customers (excluding reverse repurchase agreements)	**40.4**	46.4	55.4

65

Non-Core

Key points

Non-Core third party assets fell to £37 billion, a reduction of £8 billion, or 18%, during the quarter and an overall reduction to date of £221 billion, or 86%, since the division was set up. This has been achieved through a mixture of disposals, run-off and impairments. As at 30 September 2013, the Non-Core funded balance sheet was c.5% of the Group's funded balance sheet compared with 21% when the division was created.

Q3 2013 compared with Q2 2013

- Third party assets of £37 billion were £8 billion lower, largely reflecting disposals of £3 billion and run-off of £3 billion.
- Risk-weighted assets decreased by £5 billion, driven by disposals and run-off.
- Operating loss of £845 million was £564 million higher, driven by adverse income from trading activities, an increase in impairment losses, a fall in net interest income and higher disposal losses (Q3 2013 - £73 million; Q2 - £11 million).
- Income from trading activities was a loss of £109 million in Q3 2013 compared with a £134 million gain in Q2 2013, reflecting the costs of transactions in Q3 2013.
- Net interest income decreased by £62 million compared with Q2 2013, which included a one-off interest in suspense recovery of interest of £54 million. In addition, Q3 2013 saw a reduction in net interest income of £28 million resulting from a one-off impact on finance leases following the change in the rate of UK corporation tax.
- Headcount declined by 14% to 1,900 reflecting divestment activity and run-off across the business.
- Impairment losses were up £183 million to £581 million. The increase related to Ulster Bank CRE development properties.

Q3 2013 compared with Q3 2012

- Third party assets fell by £28 billion, or 43%, largely reflecting run-off of £16 billion and disposals of £12 billion, which also led to a reduction in risk-weighted assets, down £31 billion.
- Operating loss was £259 million higher, with a reduction in income of £169 million and a £157 million increase in impairment losses, partially offset by a reduction in operating expenses of £67 million.
-

Total income decreased by £169 million, principally driven by a fall in net interest income of £119 million. Disposal losses were £31 million higher, other operating income was £63 million lower (as Q3 2012 included positive fair value adjustments) and rental income was £33 million lower (driven by rundown of Lombard Vehicle Management). These factors were partially offset by a £94 million decrease in trading losses.

- Net interest income was down £122 million predominantly due to a 32% reduction in interest earning assets as a result of disposals and run-off.

- Trading losses were £94 million lower, principally as a result of restructuring and de-risking activities within the Markets portfolio affecting Q3 2012.

- Since Q3 2012, headcount has been reduced by approximately 1,400, or 42%, reflecting divestment activity and run-off across the business. Expenses have fallen by £67 million, driven by a £21 million reduction in staff costs and £26 million reduction in operating lease depreciation, principally due to the rundown of Lombard Vehicle Management.

- Impairment losses were up £157 million to £581 million primarily in the Ulster Bank CRE portfolio, partly offset by reductions in the International Banking portfolio.

Condensed consolidated income statement

for the period ended 30 September 2013

	Quarter ended				Nine months ended	
	30 September 2013	30 June 2013	30 September 2012*		**30 September 2013**	30 September 2012*
	£m	£m	£m		**£m**	£m
Interest receivable	**4,207**	4,281	4,456		**12,767**	14,091
Interest payable	**(1,427)**	(1,514)	(1,647)		**(4,550)**	(5,462)
Net interest income	**2,780**	2,767	2,809		**8,217**	8,629
Fees and commissions receivable	**1,382**	1,392	1,400		**4,090**	4,335
Fees and commissions payable	**(238)**	(250)	(209)		**(698)**	(589)
Income from trading activities	**444**	949	334		**2,508**	1,201
Gain/(loss) on redemption of own debt	**13**	242	(123)		**204**	454
Other operating income/(loss)	**35**	720	(252)		**1,367**	(692)
Non-interest income	**1,636**	3,053	1,150		**7,471**	4,709
Total income	**4,416**	5,820	3,959		**15,688**	13,338
Staff costs	**(1,895)**	(1,840)	(1,987)		**(5,622)**	(6,532)
Premises and equipment	**(544)**	(548)	(550)		**(1,648)**	(1,640)
Other administrative expenses	**(1,103)**	(1,418)	(1,193)		**(3,284)**	(3,087)
Depreciation and amortisation	**(338)**	(349)	(421)		**(1,074)**	(1,304)
Operating expenses	**(3,880)**	(4,155)	(4,151)		**(11,628)**	(12,563)
Profit/(loss) before impairment losses	**536**	1,665	(192)		**4,060**	775
Impairment losses	**(1,170)**	(1,117)	(1,176)		**(3,320)**	(3,825)
Operating (loss)/profit before tax	**(634)**	548	(1,368)		**740**	(3,050)
Tax charge	**(81)**	(328)	(3)		**(759)**	(402)
(Loss)/profit from continuing operations	**(715)**	220	(1,371)		**(19)**	(3,452)

(Loss)/profit from discontinued operations, net of tax						
- Direct Line Group	**-**	-	62		**127**	167
- Other	**(5)**	9	5		**6**	6
(Loss)/profit from discontinued operations,						
net of tax	**(5)**	9	67		**133**	173
(Loss)/profit for the period	**(720)**	229	(1,304)		**114**	(3,279)
Non-controlling interests	**(6)**	14	3		**(123)**	28
Preference share and other dividends	**(102)**	(101)	(104)		**(284)**	(186)
(Loss)/profit attributable to ordinary and						
B shareholders	**(828)**	142	(1,405)		**(293)**	(3,437)
Basic and diluted (loss)/earnings per ordinary and B						
share from continuing operations	**(7.4p)**	1.2p	(13.3p)		**(3.6p)**	(32.8p)
Basic and diluted (loss)/earnings per ordinary and B						
share from continuing and discontinued operations	**(7.4p)**	1.2p	(12.7p)		**(2.6p)**	(31.3p)

* Restated - see page 76.

67

Condensed consolidated statement of comprehensive income

for the period ended 30 September 2013

	Quarter ended				Nine months ended	
	30 September 2013	30 June 2013	30 September 2012*		**30 September 2013**	30 September 2012*
	£m	£m	£m		**£m**	£m
(Loss)/profit for the period	**(720)**	229	(1,304)		**114**	(3,279)
Items that do not qualify for reclassification						
Income tax on items that do not qualify for reclassification	**(163)**	-	(39)		**(163)**	(77)
Items that do qualify for reclassification						
Available-for-sale financial assets	**430**	(1,009)	124		**(303)**	715
Cash flow hedges	**(88)**	(1,502)	437		**(1,624)**	1,132
Currency translation	**(1,211)**	113	(573)		**99**	(1,069)
Income tax on items that do qualify for reclassification	**85**	678	(52)		**811**	(270)
	(784)	(1,720)	(64)		**(1,017)**	508
Other comprehensive (loss)/income after tax	**(947)**	(1,720)	(103)		**(1,180)**	431
Total comprehensive loss for the period	**(1,667)**	(1,491)	(1,407)		**(1,066)**	(2,848)
Total comprehensive loss is attributable to:						
Non-controlling interests	**(13)**	(15)	(6)		**121**	(25)
Preference shareholders	**98**	81	98		**250**	174
Paid-in equity holders	**4**	20	6		**34**	12
Ordinary and B shareholders	**(1,756)**	(1,577)	(1,505)		**(1,471)**	(3,009)
	(1,667)	(1,491)	(1,407)		**(1,066)**	(2,848)

* Restated - see page 76.

Key points

- The net gain relating to available-for-sale financial assets during Q3 2013 consisted of unrealised gains on bank and other financial institution securities. In the nine months ended 30 September 2013, the unrealised gains were more than offset by realised gains on the sale of high quality UK, US, German and Dutch sovereign bonds.

- Cash flow hedging movements during the nine months ended 30 September 2013 reflect the impact of increases in fixed/floating swap rates in the second quarter following statements by central banks indicating future monetary tightening.

- Currency translation losses during Q3 2013 were principally due to the strengthening of Sterling relative to the US Dollar and Euro by 6.5% and 2.3% respectively. In the nine months ended 30 September 2013, the net currency translation gains reflect the weakening of Sterling against the Euro by 2.5%.

- Income tax on items that do not qualify for reclassification relates to accumulated actuarial losses and reflected the reduction in the rate of UK Corporation Tax from 23% to 20%.

Condensed consolidated balance sheet

at 30 September 2013

	30 September 2013	30 June 2013	31 December 2012*
	£m	£m	£m
Assets			
Cash and balances at central banks	**87,066**	89,613	79,290
Net loans and advances to banks	**28,206**	30,241	29,168
Reverse repurchase agreements and stock borrowing	**33,757**	37,540	34,783
Loans and advances to banks	**61,963**	67,781	63,951
Net loans and advances to customers	**406,927**	418,792	430,088
Reverse repurchase agreements and stock borrowing	**62,214**	61,743	70,047
Loans and advances to customers	**469,141**	480,535	500,135
Debt securities	**122,886**	138,202	157,438
Equity shares	**10,363**	11,423	15,232
Settlement balances	**18,099**	17,966	5,741
Derivatives	**323,657**	373,692	441,903
Intangible assets	**13,742**	13,997	13,545
Property, plant and equipment	**8,476**	9,300	9,784
Deferred tax	**3,022**	3,344	3,443
Interests in associated undertakings	**1,852**	2,500	776
Prepayments, accrued income and other assets	**6,734**	6,563	7,044
Assets of disposal groups	**2,435**	1,313	14,013
Total assets	**1,129,436**	1,216,229	1,312,295
Liabilities			
Bank deposits	**38,601**	45,287	57,073
Repurchase agreements and stock lending	**32,748**	34,419	44,332
Deposits by banks	**71,349**	79,706	101,405
Customer deposits	**434,305**	437,097	433,239
Repurchase agreements and stock lending	**72,636**	89,321	88,040
Customer accounts	**506,941**	526,418	521,279
Debt securities in issue	**71,781**	79,721	94,592
Settlement balances	**18,514**	17,207	5,878
Short positions	**31,020**	27,979	27,591
Derivatives	**319,464**	370,047	434,333

Accruals, deferred income and other liabilities	**14,157**	14,376	14,801
Retirement benefit liabilities	**3,597**	3,579	3,884
Deferred tax	**514**	694	1,141
Subordinated liabilities	**23,720**	26,538	26,773
Liabilities of disposal groups	**249**	306	10,170
Total liabilities	**1,061,306**	1,146,571	1,241,847
Equity			
Non-controlling interests	**462**	475	1,770
Owners' equity*			
Called up share capital	**6,697**	6,632	6,582
Reserves	**60,971**	62,551	62,096
Total equity	**68,130**	69,658	70,448
Total liabilities and equity	**1,129,436**	1,216,229	1,312,295
* Owners' equity attributable to:			
Ordinary and B shareholders	**62,376**	63,891	63,386
Other equity owners	**5,292**	5,292	5,292
	67,668	69,183	68,678

* Restated - see page 76.

Average balance sheet

	Quarter ended			Nine months ended	
	30 September	30 June		**30 September**	30 September
	2013	2013		**2013**	2012*
	%	%		**%**	%
Average yields, spreads and margins of the					
banking business					
Gross yield on interest-earning assets of banking business	**3.10**	3.11		**3.10**	3.12
Cost of interest-bearing liabilities of banking business	**(1.40)**	(1.47)		**(1.47)**	(1.54)
Interest spread of banking business	**1.70**	1.64		**1.63**	1.58
Benefit from interest-free funds	**0.35**	0.37		**0.37**	0.33
Net interest margin of banking business	**2.05**	2.01		**2.00**	1.91
Average interest rates					
The Group's base rate	**0.50**	0.50		**0.50**	0.50
London inter-bank three month offered rates					
- Sterling	**0.51**	0.51		**0.51**	0.92
- Eurodollar	**0.26**	0.28		**0.28**	0.47
- Euro	**0.22**	0.21		**0.21**	0.65

* Restated - see page 76.

Average balance sheet

	Quarter ended 30 September 2013			Quarter ended 30 June 2013		
	Average balance	Interest	Rate	Average balance	Interest	Rate
	£m	£m	%	£m	£m	%
Assets						
Loans and advances to banks	**74,222**	**106**	**0.57**	78,277	114	0.58
Loans and advances to customers	**397,115**	**3,829**	**3.83**	402,605	3,809	3.79
Debt securities	**67,411**	**272**	**1.60**	70,493	358	2.04
Interest-earning assets						
- banking business (1)	**538,748**	**4,207**	**3.10**	551,375	4,281	3.11
- trading business (2)	**209,517**			227,401		
Non-interest earning assets	**435,445**			513,307		
Total assets	**1,183,710**			1,292,083		
Liabilities						
Deposits by banks	**21,591**	**95**	**1.75**	24,435	107	1.76
Customer accounts	**330,405**	**692**	**0.83**	333,067	740	0.89
Debt securities in issue	**45,537**	**315**	**2.74**	53,318	345	2.60
Subordinated liabilities	**23,005**	**223**	**3.85**	24,727	225	3.65
Internal funding of trading business	**(17,216)**	**102**	**(2.35)**	(21,078)	97	(1.85)
Interest-bearing liabilities						
- banking business	**403,322**	**1,427**	**1.40**	414,469	1,514	1.47
- trading business (2)	**220,871**			232,873		
Non-interest-bearing liabilities						
- demand deposits	**78,912**			77,593		
- other liabilities	**411,798**			497,227		
Owners' equity	**68,807**			69,921		
Total liabilities and owners' equity	**1,183,710**			1,292,083		

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.

71

Average balance sheet

	Nine months ended 30 September 2013			Nine months ended 30 September 2012*		
	Average balance	Interest	Rate	Average balance	Interest	Rate
	£m	£m	%	£m	£m	%
Assets						
Loans and advances to banks	**74,493**	**328**	**0.59**	75,283	379	0.67
Loans and advances to customers	**403,266**	**11,469**	**3.80**	433,835	12,249	3.77
Debt securities	**72,096**	**970**	**1.80**	93,348	1,463	2.09
Interest-earning assets						
- banking business (1)	**549,855**	**12,767**	**3.10**	602,466	14,091	3.12
- trading business (2)	**224,936**			243,159		
Non-interest earning assets	**492,838**			614,076		
Total assets	**1,267,629**			1,459,701		
Liabilities						
Deposits by banks	**24,786**	**318**	**1.72**	41,010	478	1.56
Customer accounts	**332,025**	**2,269**	**0.91**	327,867	2,645	1.08
Debt securities in issue	**51,325**	**1,013**	**2.64**	90,897	1,619	2.38
Subordinated liabilities	**23,626**	**670**	**3.79**	21,062	611	3.88
Internal funding of trading business	**(17,912)**	**280**	**(2.09)**	(7,986)	109	(1.82)
Interest-bearing liabilities						
- banking business	**413,850**	**4,550**	**1.47**	472,850	5,462	1.54
- trading business (2)	**231,349**			253,299		
Non-interest-bearing liabilities						
- demand deposits	**77,525**			74,106		
- other liabilities	**475,400**			585,020		
Owners' equity	**69,505**			74,426		
Total liabilities and owners' equity	**1,267,629**			1,459,701		

* Restated - see page 76.

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 period ended 30 September 2013

	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012*		**2013**	2012*
	£m	£m	£m		**£m**	£m
Called-up share capital						
At beginning of period	**6,632**	6,619	6,528		**6,582**	15,318
Ordinary shares issued	**65**	13	53		**115**	196
Share capital sub-division and consolidation	**-**	-	-		**-**	(8,933)
At end of period	**6,697**	6,632	6,581		**6,697**	6,581
Paid-in equity						
At beginning and end of period	**979**	979	979		**979**	979
Share premium account						
At beginning of period	**24,483**	24,455	24,198		**24,361**	24,001
Ordinary shares issued	**145**	28	70		**267**	267
At end of period	**24,628**	24,483	24,268		**24,628**	24,268
Merger reserve						
At beginning and end of period	**13,222**	13,222	13,222		**13,222**	13,222
Available-for-sale reserve (1)						
At beginning of period	**(714)**	(10)	(450)		**(346)**	(957)
Unrealised gains/(losses)	**592**	(568)	651		**606**	1,803
Realised gains	**(164)**	(441)	(528)		**(769)**	(1,110)
Tax	**34**	305	36		**367**	(27)
Recycled to profit or loss on disposal of businesses (2)	**-**	-	-		**(110)**	-
At end of period	**(252)**	(714)	(291)		**(252)**	(291)
Cash flow hedging reserve						
At beginning of period	**491**	1,635	1,399		**1,666**	879

Amount recognised in equity	**163**	(1,118)	713		**(696)**	1,931
Amount transferred from equity to earnings	**(251)**	(384)	(276)		**(928)**	(799)
Tax	**44**	358	(90)		**405**	(265)
At end of period	**447**	491	1,746		**447**	1,746
Foreign exchange reserve						
At beginning of period	**5,201**	5,072	4,314		**3,908**	4,775
Retranslation of net assets	**(1,338)**	44	(637)		**92**	(1,203)
Foreign currency gains on hedges of net assets	**148**	70	68		**17**	156
Tax	**7**	15	2		**4**	22
Recycled to profit or loss on disposal of businesses	**-**	-	-		**(3)**	(3)
At end of period	**4,018**	5,201	3,747		**4,018**	3,747
Capital redemption reserve						
At beginning of period	**9,131**	9,131	9,131		**9,131**	198
Share capital sub-division and consolidation	**-**	-	-		**-**	8,933
At end of period	**9,131**	9,131	9,131		**9,131**	9,131
Contingent capital reserve						
At beginning and end of period	**(1,208)**	(1,208)	(1,208)		**(1,208)**	(1,208)

* Restated - see page 76.

Notes:

(1) Analysis provided on page 86.
(2) Net of tax - £35 million charge.
(3) Net of tax - £1 million charge.

Condensed consolidated statement of changes in equity

for the period ended 30 September 2013

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012*	**30 September 2013**	30 September 2012*
	£m	£m	£m	**£m**	£m
Retained earnings					
At beginning of period	**11,105**	10,949	16,615	**10,596**	18,929
(Loss)/profit attributable to ordinary and B					
shareholders and other equity owners					
- continuing operations	**(723)**	241	(1,364)	**(116)**	(3,416)
- discontinued operations	**(3)**	2	63	**107**	165
Equity preference dividends paid	**(98)**	(81)	(98)	**(250)**	(174)
Paid-in equity dividends paid, net of tax	**(4)**	(20)	(6)	**(34)**	(12)
Actuarial losses recognised in retirement benefit schemes					
- tax	**(163)**	-	(39)	**(163)**	(77)
Loss on disposal of own shares held	**-**	(18)	-	**(18)**	(196)
Shares released for employee benefits	**-**	(1)	(1)	**(1)**	(130)
Share-based payments					
- gross	**26**	33	44	**22**	136
- tax	**4**	-	2	**1**	(9)
At end of period	**10,144**	11,105	15,216	**10,144**	15,216
Own shares held					
At beginning of period	**(139)**	(211)	(206)	**(213)**	(769)
Disposal/(purchase) of own shares	**1**	71	(2)	**74**	447
Shares released for employee benefits	**-**	1	1	**1**	115
At end of period	**(138)**	(139)	(207)	**(138)**	(207)
Owners' equity at end of period	**67,668**	69,183	73,184	**67,668**	73,184
Non-controlling interests					
At beginning of period	**475**	532	652	**1,770**	686
Currency translation adjustments and other movements	**(21)**	(1)	(4)	**(7)**	(19)

Profit/(loss) attributable to non-controlling interests						
- continuing operations	**8**	(21)	(7)		**97**	(36)
- discontinued operations	**(2)**	7	4		**26**	8
Movements in available-for-sale securities						
- unrealised gains	**2**	-	3		**11**	4
- realised (gains)/losses	**-**	-	(2)		**-**	18
- tax	**-**	-	-		**(1)**	-
- recycled to profit or loss on disposal of business (3)	**-**	-	-		**(5)**	-
Equity raised	**-**	-	-		**-**	1
Equity withdrawn and disposals	**-**	(42)	-		**(1,429)**	(16)
At end of period	**462**	475	646		**462**	646
Total equity at end of period	**68,130**	69,658	73,830		**68,130**	73,830
Total comprehensive income/(loss) recognised						
in the statement of changes in equity is						
attributable to:						
Non-controlling interests	**(13)**	(15)	(6)		**121**	(25)
Preference shareholders	**98**	81	98		**250**	174
Paid-in equity holders	**4**	20	6		**34**	12
Ordinary and B shareholders	**(1,756)**	(1,577)	(1,505)		**(1,471)**	(3,009)
	(1,667)	(1,491)	(1,407)		**(1,066)**	(2,848)

* Restated - see page 76.

For the notes to this table refer to page 73.

74

Notes

1. Basis of preparation

The Group's condensed consolidated financial statements should be read in conjunction with the Group's 2012 annual report on Form 20-F which were 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).

In accordance with IFRS 5, Direct Line Group was classified as a discontinued operation in 2012, and prior periods represented.

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 Form 6-K for the period ended 30 September 2013 has been prepared on a going concern basis.

2. Accounting policies

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 27 'Separate Financial Statements' comprises those parts of the existing IAS 27 that deal with separate financial statements. 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 12 ‘Disclosure of Interests in Other Entities’ mandates the disclosures in annual financial statements in respect of investments in subsidiaries, joint arrangements, associates and structured entities that are not controlled by the Group.

IFRS 13 ‘Fair Value Measurement’ sets out a single IFRS framework for defining and measuring fair value. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also requires disclosures about fair value measurements.

‘Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7)’ amended IFRS 7 to require disclosures about the effects and potential effects on an entity’s financial position of offsetting financial assets and financial liabilities and related arrangements.

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.

Notes

2. Accounting policies (continued)

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; interest cost to be calculated on the net pension liability or asset at the long-term bond rate, such that 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 of £21 million for the quarter ended 30 September 2012 and £63 million for the nine months ended 30 September 2012. Prior periods have been restated accordingly.

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 was a reduction in Non-controlling interests of £0.5 billion with a corresponding increase in Owners' equity (Paid-in equity) as at 30 September 2012. This resulted in an increase in the loss attributable to non-controlling interests of £6 million for the quarter ended 30 September 2012 and £12 million for the nine months ended 30 September 2012, with corresponding increases in the profit attributable to paid-in equity holders. There was no impact on the profit/(loss) attributable to ordinary and B shareholders. Prior periods have been restated accordingly.

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.

Recent developments in IFRS

The IASB published:

in May 2013 IFRIC 21 ‘Levies’. This interpretation provides guidance on accounting for the liability to pay a government imposed levy. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014.

in May 2013 ‘Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)’. These amendments align IAS 36’s disclosure requirements about recoverable amounts with IASB’s original intentions. They are effective for annual periods beginning on or after 1 January 2014.

in June 2013 ‘Novation of Derivatives and Continuation of Hedge Accounting (Amendments to IAS 39)’. These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. They are effective for annual periods beginning on or after 1 January 2014.

The Group is reviewing these requirements to determine their effect, if any, on its financial reporting.

Notes

3. Analysis of income, expenses and impairment losses						
	Quarter ended				Nine months ended	
	30 September	30 June	30 September		**30 September**	30 September
	2013	2013	2012*		**2013**	2012*
	£m	£m	£m		**£m**	£m
Loans and advances to customers	**3,829**	3,809				