

ROYAL BANK OF SCOTLAND GROUP PLC  
Form 6-K  
May 11, 2012

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

11 May 2012

The Royal Bank of Scotland Group plc

Gogarburn  
PO Box 1000  
Edinburgh EH12 1HQ  
Scotland  
United Kingdom

(Address of principal executive offices)

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

Form 20-F  X

Form 40-F

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

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

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

Yes

No  X

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

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(File Nos. 333-162219 and 333-162219-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

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Appendix 1 Businesses outlined for disposal

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Forward-looking statements

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

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

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

limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

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

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

Presentation of information

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RBS Holdings N.V. (formerly ABN AMRO Holding N.V.)

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

On 6 February 2010, the businesses of ABN AMRO Holding N.V. acquired by the Dutch State were legally demerged to a newly established company, ABN AMRO Bank N.V., which on 1 April 2010 was transferred to ABN AMRO Group N.V., itself owned by the Dutch State. Following legal separation, RBS Holdings N.V. (formerly ABN AMRO Holding N.V.) has one operating subsidiary, The Royal Bank of Scotland N.V. (“RBS N.V.”), a fully operational bank within the Group. RBS N.V. is independently rated and regulated by the Dutch Central Bank. Certain assets within RBS N.V. continue to be shared by the Consortium Members.

On 19 April 2011, the Group announced the proposed transfers of a substantial part of the business activities of RBS N.V. to the Royal Bank. Subject to, among other matters, regulatory and other approvals and procedures, it is expected that the transfers will be implemented on a phased basis over a period ending 31 December 2013. A large part of the transfers is expected to have taken place by the end of 2012.

On 17 October 2011, the Group completed the transfer of a substantial part of the UK activities of RBS N.V. to the Royal Bank pursuant to Part VII of the UK Financial Services and Markets Act 2000.

Approximately 98% of the issued share capital of RFS Holdings B.V. is held by the Group.

Non-GAAP financial information

The directors manage the Group’s performance by class of business, before certain reconciling items, as is presented in the segmental analysis on pages 83 to 85 (the “managed basis”). Discussion of the Group’s performance focuses on the managed basis as the Group believes that such measures allow a more meaningful analysis of the Group’s financial condition and the results of its operations. These measures are non-GAAP financial measures. A body of generally accepted accounting principles such as IFRS is commonly referred to as ‘GAAP’. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Reconciliations of these non-GAAP measures are presented throughout this document or in the segmental analysis on pages 83 to 85. These non-GAAP financial measures are not a substitute for GAAP measures. Furthermore, RBS has divided its operations into “Core” and “Non- Core”. Certain measures disclosed in this document for Core operations and used by RBS management are non- GAAP financial measures as they represent a combination of all reportable segments with the exception of Non-Core. In addition, RBS has further divided parts of the Core business into “Retail & Commercial” consisting of the UK Retail, UK Corporate, Wealth, International Banking, Ulster Bank and US Retail & Commercial divisions. This is a non GAAP financial measure. Lastly, the Basel III net stable funding ratio (see page 103) represents a non-GAAP financial measure given it is a metric that is not yet required to be disclosed by a government, governmental authority or self-regulatory organisation.



Presentation of information (continued)

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Disposal groups

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', in Q4 2011 the Group transferred the assets and liabilities relating to the planned disposal of its RBS England and Wales, and NatWest Scotland branch-based businesses, along with certain SME and corporate activities across the UK ('UK branch-based businesses'), to assets and liabilities of disposal groups.

Restatements

Organisational change

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

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

Revised allocation of Group Treasury costs

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

Revised divisional return on equity ratios

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

Fair Value of own Debt and Derivative Liabilities

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

Comparatives have been restated accordingly.

Condensed consolidated income statement  
for the quarter ended 31 March 2012

|  | Quarter ended          |                           |                        |
|--|------------------------|---------------------------|------------------------|
|  | 31 March<br>2012<br>£m | 31 December<br>2011<br>£m | 31 March<br>2011<br>£m |
| Interest receivable  | 5,017                  | 5,234                     | 5,401                  |
| Interest payable   | (2,018)                | (2,160)                   | (2,100)                |
| Net interest income  | 2,999                  | 3,074                     | 3,301                  |
| Fees and commissions receivable                                  | 1,487                  | 1,590                     | 1,642                  |
| Fees and commissions payable                                     | (290)                  | (573)                     | (260)                  |
| Income from trading activities                                   | 212                    | (238)                     | 835                    |
| Gain/(loss) on redemption of own debt                            | 577                    | (1)                       | -                      |
| Other operating income (excluding insurance net premium income)  | (747)                  | 205                       | 391                    |
| Insurance net premium income                                     | 938                    | 981                       | 1,149                  |
| Non-interest income  | 2,177                  | 1,964                     | 3,757                  |
| Total income   | 5,176                  | 5,038                     | 7,058                  |
| Staff costs  | (2,570)                | (1,993)                   | (2,399)                |
| Premises and equipment   | (563)                  | (674)                     | (571)                  |
| Other administrative expenses                                    | (1,016)                | (1,296)                   | (921)                  |
| Depreciation and amortisation                                    | (468)                  | (513)                     | (424)                  |
| Write-down of goodwill and other intangible assets               | -                      | (91)                      | -                      |
| Operating expenses   | (4,617)                | (4,567)                   | (4,315)                |
| Profit before insurance net claims and impairment losses         | 559                    | 471                       | 2,743                  |
| Insurance net claims   | (649)                  | (529)                     | (912)                  |
| Impairment losses  | (1,314)                | (1,918)                   | (1,947)                |
| Operating loss before tax  | (1,404)                | (1,976)                   | (116)                  |
| Tax (charge)/credit  | (139)                  | 186                       | (423)                  |
| Loss from continuing operations                                  | (1,543)                | (1,790)                   | (539)                  |
| Profit from discontinued operations, net of tax                  | 5                      | 10                        | 10                     |
| Loss for the period  | (1,538)                | (1,780)                   | (529)                  |
| Non-controlling interests  | 14                     | (18)                      | 1                      |
| Loss attributable to ordinary and B shareholders                 | (1,524)                | (1,798)                   | (528)                  |
| Basic loss per ordinary and B share from continuing operations   | (1.4p)                 | (1.7p)                    | (0.5p)                 |
| Diluted loss per ordinary and B share from continuing operations | (1.4p)                 | (1.7p)                    | (0.5p)                 |

|  |   |   |   |
|--|---|---|---|
| Basic loss per ordinary and B share from discontinued operations   | - | - | - |
| Diluted loss per ordinary and B share from discontinued operations | - | - | - |

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Comment

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Stephen Hester, Group Chief Executive, commented:

The start of 2012 has shown pleasing progress at RBS within the context of a flat economic environment.

RBS has two jobs. Excellent progress continues in removing “mistakes” of the past. Non-Core assets have fallen, again. Liquidity is stronger, again. This week the bank will repay the last of the UK Government-backed funding support we received during the crisis. We will also recommence paying dividends/coupons on hybrid capital. These are important recovery milestones.

Our second job is running the new RBS well and better. Here the bank also shows continued progress, though held back by economic conditions. In January we announced a restructuring in our wholesale banking activities and this is proceeding well. The Markets business rebounded to a 21% ROE in the seasonally strong Q1 whilst allocated resources were reduced. Retail and Commercial businesses remain solid - still impacted by subdued income trends and Irish losses, but cash-generative and competitively robust.

Extensive restructuring activity continues apace across the Group to achieve future improvement. Customer service and support remain at the forefront of our priorities for the tens of millions who rely on us.

## Highlights

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### First quarter 2012 results summary

RBS made further progress towards its strategic goals during Q1 2012. The Group has continued to deleverage and de-risk its balance sheet, with Non-Core funded assets falling by £11 billion to £83 billion and Markets funded assets falling by £13 billion.

With growth prospects muted in the major economies in which the Group operates, and with fragilities persisting in European financial markets, the focus has remained on improving balance sheet strength and a strong liquidity position. RBS has prioritised stable sources of deposit funding, with the Group loan:deposit ratio improving 200 basis points to 106% at the end of Q1 2012. Utilisation of short-term wholesale funding was cut by £23 billion during the quarter to £80 billion, which represents c.8% of funded assets and more than meets the Group's medium-term target. The Group will this week repay the final tranche of notes issued under the Government's CGS; over the last three years RBS will have repaid £75 billion of funding under the CGS and the Special Liquidity Scheme. The capital position remains robust, with a Core Tier 1 ratio of 10.8% and a Tier 1 leverage ratio of 16.3x.

### Operating profit

Group operating loss was £1,404 million, compared with a loss of £1,976 million in Q4 2011. On a managed basis, Group operating profit in Q1 2012 totalled £1,184 million, compared with a loss of £144 million in the previous quarter and a profit of £1,133 million in Q1 2011. Income was up 3% to £5,176 million, expenses rose 1% to £4,617 million and impairments fell by 31% to £1,314 million. On a managed basis income was up 25% to £7,131 million, while expenses rose 9% to £3,984 million, and impairments fell by 22% to £1,314 million. Core operating profits were £1,667 million, up 46% from Q4 2011, while Non-Core operating losses fell to £483 million (Q4 2011 - £1,282 million).

The improvement in Core results was driven by Markets, where operating profits rose to £824 million from a loss of £109 million in Q4 2011. Retail & Commercial operating performance remained resilient in challenging economic conditions, with overall operating profit of £903 million (Q4 2011 - £1,033 million) which includes a £77 million sequential quarter decline in Ulster Bank due to higher impairments.

- UK Retail operating profit was up 4% at £477 million. While the low interest rate environment creates some income challenges, this has been more than offset by favourable impairment trends.
- UK Corporate delivered stable pre-impairment profits and a strong improvement in operating profit to £492 million, in the absence of any large impairments as were incurred in Q4 2011.
- Wealth operating profit totalled £45 million. Adjusting for the release of deposit insurance levies in Q4 2011 and for a regulatory fine in Q1 2012, profits were broadly stable.
- Ulster Bank still faces exceedingly difficult market conditions, with operating losses of £310 million driven by the continuing deterioration in retail mortgage credit metrics.
- US Retail & Commercial operating profits rose again on an underlying basis. However they fell 42% to £102 million (\$160 million), due to the impact of a litigation settlement of £88 million (\$138 million).



Highlights (continued)

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First quarter 2012 results summary (continued)

- International Banking delivered good income from its cash management and trade finance businesses, offset by reduced revenue from outstanding loans, reflecting the Group's focused reduction of capital-intensive activities.
- The restructured Markets division benefited from improved market conditions in the first quarter, with a strong performance in rates and a recovery in credit markets and asset backed products. Operating profit totalled £824 million, compared with a loss of £109 million in Q4 2011.
- Direct Line Group's operating profit of £84 million was down 33% from Q4 2011, largely reflecting seasonal weather claims, but up 25% relative to Q1 2011.

Non-Core achieved a significant reduction in operating losses, largely reflecting lower trading losses than those incurred in the restructure and divestment of a number of capital-intensive exposures during Q4 2011. Impairment losses were 35% lower, primarily reflecting lower commercial real estate provisioning.

Non-operating items

Restructuring costs were £460 million during the quarter, slightly lower than in Q4. This includes c.£271 million relating to the Markets and International Banking restructuring. This cost was offset by a gain of £577 million from a liability management exercise whereby the Group exchanged £2.8 billion of new Lower Tier 2 (LT2) instruments for £3.4 billion of existing LT2 instruments during March. A charge of £43 million was booked in respect of the APS, which is accounted for as a credit derivative. A total of £2.5 billion has now been expensed for the APS, which equals the minimum fee payable. The Group took an additional reserve of £125 million for PPI claims during Q1 and has now accrued £1.2 billion for PPI claims, through new and pre-existing reserves, of which £501 million has been paid out as of 31 March 2012.

As RBS's credit spreads tightened during the quarter, a charge of £2,456 million was booked for own credit adjustments, compared with a charge of £472 million in Q4 2011.

After these non-operating items the Group's operating loss before tax totalled £1,404 million and loss attributable to shareholders was £1,524 million. Excluding own credit adjustments, operating profit before tax was £1,052 million.

Efficiency

Group expenses were up 1% from Q4 2011 driven by the variability of staff expense accruals tied to increased revenues in Markets and PPI costs of £125 million, and up 7% compared with Q1 2011 primarily due to bank levy charges of £300 million in Q4 2011. On a managed basis, Core expenses were up 12% from Q4 2011, but down 2% compared with Q1 2011. This largely reflects the variability of staff expense accruals, as accruals of deferred compensation are more heavily weighted to the first quarter. Markets' compensation to revenue ratio was 29%, compared with 33% in Q1 2011. Non-Core expenses, meanwhile, were down 16%, leaving Group expenses on a managed basis in Q1 2012 at £3,984 million, up 9% from Q4 2011 but down 3% from Q1 2011.

Highlights (continued)

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First quarter 2012 results summary (continued)

The Core Group's cost:income ratio in Q1 2012 was 60%, compared with 62% in Q4 2011 and 55% in Q1 2011. The improvement compared to Q4 2011 was driven by the improved income performance in Markets, while Retail & Commercial's cost:income ratio weakened to 60%, compared with 56% in Q4 2011.

Risk

Impairment losses totalled £1,314 million, down 22% from Q4 2011 and 33% from Q1 2011, with improvements across all divisions except Ulster Bank. UK Retail and US R&C showed continuing favourable credit quality trends. UK Corporate impairments were lower than in Q4 2011, with fewer individual impairment charges. Credit conditions in Ireland, however, remain challenging, and this was reflected both in Core Ulster Bank impairments and in Non-Core, which combined totalled £654 million in Q1 2012 compared with £570 million in Q4 2011 and £1,294 million in Q1 2011.

Overall, Core Q1 2012 annualised impairments represented 0.8% of loans and advances, compared with 0.9% in Q4 2011. For the Group as a whole, annualised impairments represented 1.1% of loans and advances, down from 1.3% in Q4 2011 and 1.5% in Q1 2011.

Balance sheet

The Group's funded balance sheet decreased by a further £27 billion in Q1 to £950 billion at 31 March 2012. Non-Core continued to exceed its run-off targets, as funded assets decreased £11 billion to £83 billion and a further £5 billion of signed transactions are pending, principally the sale of the Group's aviation finance business which is expected to complete by the end of Q3 2012. Markets reduced funded assets by £13 billion, reflecting the Group's decision to exit certain businesses and reduce balance sheet consumption in a number of other capital-intensive areas.

Since the end of 2008 the Group has reduced its funded balance sheet by £276 billion.

Liquidity and funding

Since embarking on its Strategic Plan in 2009 RBS has targeted a more stable deposit-led funding position with reduced dependence on wholesale funding sources. During Q1 2012, the Group has achieved significant progress towards this objective.

One key measure, the Group loan:deposit ratio, improved 200 basis points to 106% at the end of Q1 2012. This was driven by the continuing run-off of Non-Core and accelerated deleveraging in International Banking. The Core loan:deposit ratio improved further, by 1%, to 93%. UK Retail customer deposits grew strongly, up £2.3 billion in Q1 2012 and up 8% from Q1 2011, while Corporate deposits were stable year-on-year.

Another key focus has been to lower the amount of short-term wholesale funding while increasing the amount of liquidity coverage. During Q1 2012, short-term wholesale funding decreased by £23 billion to £80 billion. This represents c.8% of funded assets, and is already within the Group's medium-term target for short-term wholesale funding of less than 10%. Liquidity reserves were £153 billion, or 1.9 times the short-term wholesale funding, also above the Group's medium-term target of 150% coverage.





Highlights (continued)

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First quarter 2012 results summary (continued)

Funding sources have been diversified, with usage of Moody's rated US money market funds reduced from 15% of unsecured short-term funding to less than 3%. The liquidity portfolio was maintained above target levels at £153 billion, which covers outstanding commercial paper and certificates of deposit five times over.

Net term issuance during the quarter totalled £2.3 billion. In addition, the Group issued £2.8 billion of lower tier 2 securities as part of a liability management exercise. The Group plans no further unsecured term issuance over the balance of the year.

The final tranche of notes issued under the Government's Credit Guarantee Scheme will be repaid next week; as a result the Group will have repaid a total of £75 billion of funding under the CGS and the Special Liquidity Scheme.

Capital

The Group's capital position remains robust, with a Core Tier 1 ratio of 10.8% at 31 March 2012, compared with 10.6% at 31 December 2011. The increase reflects retained profits, net of changes in fair value of debt, as well as a reduction in RWAs of £12 billion in the quarter to £496 billion, excluding the effect of the APS. The Core Tier 1 benefit arising from the APS was 85bp. RBS's Tier 1 leverage ratio was 16.3x at 31 March 2012.

Highlights (continued)

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First quarter 2012 results summary (continued)

Preference dividends

On 26 November 2009, RBS entered into a State Aid Commitment Deed with HM Treasury containing commitments and undertakings that were designed to ensure that HM Treasury was able to comply with the commitments to be given by it to the European Commission for the purposes of obtaining approval for the State aid provided to RBS. As part of these commitments and undertakings, RBS agreed not to pay discretionary coupons and dividends on its existing hybrid capital instruments for a period of two years. This period commenced on 30 April 2010 for RBS Group instruments (the two year deferral period for RBS Holdings N.V. instruments commenced on 1 April 2011). On 30 April 2012 this period ended for RBS Group instruments. RBS has determined that it is now in a position to recommence payments on the RBS Group instruments.

The Core Tier 1 capital impact of discretionary amounts that will be payable over the remainder of 2012 on the RBS Group instruments on which payments have previously been stopped is c.£350 million. In the context of recent macro-prudential policy discussions, the Board of RBS has decided to neutralise any impact on Core Tier 1 capital through equity issuance. Approximately £250 million of this is ascribed to equity funding of employee incentive awards through the sale of surplus shares held by the Group's Employee Benefit Trust, which is now substantially complete. An additional c.£100 million will be raised through the issue of new ordinary shares, which is expected to take place over time during the second half of 2012.

The Directors have declared the discretionary dividends on Series M, N, P, Q, R, S, and T non-cumulative dollar preference shares of US\$0.01 each for the three months to 30 June 2012, and the discretionary dividend on the Series 2 non-cumulative Euro preference shares of €0.01 for the 12 months to 30 June 2012. These discretionary dividends as well as the discretionary distributions on the RBSG/RBS innovative securities RBS Capital Trust A, RBS Capital Trust B, RBS Capital Trust D, RBS Capital Trust I, RBS Capital Trust II and RBS Capital Trust IV will be paid on their scheduled payment dates in June 2012. Future coupons and dividends on RBS Group hybrid capital instruments will only be paid subject to, and in accordance with, the terms of the relevant instruments.

Share consolidation

The Group's Annual General Meeting on 30 May 2012 will consider resolutions which, if approved, will sub-divide and consolidate the Group's ordinary shares. As the Group currently has a very large number of ordinary shares in issue, a small movement in the share price can result in large percentage movements and considerable volatility in the Group's shares. The Board believes that the sub-division and consolidation will result in a share price and nominal value more appropriate for a company of the Group's size in the UK market and may assist in reducing volatility, thereby enabling a more consistent valuation.

Highlights (continued)

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First quarter 2012 results summary (continued)

Disposals

The Group continues to target the second half of 2012 for the sale of the first tranche in Direct Line Group through a public flotation, subject to market conditions. Preparations for Direct Line Group's separation have continued, with good progress on the business's new name and identity and the appointment of Mike Biggs as chairman.

Planning and integration work for the carve out and sale to Santander of the RBS England and Wales and NatWest Scotland branch-based businesses, along with certain SME and corporate activities across the UK, continues to progress as expected.

These two disposals will substantially complete the series of divestments the Group agreed to make to comply with EC state aid requirements.

Customer franchises

RBS's first priority is to serve its customers well. Full year 2011 results of both UK Retail and Ulster Bank's customer charters were published in Q1 2012, with UK Retail achieving 23 of the 25 goals and Ulster Bank achieving 28 of their 29 objectives. Further improvements are still needed in service and in resolving complaints fairly, consistently and promptly.

US Retail & Commercial completed the rollout of its core customer commitments during the quarter.

Following the success of mobile applications launched in a number of the Group's retail businesses during 2011, UK Corporate launched a new iPhone application for business banking customers during Q1 2012. The application allows customers to manage multiple accounts without the need to log in and out, view an extended transaction list and make intra-account transfers.

UK lending

RBS continues to support economic recovery in the UK and remains committed to providing the credit UK businesses need in order to achieve this.

In Q1 2012, RBS provided £14.3 billion of gross new loans and facilities to UK businesses, of which £7.9 billion was to SME customers, and £6.4 billion of overdraft renewals, including £1.5 billion to SME customers. Gross new loans and facilities to SMEs were up 18% from Q1 2011 and broadly flat to Q4 2011.

SME customers remained cautious in their economic outlook at the start of 2012 but Q1 2012 did indicate a small improvement in sentiment with Core drawn balances, excluding real estate and construction, falling only 1% from Q4 2011. This compares with a 5% quarterly fall into Q4 2011. Overdraft utilisation also increased marginally in the quarter, although largely reflecting seasonal fluctuations. Overall, utilisation remained below 50% as it has for over two years. The Group has seen a steady increase in the demand for invoice and asset financing by SME customers, with Core net advances from these sources a significant component of gross lending and up 6% year-on-year.



Highlights (continued)

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First quarter 2012 results summary (continued)

Gross new loans and facilities provided to mid and large corporates fell quarter on quarter, and compared with Q1 2011, reflecting many businesses' decision to bring re-financing forward into 2011 and also the continuing low level of merger & acquisition activity in the market.

The UK Government's National Loan Guarantee Scheme (NLGS) was launched in March, with support from a number of the UK's leading banks, including RBS. RBS is the only bank to offer the 1% pricing discount to customers for loans from £1,000 in value, thus ensuring that we use NLGS to support as wide a range of customers as possible. Six weeks after launch, the Group has provided 1,600 loans and asset finance facilities under the scheme, with two thirds of these being for amounts under £25,000.

The Group also participates in the Regional Growth Fund, Business Growth Fund and the Enterprise Finance Guarantee for UK businesses. It also offers mortgages under the NewBuy scheme announced at the start of March 2012 which provide first time buyers, and other movers unable to raise a large deposit, with a more affordable way to move onto, or up, the property ladder.

Gross new mortgage lending in Q1 2012 was £4.0 billion, with the proportion of mortgages provided to first time buyers increasing to almost a quarter during March 2012, largely reflecting higher demand prior to the end of the stamp duty holiday.

Outlook

Economic and regulatory challenges should continue throughout 2012.

Against this backdrop, we nonetheless expect Retail and Commercial performance to remain resilient.

Markets, while off to a good start, will remain market-dependent.

Group net interest margin outlook is stable with the first quarter of 2012.

We expect to achieve further progress in our balance sheet 'safety and soundness' agenda. Non-Core is on track to hit asset targets within our loss tolerance, and funding and liquidity momentum should continue.

## Analysis of results

|                                 | Quarter ended    |                        |
|---------------------------------|------------------|------------------------|
|                                 | 31 March<br>2012 | 31<br>December<br>2011 |
|                                 | £m               | £m                     |
| Net interest income             |                  |                        |
| Net interest income             | 2,999            | 3,074                  |
| Average interest-earning assets | 640,658          | 663,519                |
| Net interest margin             |                  |                        |
| - Group                         | 1.88%            | 1.84%                  |
| - Retail & Commercial (1)       | 2.91%            | 2.90%                  |
| - Non-Core                      | 0.31%            | 0.42%                  |

## Notes:

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

## Key points

## Q1 2012 compared with Q4 2011

- Group net interest income decreased by £75 million, primarily reflecting the deleveraging of the Group's balance sheet. Core was down £38 million, Non-Core £35 million.
- Retail & Commercial net interest margin (NIM) was 1 basis point higher, driven by modest widening of asset margins, partially mitigated by continuing pressure on deposit margins in the Core UK franchises.
- Group NIM increased 4 basis points benefiting from lower funding and liquidity costs, as the expensive Credit Guarantee Scheme funding was repaid, and the run-off of the lower spread Non-Core book continued.

## Analysis of results (continued)

|   | Quarter ended    |                  |                  |
|---|------------------|------------------|------------------|
|   | 31 March<br>2012 | December<br>2011 | 31 March<br>2011 |
|   | £m               | £m               | £m               |
| Non-interest income   |                  |                  |                  |
| Fees and commissions receivable   | 1,487            | 1,590            | 1,642            |
| Fees and commissions payable  | (290)            | (573)            | (260)            |
| Net fees and commissions  | 1,197            | 1,017            | 1,382            |
| Income from trading activities  |                  |                  |                  |
| - managed basis   | 1,264            | 242              | 1,570            |
| - Asset Protection Scheme   | (43)             | (209)            | (469)            |
| - Own credit adjustments*   | (1,009)          | (272)            | (266)            |
| - RFS Holdings minority interest  | -                | 1                | -                |
|   | 212              | (238)            | 835              |
| Gain/(loss) on redemption of own debt                                     | 577              | (1)              | -                |
| Other operating (loss)/ income (excluding insurance net premium income)   |                  |                  |                  |
| - managed basis   | 725              | 405              | 710              |
| - strategic disposals**   | (8)              | (2)              | (23)             |
| - Own credit adjustments*   | (1,447)          | (200)            | (294)            |
| - Intergration and restructuring costs                                    | -                | -                | (4)              |
| - RFS Holdings minority interest  | (17)             | 2                | 2                |
|   | (747)            | 205              | 391              |
| Insurance net premium income  | 938              | 981              | 1,149            |
| Total non-interest income   | 2,177            | 1,964            | 3,757            |
| * Own credit adjustments impact:  |                  |                  |                  |
| Income from trading activities  | (1,009)          | (272)            | (266)            |
| Other operating income  | (1,447)          | (200)            | (294)            |
| Own credit adjustments  | (2,456)          | (472)            | (560)            |
| **Strategic disposals   |                  |                  |                  |
| (Loss)/gain on sale and provision for loss on disposal of investments in: |                  |                  |                  |
| - Global Merchant Services  | -                | -                | 47               |
| - Goodwill relating to UK branch-based businesses                         | -                | (80)             | -                |
| - Other   | (8)              | (2)              | (70)             |
|   | (8)              | (82)             | (23)             |

## Key points

## Q1 2012 compared with Q4 2011

- Non-interest income increased by £213 million, 11%, primarily reflecting a strong seasonal bounce in trading income in Markets, a gain on redemption of own debt of £577 million, offset by own credit adjustments of £2,456 million.



- A charge of £43 million was taken in relation to the APS. The cumulative charge on APS now totals £2.5 billion, equal to the minimum fee payable. The Group plans to exit the APS, subject to the approval of the FSA, in the fourth quarter of 2012.
- Significant tightening of the Group's credit spreads resulted in a charge of £2,456 million in relation to own credit adjustments, compared with a charge of £472 million in Q4 2011.
- The Group recorded a gain of £577 million on the redemption of its own debt, following a liability management exercise as the Group exchanged £2.8 billion of new lower tier 2 (LT2) instruments for £3.4 billion of existing LT2 instruments.

Analysis of results (continued)

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Key points (continued)

Q1 2012 compared with Q4 2011 (continued)

- Non-Core non-interest income increased, with gains on disposals of £182 million compared with prior period losses of £36 million, along with lower fair-value write-downs.

Q1 2012 compared with Q1 2011

- Non-interest income was 42% lower, largely as a result of decreased trading income in Markets, reflecting a less pronounced seasonal recovery in activity and lower investor confidence compared with the same period last year and own credit adjustments of £2,456 million.
- UK Retail fees and commissions fell as subdued consumer spending activity led to reduced transaction volumes. In addition, various Helpful Banking initiatives resulted in lower current account fees.
- Insurance net premium income decreased by 18% driven by lower volumes written by Direct Line Group during 2011, reflecting the de-risking of the Motor book and the exit of certain business lines.

## Analysis of results (continued)

|  | Quarter ended    |                     |                  |
|--|------------------|---------------------|------------------|
|  | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
|  | £m               | £m                  | £m               |
| Operating expenses and insurance claims            |                  |                     |                  |
| Staff costs  | 2,570            | 1,993               | 2,399            |
| Premises and equipment                             | 563              | 674                 | 571              |
| Other administrative expenses                      |                  |                     |                  |
| - managed basis                                    | 819              | 838                 | 865              |
| - Payment Protection Insurance costs               | 125              | -                   | -                |
| - bank levy  | -                | 300                 | -                |
| - other  | 72               | 158                 | 56               |
|  | 1,016            | 1,296               | 921              |
| Administrative expenses                            | 4,149            | 3,963               | 3,891            |
| Depreciation and amortisation                      | 468              | 513                 | 424              |
| Write-down of goodwill and other intangible assets | -                | 91                  | -                |
| Operating expenses                                 | 4,617            | 4,567               | 4,315            |
| Insurance net claims                               | 649              | 529                 | 912              |
| Staff costs as a % of total income                 | 50%              | 40%                 | 34%              |

## Key points

## Q1 2012 compared with Q4 2011

- Group operating expenses increased 1%, driven by the variability of staff expense accruals tied to increased revenues in Markets and PPI costs of £125 million, and the non-repeat of a bank levy charge of £300 million in Q4 2011.
- R&C expenses increased by 5% largely reflecting the phasing of staff expense accruals and a litigation settlement of £88 million (\$138 million) in US Retail & Commercial.
- Integration and restructuring costs totalled £460 million, driven by costs relating to business exits in Markets and International Banking, Group property exits, transfer of RBS NV activities to RBS plc, and further expenditure incurred in preparation for the divestment of Direct Line Group and the branch sale to Santander.
- Insurance net claims were 23% higher primarily due to adverse weather experienced in the early part of Q1 2012.

## Q1 2012 compared with Q1 2011

- Group operating expenses increased 7% primarily driven by PPI costs of £125 million and an increase in staff costs of 7% to £2,570 million. On a managed basis Group expenses declined 3% primarily driven by benefits from the Group cost reduction programme. Headcount declined by 1%, principally as a result of the restructuring of the Markets and International Banking businesses, and branch closures in the US.

Non-Core expenses fell by 19% reflecting the on-going run down of the division, including further business disposals and country exits.

- Insurance net claims decreased by £263 million, driven by a combination of reduced exposure on Motor and the exit of certain business lines.

## Analysis of results (continued)

|  | Quarter ended          |                           |                        |
|--|------------------------|---------------------------|------------------------|
|  | 31 March<br>2012<br>£m | 31 December<br>2011<br>£m | 31 March<br>2011<br>£m |
| Impairment losses  |                        |                           |                        |
| Loan impairment losses   | 1,295                  | 1,654                     | 1,898                  |
| Securities   |                        |                           |                        |
| - managed basis  | 19                     | 38                        | 49                     |
| - sovereign debt impairment (1)  | -                      | 224                       | -                      |
| - RFS Holding minority interest  | -                      | 2                         | -                      |
|  | 19                     | 264                       | 49                     |
| Group impairment losses  | 1,314                  | 1,918                     | 1,947                  |
| Loan impairment losses   |                        |                           |                        |
| - individually assessed  | 745                    | 1,253                     | 1,285                  |
| - collectively assessed  | 595                    | 591                       | 720                    |
| - latent   | (57)                   | (190)                     | (107)                  |
| Customer loans   | 1,283                  | 1,654                     | 1,898                  |
| Bank loans   | 12                     | -                         | -                      |
| Loan impairment losses   | 1,295                  | 1,654                     | 1,898                  |
| Core   | 796                    | 924                       | 852                    |
| Non-Core   | 499                    | 730                       | 1,046                  |
| Group  | 1,295                  | 1,654                     | 1,898                  |
| Customer loan impairment charge as a % of gross loans and advances (2) |                        |                           |                        |
| Group  | 1.1%                   | 1.3%                      | 1.5%                   |
| Core   | 0.8%                   | 0.9%                      | 0.8%                   |
| Non-Core   | 2.7%                   | 3.7%                      | 4.0%                   |

## Notes:

- (1) In the second quarter of 2011, the Group recorded an impairment loss of £733 million in respect of its AFS portfolio of Greek government debt as a result of Greece's continuing fiscal difficulties. In the third and fourth quarters of 2011, additional impairment losses of £142 million and £224 million respectively were recorded. In Q1 2012, as part of private sector involvement in the Greek government bail-out, the vast majority of this portfolio was exchanged for Greek sovereign debt and European Financial Stability Facility notes; the Greek sovereign debt received in the exchange was sold.
- (2) Customer loan impairment charge as a percentage of gross customer loans and advances excluding reverse repurchase agreements and including disposal groups.

## Key points

## Q1 2012 compared with Q4 2011

- Group impairment losses fell by £604 million or 31%, primarily due to a decrease in loan impairment losses and an additional impairment of £224 million taken in Q4 2011 as a result of the decline in the value of Greek sovereign bonds.

- Group loan impairment losses fell by £359 million or 22% driven by lower individual charges in Non-Core and improvement across Retail & Commercial businesses, with the exception of Ulster Bank. Ulster Bank continued to face challenging credit conditions.
- UK Retail impairment losses fell by £36 million, largely driven by lower default levels and improved collections performance on the unsecured portfolio. UK Corporate impairments were lower than Q4 2011, which included a number of sizeable single-name provisions.
- Total Ulster Bank (Core and Non-Core) loan impairments were £654 million compared with £570 million in Q4 2011, an increase of 15%, primarily driven by further deterioration in asset quality in the Core residential mortgage portfolio. Non-Core Ulster Bank impairments increased by 7% to £260 million.

Analysis of results (continued)

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Q1 2012 compared with Q1 2011

- Group loan impairment losses decreased by £603 million or 32%, driven by a significant decrease in Non-Core, principally due to lower losses on the Ulster Bank portfolio.
- R&C impairment losses, excluding Ulster Bank, were stable at £395 million, with improved credit conditions in UK Retail and US Retail & Commercial largely offset by lower provision releases in UK Corporate and International Banking.
- Core and Non-Core Ulster Bank loan impairment losses fell from £1,294 million in Q1 2011 to £654 million in Q1 2012, although credit conditions in Ireland remain challenging with credit quality continuing to weaken over the period largely due to asset value deflation.

## Analysis of results (continued)

|                                      | 31 March 2012 | 31 December 2011 |
|--------------------------------------|---------------|------------------|
| Capital resources and ratios         |               |                  |
| Core Tier 1 capital                  | £47bn         | £46bn            |
| Tier 1 capital                       | £57bn         | £57bn            |
| Total capital                        | £61bn         | £61bn            |
| Risk-weighted assets                 |               |                  |
| - gross                              | £496bn        | £508bn           |
| - benefit of Asset Protection Scheme | (£62bn)       | (£69bn)          |
| Risk-weighted assets                 | £434bn        | £439bn           |
| Core Tier 1 ratio (1)                | 10.8%         | 10.6%            |
| Tier 1 ratio                         | 13.2%         | 13.0%            |
| Total capital ratio                  | 14.0%         | 13.8%            |

## Note:

(1) The benefit of APS in the Core Tier 1 ratio is 85bp at 31 March 2012 and 90bp at 31 December 2011.

## Key points

## Q1 2012 compared with Q4 2011

- The Group's capital ratios strengthened further, with the Core Tier 1 ratio increasing to 10.8%, driven by retained profits and a reduction of 2% in gross risk-weighted assets.
- RWAs fell by £12 billion during the quarter to £496 billion, excluding the effect of the APS. Post-APS, RWAs were £5 billion lower.



## Analysis of results (continued)

|                                     | 31 March 2012 | 31 December 2011 |
|-------------------------------------|---------------|------------------|
| Balance sheet                       |               |                  |
| Funded balance sheet (1)            | £950bn        | £977bn           |
| Total assets                        | £1,403bn      | £1,507bn         |
| Loans and advances to customers (2) | £460bn        | £474bn           |
| Customer deposits (3)               | £432bn        | £437bn           |
| Loan:deposit ratio - Core (4)       | 93%           | 94%              |
| Loan:deposit ratio - Group (4)      | 106%          | 108%             |
| Short-term wholesale funding        | £80bn         | £102bn           |
| Wholesale funding                   | £234bn        | £258bn           |
| Liquidity portfolio                 | £153bn        | £155bn           |

## Notes:

- (1) Funded balance sheet represents total assets less derivatives.
- (2) Excluding reverse repurchase agreements and stock borrowing, and including disposal groups.
- (3) Excluding repurchase agreements and stock lending, and including disposal groups.
- (4) Net of provisions, including disposal groups and excluding repurchase agreements. Excluding disposal groups, the loan:deposit ratios of Core and Group at 31 March 2012 were 93% and 107% respectively (31 December 2011 - 94% and 110% respectively).

## Key points

- Group funded assets fell by £27 billion, driven by declines of £11 billion in Non-Core and £13 billion in Markets, as the Group continued to deleverage and to reduce capital-intensive assets.
- Loans and advances to customers were £14 billion lower, principally reflecting accelerated customer repayments in International Banking and weak customer credit demand.
- Customer deposits were £5 billion lower, principally reflecting seasonal movements in corporate balances. The Group loan:deposit ratio improved 200 basis points to 106% and the Core loan:deposit ratio also improved, by 100 basis points, to 93%.
- The Group has maintained a robust liquidity position, with a liquidity portfolio of £153 billion (16% of funded assets) substantially exceeding outstanding short-term wholesale funding, which was reduced during the quarter by £23 billion to £80 billion.

Further analysis of the Group's liquidity and funding position is included on pages 98 to 102.

## Divisional performance

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

|  | Quarter ended    |                     |                  |
|--|------------------|---------------------|------------------|
|  | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
|  | £m               | £m                  | £m               |
| <b>Operating profit/(loss) by division</b>         |                  |                     |                  |
| UK Retail  | 477              | 458                 | 518              |
| UK Corporate                                       | 492              | 406                 | 617              |
| Wealth   | 45               | 73                  | 70               |
| International Banking                              | 97               | 152                 | 226              |
| Ulster Bank  | (310)            | (233)               | (365)            |
| US Retail & Commercial                             | 102              | 177                 | 94               |
| Retail & Commercial                                | 903              | 1,033               | 1,160            |
| Markets  | 824              | (109)               | 1,029            |
| Direct Line Group                                  | 84               | 125                 | 67               |
| Central items                                      | (144)            | 89                  | (32)             |
| Core   | 1,667            | 1,138               | 2,224            |
| Non-Core   | (483)            | (1,282)             | (1,091)          |
| <b>Managed basis</b>                               | <b>1,184</b>     | <b>(144)</b>        | <b>1,133</b>     |
| <b>Reconciling Items:</b>                          |                  |                     |                  |
| Own credit adjustments                             | (2,456)          | (472)               | (560)            |
| Asset Protection Scheme                            | (43)             | (209)               | (469)            |
| Sovereign debt impairment                          | -                | (224)               | -                |
| Payment Protection Insurance costs                 | (125)            | -                   | -                |
| Amortisation of purchased intangible assets        | (48)             | (53)                | (44)             |
| Integration and restructuring costs                | (460)            | (478)               | (145)            |
| Gain/ (loss) on redemption of debt                 | 577              | (1)                 | -                |
| Strategic disposals                                | (8)              | (82)                | (23)             |
| Bank levy  | -                | (300)               | -                |
| Bonus tax  | -                | -                   | (11)             |
| Write-down of goodwill and other intangible assets | -                | (11)                | -                |
| RFS Holdings minority interest                     | (25)             | (2)                 | 3                |
| Statutory basis                                    | (1,404)          | (1,976)             | (116)            |
| <b>Impairment losses/(recoveries) by division</b>  |                  |                     |                  |
| UK Retail  | 155              | 191                 | 194              |
| UK Corporate                                       | 176              | 236                 | 107              |
| Wealth   | 10               | 13                  | 5                |
| International Banking                              | 35               | 56                  | (6)              |
| Ulster Bank  | 394              | 327                 | 461              |

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|                                |       |       |       |
|--------------------------------|-------|-------|-------|
| US Retail & Commercial         | 19    | 65    | 111   |
| Retail & Commercial            | 789   | 888   | 872   |
| Markets                        | 2     | 57    | -     |
| Central items                  | 34    | (4)   | -     |
| Core                           | 825   | 941   | 872   |
| Non-Core                       | 489   | 751   | 1,075 |
| Managed basis                  | 1,314 | 1,692 | 1,947 |
| <b>Reconciling Items:</b>      |       |       |       |
| Sovereign debt impairment      | -     | 224   | -     |
| RFS Holdings minority interest | -     | 2     | -     |
| Group impairment losses        | 1,314 | 1,918 | 1,947 |

## Divisional performance (continued)

|                                 | Quarter ended         |                          |                           |
|---------------------------------|-----------------------|--------------------------|---------------------------|
|                                 | 31 March<br>2012<br>% | 31 December<br>2011<br>% | 31 March<br>2011<br>%     |
| Net interest margin by division |                       |                          |                           |
| UK Retail                       | 3.61                  | 3.74                     | 4.08                      |
| UK Corporate                    | 3.09                  | 3.02                     | 3.19                      |
| Wealth                          | 3.67                  | 3.39                     | 3.24                      |
| International Banking           | 1.60                  | 1.64                     | 1.83                      |
| Ulster Bank                     | 1.87                  | 1.87                     | 1.84                      |
| US Retail & Commercial          | 3.06                  | 3.04                     | 3.00                      |
| Retail & Commercial             | 2.91                  | 2.90                     | 3.05                      |
| Non-Core                        | 0.31                  | 0.42                     | 0.72                      |
| Group net interest margin       | 1.88                  | 1.84                     | 2.03                      |
|                                 |                       | 31 March<br>2012<br>£m   | 31 December<br>2011<br>£m |
| Total funded assets             |                       |                          |                           |
| UK Retail                       |                       | 116,255                  | 114,469                   |
| UK Corporate                    |                       | 113,134                  | 114,098                   |
| Wealth                          |                       | 21,265                   | 21,628                    |
| International Banking           |                       | 63,684                   | 69,901                    |
| Ulster Bank                     |                       | 33,450                   | 34,637                    |
| US Retail & Commercial          |                       | 72,945                   | 74,925                    |
| Markets                         |                       | 300,574                  | 313,882                   |
| Direct Line Group               |                       | 13,430                   | 12,912                    |
| Central items                   |                       | 130,742                  | 126,336                   |
| Core                            |                       | 865,479                  | 882,788                   |
| Non-Core                        |                       | 83,278                   | 93,657                    |
|                                 |                       | 948,757                  | 976,445                   |
| RFS Holdings minority interest  |                       | 910                      | 804                       |
|                                 |                       | 949,667                  | 977,249                   |

## Divisional performance (continued)

|   | 31 March<br>2012<br>£bn | 31 December<br>2011<br>£bn | Change | 31 March<br>2011<br>£bn | Change |
|---|-------------------------|----------------------------|--------|-------------------------|--------|
| Risk-weighted assets by division                |                         |                            |        |                         |        |
| UK Retail                                       | 48.2                    | 48.4                       | -      | 50.3                    | (4%)   |
| UK Corporate                                    | 76.9                    | 79.3                       | (3%)   | 82.3                    | (7%)   |
| Wealth  | 12.9                    | 12.9                       | -      | 12.6                    | 2%     |
| International Banking                           | 41.8                    | 43.2                       | (3%)   | 45.7                    | (9%)   |
| Ulster Bank                                     | 38.4                    | 36.3                       | 6%     | 31.7                    | 21%    |
| US Retail & Commercial                          | 58.6                    | 59.3                       | (1%)   | 54.0                    | 9%     |
| Retail & Commercial                             | 276.8                   | 279.4                      | (1%)   | 276.6                   | -      |
| Markets   | 115.6                   | 120.3                      | (4%)   | 114.3                   | 1%     |
| Other   | 11.0                    | 12.0                       | (8%)   | 15.8                    | (30%)  |
| Core  | 403.4                   | 411.7                      | (2%)   | 406.7                   | (1%)   |
| Non-Core  | 89.9                    | 93.3                       | (4%)   | 128.5                   | (30%)  |
| Group before benefit of Asset Protection Scheme | 493.3                   | 505.0                      | (2%)   | 535.2                   | (8%)   |
| Benefit of Asset Protection Scheme              | (62.2)                  | (69.1)                     | (10%)  | (98.4)                  | (37%)  |
| Group before RFS Holdings minority interest     | 431.1                   | 435.9                      | (1%)   | 436.8                   | (1%)   |
| RFS Holdings minority interest                  | 3.2                     | 3.1                        | 3%     | 2.9                     | 10%    |
| Group   | 434.3                   | 439.0                      | (1%)   | 439.7                   | (1%)   |

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

## Employee numbers by division (full time equivalents in continuing operations rounded to the nearest hundred)

|                               | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
|-------------------------------|------------------|---------------------|------------------|
| UK Retail                     | 27,600           | 27,700              | 28,100           |
| UK Corporate                  | 13,400           | 13,600              | 13,200           |
| Wealth                        | 5,700            | 5,700               | 5,400            |
| International Banking         | 5,400            | 5,400               | 5,500            |
| Ulster Bank                   | 4,500            | 4,200               | 4,300            |
| US Retail & Commercial        | 14,700           | 15,400              | 15,600           |
| Retail & Commercial           | 71,300           | 72,000              | 72,100           |
| Markets                       | 13,200           | 13,900              | 15,600           |
| Direct Line Group             | 15,100           | 14,900              | 14,900           |
| Group Centre                  | 6,600            | 6,200               | 4,800            |
| Core                          | 106,200          | 107,000             | 107,400          |
| Non-Core                      | 4,300            | 4,700               | 6,700            |
|                               | 110,500          | 111,700             | 114,100          |
| Business Services             | 33,600           | 34,000              | 34,100           |
| Integration and restructuring | 1,000            | 1,100               | 300              |

Group

145,100

146,800

148,500

25

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## UK Retail

|   | Quarter ended          |                           |                        |
|---|------------------------|---------------------------|------------------------|
|   | 31 March<br>2012<br>£m | 31 December<br>2011<br>£m | 31 March<br>2011<br>£m |
| <b>Income statement</b>   |                        |                           |                        |
| Net interest income   | 1,001                  | 1,032                     | 1,086                  |
| Net fees and commissions  | 237                    | 242                       | 270                    |
| Other non-interest income   | 29                     | 35                        | 34                     |
| Non-interest income   | 266                    | 277                       | 304                    |
| Total income  | 1,267                  | 1,309                     | 1,390                  |
| Direct expenses   |                        |                           |                        |
| - staff   | (207)                  | (200)                     | (215)                  |
| - other   | (79)                   | (116)                     | (113)                  |
| Indirect expenses   | (349)                  | (344)                     | (350)                  |
|   | (635)                  | (660)                     | (678)                  |
| Impairment losses   | (155)                  | (191)                     | (194)                  |
| Operating profit  | 477                    | 458                       | 518                    |
| <b>Analysis of income by product</b>  |                        |                           |                        |
| Personal advances   | 236                    | 276                       | 275                    |
| Personal deposits   | 185                    | 214                       | 254                    |
| Mortgages   | 563                    | 577                       | 543                    |
| Cards   | 219                    | 238                       | 238                    |
| Other   | 64                     | 4                         | 80                     |
| Total income  | 1,267                  | 1,309                     | 1,390                  |
| <b>Analysis of impairments by sector</b>  |                        |                           |                        |
| Mortgages   | 34                     | 32                        | 61                     |
| Personal  | 82                     | 116                       | 95                     |
| Cards   | 39                     | 43                        | 38                     |
| Total impairment losses   | 155                    | 191                       | 194                    |
| <b>Loan impairment charge as % of gross customer loans and advances<br/>(excluding reverse repurchase agreements) by sector</b> |                        |                           |                        |
| Mortgages   | 0.1%                   | 0.1%                      | 0.3%                   |
| Personal  | 3.5%                   | 4.6%                      | 3.3%                   |
| Cards   | 2.8%                   | 3.0%                      | 2.7%                   |
| Total   | 0.6%                   | 0.7%                      | 0.7%                   |

## UK Retail (continued)

## Key metrics

|                      | Quarter ended    |                     |                  |
|----------------------|------------------|---------------------|------------------|
|                      | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
| Performance ratios   |                  |                     |                  |
| Return on equity (1) | 24.0%            | 22.8%               | 24.5%            |
| Net interest margin  | 3.61%            | 3.74%               | 4.08%            |
| Cost:income ratio    | 50%              | 50%                 | 49%              |

|  | 31 March<br>2012 | 31 December<br>2011 | Change  | 31 March<br>2011 | Change  |
|--|------------------|---------------------|---------|------------------|---------|
|  | £bn              | £bn                 |         | £bn              |         |
| Capital and balance sheet                    |                  |                     |         |                  |         |
| Loans and advances to customers (gross) (2)  |                  |                     |         |                  |         |
| - mortgages                                  | 97.5             | 95.0                | 3%      | 93.0             | 5%      |
| - personal                                   | 9.4              | 10.1                | (7%)    | 11.4             | (18%)   |
| - cards                                      | 5.6              | 5.7                 | (2%)    | 5.6              | -       |
|  | 112.5            | 110.8               | 2%      | 110.0            | 2%      |
| Customer deposits (2)                        | 104.2            | 101.9               | 2%      | 96.1             | 8%      |
| Assets under management (excluding deposits) | 5.8              | 5.5                 | 5%      | 5.8              | -       |
| Risk elements in lending (2)                 | 4.6              | 4.6                 | -       | 4.6              | -       |
| Loan:deposit ratio (excluding repos)         | 105%             | 106%                | (100bp) | 112%             | (700bp) |
| Risk-weighted assets                         | 48.2             | 48.4                | -       | 50.3             | (4%)    |

## Notes:

- (1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).
- (2) Includes disposal groups: loans and advances to customers £7.3 billion; risk elements in lending £0.5 billion; customer deposits £8.7 billion (31 December 2011 - loans and advances to customers £7.3 billion; risk elements in lending £0.5 billion; customer deposits £8.8 billion).

## Key points

In Q1 2012 UK Retail continued to focus on our commitment to customers to be the UK's most Helpful Bank.

On 28 March 2012, the Customer Charter 2011 results were published and showed encouraging improvements. The results were independently assessed, and, of the twenty-five goals set out in the Charter, we achieved twenty-three. This result demonstrates the progress that has been made, and has been recognised by customers, but there is still work to be done to deliver improvements in service and resolve complaints fairly, consistently and promptly.

In 2012, the Charter has evolved so it is even more relevant to customers, with simplified commitments categorised under the following four key themes: knowledgeable staff will put customer needs first, we will do more to help customers when they need it most, we will provide convenient and quick service to our customers and we will



continue to help strengthen the communities in which we live and work.

UK Retail (continued)

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Key points (continued)

Q1 2012 compared with Q4 2011

- UK Retail continued to deliver strong returns in Q1 2012. The division continued to achieve strong franchise growth, gaining market share on both sides of the balance sheet and increasing return on equity in the face of challenging economic conditions.
- The division further reduced the loan to deposit ratio in the quarter to 105%.
  - Customer deposits grew 2%, driven by increases in both savings balances, 1%, and current account balances, 5%.
  - Gross mortgage lending market share of 11% continues above our stock position of 8%.
  - Unsecured lending contracted by 5% as the Group actively sought to improve its risk profile and customer deleveraging continued.
- Income growth is proving challenging in the current economic environment.
  - Net interest margin declined 13 basis points as lower long term swap rates combined with competitive savings rates put pressure on liability margins.
  - Consumer spending has remained subdued over the quarter resulting in lower transactional fees on cards.
  - Customer behaviour continues to evolve supported by Helpful Banking initiatives, including the “Act Now” text alerts. This is reducing the level of late and overdraft fees.
- The division continued to focus on strong cost discipline with good results.
  - Headcount was further reduced, although staff costs were slightly higher as Q4 2011 included a reduction in full year incentive compensation accruals.
  - Other costs were lower as strict cost control and efficiency measures delivered further benefits.
- Impairment losses decreased 19% reflecting the impact of risk appetite tightening. Impairments are expected to remain stable subject to normal seasonal fluctuations and the economic environment.
  - Mortgage impairment losses were broadly in line with the previous quarter with arrears rates and provision coverage levels remaining stable.
  - The unsecured portfolio charge fell 24% with slightly lower default volumes and improved collections performance. The recoveries performance also gave rise to a small provision release from the defaulted book. Industry benchmarks for cards arrears remain stable, with RBS continuing to perform better than the market.
- Risk-weighted assets were broadly stable, with volume growth in lower risk secured mortgages more than offset by a decrease in the unsecured portfolio. Asset quality remains stable.

Q1 2012 compared with Q1 2011

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Net interest income fell driven by lower liability margins, due to a continued decline in long-term swap rates and competitive pricing on savings.

- Non-interest income declined as Helpful Banking initiatives and subdued consumer spending continued to depress card transaction volumes.
- Overall expenses decreased with direct staff costs down largely due to headcount reductions. Other direct expenses decreased reflecting a number of cost saving initiatives.
- Risk appetite tightening, combined with Helpful Banking initiatives are helping to reduce default levels, contributing to impairment losses decreasing by 20%.

## UK Corporate

|   | Quarter ended          |                           |                        |
|---|------------------------|---------------------------|------------------------|
|   | 31 March<br>2012<br>£m | 31 December<br>2011<br>£m | 31 March<br>2011<br>£m |
| <b>Income statement</b>   |                        |                           |                        |
| Net interest income   | 756                    | 758                       | 811                    |
| Net fees and commissions  | 336                    | 341                       | 345                    |
| Other non-interest income   | 109                    | 78                        | 106                    |
| Non-interest income   | 445                    | 419                       | 451                    |
| Total income  | 1,201                  | 1,177                     | 1,262                  |
| Direct expenses   |                        |                           |                        |
| - staff   | (245)                  | (231)                     | (235)                  |
| - other   | (85)                   | (99)                      | (104)                  |
| Indirect expenses   | (203)                  | (205)                     | (199)                  |
|   | (533)                  | (535)                     | (538)                  |
| Impairment losses   | (176)                  | (236)                     | (107)                  |
| Operating profit  | 492                    | 406                       | 617                    |
| <b>Analysis of income by business</b>   |                        |                           |                        |
| Corporate and commercial lending  | 687                    | 623                       | 722                    |
| Asset and invoice finance   | 162                    | 169                       | 151                    |
| Corporate deposits  | 166                    | 171                       | 174                    |
| Other   | 186                    | 214                       | 215                    |
| Total income  | 1,201                  | 1,177                     | 1,262                  |
| <b>Analysis of impairments by sector</b>  |                        |                           |                        |
| Financial institutions  | 2                      | (2)                       | 3                      |
| Hotels and restaurants  | 15                     | 16                        | 8                      |
| Housebuilding and construction  | 25                     | 27                        | 32                     |
| Manufacturing   | -                      | 13                        | 6                      |
| Other   | 40                     | 39                        | 3                      |
| Private sector education, health, social work, recreational and<br>community services | 22                     | 81                        | 11                     |
| Property  | 30                     | 19                        | 18                     |
| Wholesale and retail trade, repairs   | 33                     | 29                        | 16                     |
| Asset and invoice finance   | 9                      | 14                        | 10                     |
| Total impairment losses   | 176                    | 236                       | 107                    |

## UK Corporate (continued)

|  | Quarter ended    |                     |                  |
|--|------------------|---------------------|------------------|
|  | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
| Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector |                  |                     |                  |
| Financial institutions   | 0.1%             | (0.1%)              | 0.2%             |
| Hotels and restaurants   | 1.0%             | 1.0%                | 0.5%             |
| Housebuilding and construction   | 2.7%             | 2.8%                | 2.8%             |
| Manufacturing  | -                | 1.1%                | 0.5%             |
| Other  | 0.5%             | 0.5%                | -                |
| Private sector education, health, social work, recreational and community services                                   | 1.0%             | 3.7%                | 0.5%             |
| Property   | 0.4%             | 0.3%                | 0.2%             |
| Wholesale and retail trade, repairs  | 1.5%             | 1.3%                | 0.7%             |
| Asset and invoice finance  | 0.3%             | 0.5%                | 0.4%             |
| Total  | 0.6%             | 0.9%                | 0.4%             |

## Key metrics

|                      | Quarter ended    |                     |                  |
|----------------------|------------------|---------------------|------------------|
|                      | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
| Performance ratios   |                  |                     |                  |
| Return on equity (1) | 16.2%            | 13.0%               | 19.2%            |
| Net interest margin  | 3.09%            | 3.02%               | 3.19%            |
| Cost:income ratio    | 44%              | 45%                 | 43%              |

|  | 31 March<br>2012<br>£bn | 31 December<br>2011<br>£bn | Change | 31 March<br>2011<br>£bn | Change |
|--|-------------------------|----------------------------|--------|-------------------------|--------|
| Capital and balance sheet  |                         |                            |        |                         |        |
| Total third party assets   | 113.2                   | 114.2                      | (1%)   | 117.7                   | (4%)   |
| Loans and advances to customers (gross) (2)  |                         |                            |        |                         |        |
| - financial institutions   | 6.2                     | 5.8                        | 7%     | 6.1                     | 2%     |
| - hotels and restaurants   | 6.0                     | 6.1                        | (2%)   | 6.7                     | (10%)  |
| - housebuilding and construction   | 3.7                     | 3.9                        | (5%)   | 4.5                     | (18%)  |
| - manufacturing  | 4.7                     | 4.7                        | -      | 5.2                     | (10%)  |
| - other  | 34.4                    | 34.2                       | 1%     | 33.6                    | 2%     |
| - private sector education, health, social work, recreational and community services | 8.6                     | 8.7                        | (1%)   | 8.9                     | (3%)   |
| - property   | 26.7                    | 28.2                       | (5%)   | 30.2                    | (12%)  |
| - wholesale and retail trade, repairs  | 9.1                     | 8.7                        | 5%     | 9.8                     | (7%)   |
| - asset and invoice finance  | 10.3                    | 10.4                       | (1%)   | 9.8                     | 5%     |

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|                                      |       |       |       |       |         |
|--------------------------------------|-------|-------|-------|-------|---------|
|                                      | 109.7 | 110.7 | (1%)  | 114.8 | (4%)    |
| Customer deposits (2)                | 124.3 | 126.3 | (2%)  | 124.4 | -       |
| Risk elements in lending (2)         | 4.9   | 5.0   | (2%)  | 4.6   | 7%      |
| Loan:deposit ratio (excluding repos) | 87%   | 86%   | 100bp | 91%   | (400bp) |
| Risk-weighted assets                 | 76.9  | 79.3  | (3%)  | 82.3  | (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).

(2) Includes disposal groups: loans and advances to customers £12.0 billion; risk elements in lending £1.0 billion; customer deposits £12.7 billion (31 December 2011 - loans and advances to customers £12.2 billion; risk elements in lending £1.0 billion; customer deposits £13.0 billion).

UK Corporate (continued)

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Key points

In Q1 2012 UK Corporate continued to demonstrate its commitment to customers and to supporting recovery in the UK economy.

As part of the 'Ahead for Business' promise, fast, reliable service and customer proximity remain at the forefront of UK Corporate's proposition. In February 2012 the division launched a new iPhone app enabling business banking customers to keep track of their finances and effectively manage opportunities and risks within their business. The division also enhanced its telephony proposition with an extended and faster service, providing expert advice to smaller businesses.

By the end of Q1 2012, RBS staff had undertaken 4,883 'Working with You' visits, spending two days at a time working in their customers' businesses, demonstrating how serious UK Corporate is about understanding and sharing its customers' ambitions.

Q1 2012 saw the launch of the National Loan Guarantee Scheme (NLGS). As part of the scheme UK Corporate offers a 1% pricing discount on loans, including asset finance facilities provided through the Lombard brand, to a large number of clients. RBS Group is the only bank to extend the discount for the complete range of loans, from £1,000 up to £25 million. Furthermore, UK Corporate demonstrated its continued support of the manufacturing sector by launching the 8th tranche of a £1 billion Manufacturing Fund in the quarter. The division also participated in a number of other UK Government supported schemes:

- the Regional Growth Fund, allowing businesses to safeguard and create new jobs across the country;
- the Business Growth Fund, an equity investment fund established to help Britain's fast-growing small and medium sized businesses; and
- the Enterprise Finance Guarantee, for small firms with viable business proposals that are unable to obtain a conventional loan due to lack of security.

Q1 2012 compared with Q4 2011

- UK Corporate delivered a strong performance, with return on equity of 16.2% and operating profit increasing 21% to £492 million, driven by non-interest income growth and lower impairments.
- Net interest income was broadly flat while net interest margin increased 7 basis points, benefiting from a revision to deferred income recognition assumptions and increased customer margins, partially offset by higher funding costs.
- Non-interest income increased 6% largely reflecting valuation movements and lower derivative close out costs associated with impaired assets.
- Total costs were slightly lower, reflecting lower revenue related costs and cost efficiencies achieved in non-staff discretionary spend, largely offset by the phasing of staff incentive costs.
- Impairments at £176 million were down 25%, primarily as a result of lower individual and collectively assessed provisions.

- Risk-weighted assets decreased £2.4 billion reflecting improved risk parameters and marginally lower net lending, primarily property which more than offset growth in other sectors.



UK Corporate (continued)

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Key points (continued)

Q1 2012 compared with Q1 2011

- Operating profit decreased by £125 million, or 20%, with lower net interest income combined with an increase in impairments, partially offset by lower costs.
- Net interest income decreased by 7% largely reflecting the higher impact from revisions made to deferred income recognition assumptions in Q1 2011 (£50 million) compared with Q1 2012 (£28 million). Excluding these revisions, net interest income fell 4% whilst net interest margin decreased 2 basis points reflecting higher net funding costs and lower lending. Lending decreased £5 billion, including targeted reductions in the property sector.
- Non-interest income decreased 1%, largely reflecting strong refinancing activity in Q1 2011, not repeated in Q1 2012, partially offset by increased operating lease activity and Markets revenue share income.
- Total costs declined £5 million, 1%, with reductions in non-staff discretionary spending, largely offset by increased staff costs relating to strategic investment and control initiatives.
- Impairments were 64% higher primarily driven by the significant release of latent provisions in Q1 2011.
- Risk-weighted assets decreased £5.4 billion as the result of improved risk parameters and lower lending balances.

## Wealth

|                           | Quarter ended          |                           |                        |
|---------------------------|------------------------|---------------------------|------------------------|
|                           | 31 March<br>2012<br>£m | 31 December<br>2011<br>£m | 31 March<br>2011<br>£m |
| <b>Income statement</b>   |                        |                           |                        |
| Net interest income       | 179                    | 168                       | 157                    |
| Net fees and commissions  | 93                     | 89                        | 97                     |
| Other non-interest income | 18                     | 23                        | 17                     |
| Non-interest income       | 111                    | 112                       | 114                    |
| Total income              | 290                    | 280                       | 271                    |
| Direct expenses           |                        |                           |                        |
| - staff                   | (117)                  | (96)                      | (100)                  |
| - other                   | (60)                   | (43)                      | (44)                   |
| Indirect expenses         | (58)                   | (55)                      | (52)                   |
|                           | (235)                  | (194)                     | (196)                  |
| Impairment losses         | (10)                   | (13)                      | (5)                    |
| Operating profit          | 45                     | 73                        | 70                     |
| <b>Analysis of income</b> |                        |                           |                        |
| Private banking           | 237                    | 232                       | 221                    |
| Investments               | 53                     | 48                        | 50                     |
| Total income              | 290                    | 280                       | 271                    |

## Key metrics

|                           | Quarter ended    |                     |                  |
|---------------------------|------------------|---------------------|------------------|
|                           | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
| <b>Performance ratios</b> |                  |                     |                  |
| Return on equity (1)      | 9.5%             | 15.2%               | 15.0%            |
| Net interest margin       | 3.67%            | 3.39%               | 3.24%            |
| Cost:income ratio         | 81%              | 69%                 | 72%              |

|  | 31 March<br>2012<br>£bn | 31 December<br>2011<br>£bn | Change | 31 March<br>2011<br>£bn | Change |
|--|-------------------------|----------------------------|--------|-------------------------|--------|
|  |                         |                            |        |                         |        |
| <b>Capital and balance sheet</b>                 |                         |                            |        |                         |        |
| Loans and advances to customers (gross)          |                         |                            |        |                         |        |
| - mortgages                                      | 8.4                     | 8.3                        | 1%     | 7.8                     | 8%     |
| - personal                                       | 6.8                     | 6.9                        | (1%)   | 7.0                     | (3%)   |
| - other  | 1.7                     | 1.7                        | -      | 1.7                     | -      |
|  | 16.9                    | 16.9                       | -      | 16.5                    | 2%     |
| Customer deposits (2)                            | 38.3                    | 38.2                       | -      | 37.5                    | 2%     |
| Assets under management (excluding deposits) (2) | 31.4                    | 30.9                       | 2%     | 34.4                    | (9%)   |

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|  |      |      |   |      |    |
|--|------|------|---|------|----|
| Risk elements in lending                 | 0.2  | 0.2  | - | 0.2  | -  |
| Loan:deposit ratio (excluding repos) (2) | 44%  | 44%  | - | 44%  | -  |
| Risk-weighted assets                     | 12.9 | 12.9 | - | 12.6 | 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) 31 March 2011 comparatives were revised in Q3 2011 to reflect the current reporting methodology.

## Wealth (continued)

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### Key points

Q1 2012 saw further progress in the implementation of the refreshed Coutts divisional strategy across all jurisdictions.

- Reshaping of the UK business progressed to the next phase with the restructure of key professionals in client servicing. The restructure will enable the division to provide class leading banking and wealth management propositions and assists in the preparations for the implementation of Retail Distribution Review (RDR) regulations. Revised Private Banker and Wealth Manager roles will ensure clients receive the best service and advice based on their specific needs.
- On the international front, Coutts announced the sale of the Latin American, Caribbean and African business to RBC Wealth Management. The business has client assets in the region of £1.5 billion, representing approximately 2% of Coutts' total client assets. This decision followed from the 2011 divisional strategy to focus the Coutts growth strategy on key geographies. These include the UK, Switzerland, Middle East, Russia/Commonwealth of Independent States and selected countries in Asia.
- Coutts continued to prepare the deployment of a single global technology platform with the UK rollout completed in Q1 2012. The bank's strategic investment will enable the business to operate as a global organisation on a single IT platform, transforming the way clients are served.

### Q1 2012 compared with Q4 2011

- Operating profit decreased 38% to £45 million, with a 4% increase in income more than offset by increased expenses.
- Income growth of £10 million largely reflects improved deposit margins and strong treasury income.
- Expenses increased 21% largely driven by phasing in Financial Services Compensation Scheme levies and the timing of incentive accruals. The division also incurred an £8.75 million fine from the Financial Services Authority (FSA) relating to Anti Money Laundering control processes during the period from December 2007 to November 2010.
- Client assets and liabilities managed by the division increased by 1%. Assets under management increased by 2%, benefiting from a recovery in the markets in Q1 2012, and positive net new business, particularly in Asia where an improved sales management framework has been introduced.

Wealth (continued)

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Key points (continued)

Q1 2012 compared with Q1 2011

- Operating profit decreased by 36% with a 7% growth in income more than offset by higher expenses and impairments.
- Net interest income increased 14% with growth in lending volumes and margins, particularly within the UK, as well as sustained improvement in divisional treasury income. The decline in non-interest income reflected lower assets under management and a reduction in brokerage income.
- Expenses increased 20% largely reflecting continued investment in International front office recruitment, strategic technology initiatives, including the new Avaloq based wealth management platform in the UK, regulatory projects and changes in bonus accounting methodology. Q1 2012 also included the FSA fine.
- Client assets and liabilities managed by the division decreased by 2%. Customer deposits grew 2% and lending volumes increased by 2% in response to continued customer demand, particularly for UK mortgages, reflecting high interest in London property. Assets under management declined 9%, as a result of negative market movements and fund outflows occurring in the second half of 2011.

## International Banking

|  | Quarter ended    |                     |                  |
|--|------------------|---------------------|------------------|
|  | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
|  | £m               | £m                  | £m               |
| <b>Income statement</b>  |                  |                     |                  |
| Net interest income from banking activities  | 260              | 293                 | 303              |
| Funding costs of rental assets   | (9)              | (12)                | (10)             |
| Net interest income  | 251              | 281                 | 293              |
| Non-interest income  | 291              | 312                 | 354              |
| Total income   | 542              | 593                 | 647              |
| Direct expenses  |                  |                     |                  |
| - staff  | (187)            | (160)               | (195)            |
| - other  | (48)             | (51)                | (61)             |
| Indirect expenses  | (175)            | (174)               | (171)            |
|  | (410)            | (385)               | (427)            |
| Impairment (losses)/recoveries   | (35)             | (56)                | 6                |
| Operating profit   | 97               | 152                 | 226              |
| <b>Of which:</b>   |                  |                     |                  |
| Ongoing businesses   | 113              | 145                 | 235              |
| Run-off businesses   | (16)             | 7                   | (9)              |
| <b>Analysis of income by product</b>   |                  |                     |                  |
| Cash management  | 268              | 241                 | 216              |
| Trade finance  | 72               | 67                  | 62               |
| Portfolio  | 197              | 257                 | 353              |
| Ongoing businesses   | 537              | 565                 | 631              |
| Run-off businesses   | 5                | 28                  | 16               |
| Total income   | 542              | 593                 | 647              |
| <b>Analysis of impairments by sector</b>   |                  |                     |                  |
| Manufacturing and infrastructure   | (17)             | (75)                | (32)             |
| Property and construction  | -                | -                   | (6)              |
| Transport and storage  | 4                | -                   | (9)              |
| Telecommunications, media and technology   | (9)              | -                   | -                |
| Banks and financial institutions   | (12)             | -                   | 1                |
| Other  | (1)              | 19                  | 52               |
| Total impairment (losses)/recoveries   | (35)             | (56)                | 6                |
| Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) | 0.3%             | 0.4%                | -                |

## Key metrics

Quarter ended  
31 March 2012    31 December 2011    31 March 2011

|   | 2012  | 2011  | 2011  |
|---|-------|-------|-------|
| Performance ratios (ongoing businesses) |       |       |       |
| Return on equity (1)                    | 7.5%  | 9.1%  | 13.2% |
| Net interest margin                     | 1.60% | 1.64% | 1.83% |
| Cost:income ratio                       | 72%   | 64%   | 64%   |

## Note:

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

## International Banking (continued)

|  | 31 March<br>2012<br>£bn | 31<br>December<br>2011<br>£bn | Change      | 31 March<br>2011<br>£bn | Change       |
|--|-------------------------|-------------------------------|-------------|-------------------------|--------------|
| <b>Capital and balance sheet</b>                                       |                         |                               |             |                         |              |
| Loans and advances to customers  | 52.3                    | 56.9                          | (8%)        | 62.6                    | (16%)        |
| Loans and advances to banks  | 3.9                     | 3.4                           | 15%         | 3.8                     | 3%           |
| Securities   | 4.0                     | 6.0                           | (33%)       | 5.9                     | (32%)        |
| Cash and eligible bills  | 0.3                     | 0.3                           | -           | 1.0                     | (70%)        |
| Other  | 3.2                     | 3.3                           | (3%)        | 3.5                     | (9%)         |
| <b>Total third party assets (excluding derivatives mark-to-market)</b> | <b>63.7</b>             | <b>69.9</b>                   | <b>(9%)</b> | <b>76.8</b>             | <b>(17%)</b> |
| Customer deposits (excluding repos)                                    | 45.0                    | 45.1                          | -           | 44.1                    | 2%           |
| Risk elements in lending   | 0.9                     | 1.6                           | (44%)       | 1.5                     | (40%)        |
| Loan:deposit ratio (excluding repos)                                   | 116%                    | 126%                          | (1,000bp)   | 142%                    | (2,600bp)    |
| Risk-weighted assets   | 41.8                    | 43.2                          | (3%)        | 45.7                    | (9%)         |

|                               | Quarter ended<br>31    |                        |                        |
|-------------------------------|------------------------|------------------------|------------------------|
|                               | 31 March<br>2012<br>£m | December<br>2011<br>£m | 31 March<br>2011<br>£m |
| <b>Run-off businesses (1)</b> |                        |                        |                        |
| Total income                  | 5                      | 28                     | 16                     |
| Direct expenses               | (21)                   | (21)                   | (25)                   |
| Operating (loss)/profit       | (16)                   | 7                      | (9)                    |

Note:

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

### Key points

The formation of International Banking in January 2012 created a significant and integrated client focused business, well placed to serve clients' financing, working capital and risk management needs internationally. Cash management and trade finance, both in the UK and internationally, remain key offerings for the Group's customers and, overall, International Banking continues to invest in improving existing products and in developing new ones.

Since the restructure, substantial progress has been made on the integration. The senior management team is in place. Early engagement with clients on the integrated proposition has been positive and management are reviewing a number of revenue enhancing opportunities arising from leveraging the Group's network coverage and product capabilities.



Q1 2012 compared with Q4 2011

- Operating profit was down £55 million, reflecting lower income and increased expenses, partially offset by lower impairments.
- Excluding run-off businesses, income was £28 million lower reflecting the uncertain and volatile macroeconomic backdrop and the continued low interest rate environment. Net interest margin decreased by 4 basis points mainly due to a reduction in higher priced Portfolio assets.

Portfolio income fell by £60 million reflecting the managed reduction in average assets in order to improve capital efficiency and liquidity levels.

Trade finance income was 7% higher due to increased guarantee fee income, mainly in Asia.

Cash management income was 11% higher than Q4 2011, despite weak European activity and lower global payments, and due to a higher funding surplus arising from lower liquidity buffer requirements.

International Banking (continued)

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Key points (continued)

Q1 2012 compared with Q4 2011 (continued)

- Expenses increased by £25 million, largely reflecting the timing of incentive accruals and reduced pension accruals in Q4 2011 following actuarial valuations.
- Impairments of £35 million related to a small number of specific provisions.
- Third party assets decreased by 9% due to managed reductions in the Portfolio loan book of £5 billion, reflecting capital management discipline, (which also resulted in a decrease in undrawn commitments) and reduced collateral required for Japanese business activities.
- Customer deposits remained flat despite an increasingly competitive environment and the adverse impact of Sterling:Euro exchange rate.
- The loan to deposit ratio improved from 126% to 116% mainly driven by reductions in the loan book.

Q1 2012 compared with Q1 2011

- Operating profit was down £129 million reflecting lower Portfolio income and higher impairments, partially offset by lower discretionary expenses.
- Income decreased by £105 million due to a managed reduction in average assets and lower business volumes. Net interest margin decreased by 23 basis points primarily reflecting a reduction in higher yielding Portfolio assets.
  - Portfolio income was 44% lower largely reflecting an active reduction in third party assets, down 17%, and higher funding costs. Corporate product volumes fell as activity in the debt market remained subdued, and a low inflation environment also reduced hedging activity.
  - Trade finance income grew 16% as a result of strong growth in trade funded assets and trade guarantees, mainly in Asia.
  - Cash management was 24% higher, as customer deposits grew by £1 billion following the success of deposit gathering initiatives, partially offset by adverse exchange rate movements and lower interest rates.
- Expenses decreased by 4% driven by lower headcount, continued cost saving initiatives including tight management control over discretionary non-staff related costs.
- Impairments in Q1 2011 included a significant write back of latent provisions within Portfolio.
- The Portfolio loan book fell by £10 billion due to repayments and active capital management. This drove a 17% reduction in third party assets and a 9% reduction in risk-weighted assets.

## Ulster Bank

|  | Quarter ended          |                        |                        |
|--|------------------------|------------------------|------------------------|
|  | 31 March<br>2012<br>£m | December<br>2011<br>£m | 31 March<br>2011<br>£m |
| <b>Income statement</b>  |                        |                        |                        |
| Net interest income  | 165                    | 177                    | 181                    |
| Net fees and commissions   | 38                     | 28                     | 36                     |
| Other non-interest income  | 11                     | 21                     | 15                     |
| Non-interest income  | 49                     | 49                     | 51                     |
| <b>Total income</b>  | <b>214</b>             | <b>226</b>             | <b>232</b>             |
| Direct expenses  |                        |                        |                        |
| - staff  | (52)                   | (53)                   | (56)                   |
| - other  | (12)                   | (15)                   | (18)                   |
| Indirect expenses  | (66)                   | (64)                   | (62)                   |
|  | (130)                  | (132)                  | (136)                  |
| Impairment losses  | (394)                  | (327)                  | (461)                  |
| Operating loss   | (310)                  | (233)                  | (365)                  |
| <b>Analysis of income by business</b>  |                        |                        |                        |
| Corporate  | 102                    | 98                     | 113                    |
| Retail   | 88                     | 101                    | 113                    |
| Other  | 24                     | 27                     | 6                      |
| Total income   | 214                    | 226                    | 232                    |
| <b>Analysis of impairments by sector</b>   |                        |                        |                        |
| Mortgages  | 215                    | 133                    | 233                    |
| Corporate  |                        |                        |                        |
| - property   | 54                     | 83                     | 97                     |
| - other corporate  | 114                    | 100                    | 120                    |
| Other lending  | 11                     | 11                     | 11                     |
| Total impairment losses  | 394                    | 327                    | 461                    |
| <b>Loan impairment charge as % of gross customer loans and advance (excluding reverse repurchase agreements) by sector</b> |                        |                        |                        |
| Mortgages  | 4.3%                   | 2.7%                   | 4.3%                   |
| Corporate  |                        |                        |                        |
| - property   | 4.4%                   | 6.9%                   | 7.2%                   |
| - other corporate  | 5.8%                   | 5.2%                   | 5.5%                   |
| Other lending  | 3.4%                   | 2.8%                   | 2.9%                   |
| Total  | 4.6%                   | 3.8%                   | 5.0%                   |



## Ulster Bank (continued)

## Key metrics

|                           | Quarter ended    |                     |                  |
|---------------------------|------------------|---------------------|------------------|
|                           | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
| <b>Performance ratios</b> |                  |                     |                  |
| Return on equity (1)      | (25.8%)          | (20.7%)             | (36.8%)          |
| Net interest margin       | 1.87%            | 1.87%               | 1.84%            |
| Cost:income ratio         | 61%              | 58%                 | 59%              |

|   | 31 March<br>2012<br>£bn | 31 December<br>2011<br>£bn | Change | 31 March<br>2011<br>£bn | Change |
|---|-------------------------|----------------------------|--------|-------------------------|--------|
| <b>Capital and balance sheet</b>        |                         |                            |        |                         |        |
| Loans and advances to customers (gross) |                         |                            |        |                         |        |
| - mortgages                             | 19.8                    | 20.0                       | (1%)   | 21.5                    | (8%)   |
| - corporate                             |                         |                            |        |                         |        |
| - property                              | 4.9                     | 4.8                        | 2%     | 5.4                     | (9%)   |
| - other corporate                       | 7.9                     | 7.7                        | 3%     | 8.8                     | (10%)  |
| - other lending                         | 1.3                     | 1.6                        | (19%)  | 1.5                     | (13%)  |
|   | 33.9                    | 34.1                       | (1%)   | 37.2                    | (9%)   |
| Customer deposits                       | 21.0                    | 21.8                       | (4%)   | 23.8                    | (12%)  |
| Risk elements in lending                |                         |                            |        |                         |        |
| - mortgages                             | 2.5                     | 2.2                        | 14%    | 1.8                     | 39%    |
| - corporate                             |                         |                            |        |                         |        |
| - property                              | 1.3                     | 1.3                        | -      | 1.0                     | 30%    |
| - other corporate                       | 1.9                     | 1.8                        | 6%     | 1.6                     | 19%    |
| - other lending                         | 0.2                     | 0.2                        | -      | 0.2                     | -      |
| Total risk elements in lending          | 5.9                     | 5.5                        | 7%     | 4.6                     | 28%    |
| Loan:deposit ratio (excluding repos)    | 147%                    | 143%                       | 400bp  | 147%                    | -      |
| Risk-weighted assets                    | 38.4                    | 36.3                       | 6%     | 31.7                    | 21%    |
| Spot exchange rate - €/£                | 1.200                   | 1.196                      | -      | 1.131                   | 6%     |

## Note:

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

## Key points

Economic conditions in Ireland remain challenging. Despite growth in the export sector, the domestic economy continues to be weak, unemployment remains elevated and residential property values continue to decline. These conditions adversely affected financial performance in Q1 2012, particularly the level of impairments on the residential mortgage portfolio.

Ulster Bank remains focused on the recovery of the business and on the rebuilding of a sustainable franchise into the future. Ulster Bank also continues to support the changing needs of customers, in difficult economic conditions, through the provision of a range of restructuring solutions.

Deposit gathering remains a priority and the implementation of a number of cost management initiatives across the business is progressing.

Ulster Bank (continued)

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Key points (continued)

Q1 2012 compared with Q4 2011

- Operating loss increased by £77 million in the quarter reflecting the impact of higher funding costs on income. Impairment losses increased by 20%, primarily due to deteriorating credit metrics of the retail mortgage portfolio, in line with market trends.
- Income decreased by £12 million due to the impact of intense deposit competition. Net interest margin remained stable at 1.87% with the benefit of loan pricing initiatives, coupled with a reduced stock of liquid assets offsetting the impact of higher funding costs.
- Expenses decreased by £2 million with further progress made on cost initiatives across the business, with particular focus on reducing staff costs and marketing expenditure.
- Impairment losses increased by £67 million in the quarter, largely due to rising arrears rates on the residential mortgage portfolio and the continued deterioration in asset quality as property prices declined further.
- Retail and SME deposit balances remained stable in the quarter despite the competitive market. However, there were further outflows of wholesale balances. Loans and advances to customers fell marginally.
- Risk-weighted assets increased by £2.1 billion, mainly as a result of deterioration in mortgage credit metrics.

Q1 2012 compared with Q1 2011

- Operating loss decreased by £55 million to £310 million, with lower impairment losses partly offset by lower income.
- Income fell by 8% reflecting the impact of a reducing loan book coupled with higher funding costs. Net interest margin increased by 3 basis points primarily driven by the benefit of initiatives to improve asset margins implemented during 2011 coupled with a reduction in the stock of liquid assets.
- Expenses decreased by 4%, with a 14% fall in direct expenses, primarily driven by tight management of discretionary spend. Management continued to focus on implementing cost saving initiatives.
- Impairment losses fell by 15% but credit conditions in Ireland remain challenging and overall, credit quality has deteriorated over the period driven by asset price deflation and affordability issues.
- Loans and advances to customers declined by 9% reflecting further amortisation and ongoing weak demand for credit.
- Customer deposit balances declined by 12% with growth in retail and SME balances more than offset by lower wholesale balances.





## US Retail &amp; Commercial (£ Sterling)

|   | Quarter ended          |                           |                        |
|---|------------------------|---------------------------|------------------------|
|   | 31 March<br>2012<br>£m | 31 December<br>2011<br>£m | 31 March<br>2011<br>£m |
| <b>Income statement</b>   |                        |                           |                        |
| Net interest income   | 496                    | 496                       | 452                    |
| Net fees and commissions  | 195                    | 199                       | 202                    |
| Other non-interest income   | 65                     | 95                        | 73                     |
| Non-interest income   | 260                    | 294                       | 275                    |
| Total income  | 756                    | 790                       | 727                    |
| Direct expenses   |                        |                           |                        |
| - staff   | (223)                  | (216)                     | (201)                  |
| - other   | (116)                  | (137)                     | (126)                  |
| - litigation settlement   | (88)                   | -                         | -                      |
| Indirect expenses   | (208)                  | (195)                     | (195)                  |
|   | (635)                  | (548)                     | (522)                  |
| Impairment losses   | (19)                   | (65)                      | (111)                  |
| Operating profit  | 102                    | 177                       | 94                     |
| Average exchange rate - US\$/£  | 1.571                  | 1.573                     | 1.601                  |
| <b>Analysis of income by product</b>  |                        |                           |                        |
| Mortgages and home equity   | 134                    | 128                       | 109                    |
| Personal lending and cards  | 99                     | 100                       | 112                    |
| Retail deposits   | 220                    | 237                       | 218                    |
| Commercial lending  | 160                    | 148                       | 138                    |
| Commercial deposits   | 114                    | 110                       | 99                     |
| Other   | 29                     | 67                        | 51                     |
| Total income  | 756                    | 790                       | 727                    |
| <b>Analysis of impairments by sector</b>  |                        |                           |                        |
| Residential mortgages   | 6                      | 4                         | 6                      |
| Home equity   | 22                     | 20                        | 39                     |
| Corporate and commercial  | (16)                   | 8                         | 19                     |
| Other consumer  | 3                      | 21                        | 20                     |
| Securities  | 4                      | 12                        | 27                     |
| Total impairment losses   | 19                     | 65                        | 111                    |
| <b>Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector</b> |                        |                           |                        |
| Residential mortgages   | 0.4%                   | 0.3%                      | 0.4%                   |
| Home equity   | 0.6%                   | 0.5%                      | 1.1%                   |
| Corporate and commercial  | (0.3%)                 | 0.1%                      | 0.4%                   |
| Other consumer  | 0.2%                   | 1.1%                      | 1.3%                   |

Total

0.1%

0.4%

0.7%

42

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## US Retail &amp; Commercial (£ Sterling) (continued)

## Key metrics

|  | Quarter ended    |                     |                  |
|--|------------------|---------------------|------------------|
|  | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
| <b>Performance ratios</b>                              |                  |                     |                  |
| Return on equity (1)                                   | 4.5%             | 8.0%                | 4.5%             |
| Return on equity - excluding litigation settlement (1) | 8.4%             | 8.0%                | 4.5%             |
| Net interest margin                                    | 3.06%            | 3.04%               | 3.00%            |
| Cost:income ratio                                      | 84%              | 69%                 | 72%              |
| Cost:income ratio - excluding litigation settlement    | 72%              | 69%                 | 72%              |

|   | 31 March<br>2012 | 31 December<br>2011 | Change | 31 March<br>2011 | Change |
|---|------------------|---------------------|--------|------------------|--------|
|   | £bn              | £bn                 |        | £bn              |        |
| <b>Capital and balance sheet</b>        |                  |                     |        |                  |        |
| Total third party assets                | 73.7             | 75.8                | (3%)   | 71.8             | 3%     |
| Loans and advances to customers (gross) |                  |                     |        |                  |        |
| - residential mortgages                 | 6.0              | 6.1                 | (2%)   | 5.6              | 7%     |
| - home equity                           | 14.2             | 14.9                | (5%)   | 14.7             | (3%)   |
| - corporate and commercial              | 22.6             | 22.9                | (1%)   | 20.3             | 11%    |
| - other consumer                        | 8.1              | 7.7                 | 5%     | 6.4              | 27%    |
|   | 50.9             | 51.6                | (1%)   | 47.0             | 8%     |
| Customer deposits (excluding repos)     | 58.7             | 60.0                | (2%)   | 57.2             | 3%     |
| Risk elements in lending                |                  |                     |        |                  |        |
| - retail                                | 0.6              | 0.6                 | -      | 0.5              | 20%    |
| - commercial                            | 0.3              | 0.4                 | (25%)  | 0.5              | (40%)  |
| Total risk elements in lending          | 0.9              | 1.0                 | (10%)  | 1.0              | (10%)  |
| Loan:deposit ratio (excluding repos)    | 86%              | 85%                 | 100bp  | 81%              | 500bp  |
| Risk-weighted assets                    | 58.6             | 59.3                | (1%)   | 54.0             | 9%     |
| Spot exchange rate - US\$/£             | 1.599            | 1.548               |        | 1.605            |        |

## 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).

## Key points

- While sterling strengthened by 3% relative to the dollar at 31 March 2012 compared with 31 December 2011, the average sterling:dollar exchange rate was stable in Q1 2012.
- Performance is described in full in the US dollar-based financial statements set out on pages 44 and 45.



## US Retail &amp; Commercial (US Dollar)

|   | Quarter ended |             |          |
|---|---------------|-------------|----------|
|   | 31 March      | 31 December | 31 March |
|   | 2012          | 2011        | 2011     |
|   | \$m           | \$m         | \$m      |
| <b>Income statement</b>   |               |             |          |
| Net interest income   | 779           | 781         | 724      |
| Net fees and commissions  | 307           | 314         | 324      |
| Other non-interest income   | 102           | 148         | 116      |
| Non-interest income   | 409           | 462         | 440      |
| Total income  | 1,188         | 1,243       | 1,164    |
| Direct expenses   |               |             |          |
| - staff   | (350)         | (339)       | (322)    |
| - other   | (182)         | (216)       | (203)    |
| - litigation settlement   | (138)         | -           | -        |
| Indirect expenses   | (327)         | (307)       | (312)    |
|   | (997)         | (862)       | (837)    |
| Impairment losses   | (31)          | (102)       | (177)    |
| Operating profit  | 160           | 279         | 150      |
| <b>Analysis of income by product</b>  |               |             |          |
| Mortgages and home equity   | 211           | 202         | 175      |
| Personal lending and cards  | 156           | 157         | 179      |
| Retail deposits   | 346           | 373         | 349      |
| Commercial lending  | 251           | 233         | 221      |
| Commercial deposits   | 179           | 173         | 158      |
| Other   | 45            | 105         | 82       |
| Total income  | 1,188         | 1,243       | 1,164    |
| <b>Analysis of impairments by sector</b>  |               |             |          |
| Residential mortgages   | 9             | 6           | 9        |
| Home equity   | 35            | 31          | 63       |
| Corporate and commercial  | (25)          | 13          | 30       |
| Other consumer  | 6             | 33          | 32       |
| Securities  | 6             | 19          | 43       |
| Total impairment losses   | 31            | 102         | 177      |
| <b>Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector</b> |               |             |          |
| Residential mortgages   | 0.4%          | 0.3%        | 0.4%     |
| Home equity   | 0.6%          | 0.5%        | 1.1%     |
| Corporate and commercial  | (0.3%)        | 0.1%        | 0.4%     |
| Other consumer  | 0.2%          | 1.1%        | 1.2%     |
| Total   | 0.1%          | 0.4%        | 0.7%     |



## US Retail &amp; Commercial (US Dollar) (continued)

## Key metrics

|  | Quarter ended    |                     |                  |
|--|------------------|---------------------|------------------|
|  | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
| <b>Performance ratios</b>                              |                  |                     |                  |
| Return on equity (1)                                   | 4.5%             | 8.0%                | 4.5%             |
| Return on equity - excluding litigation settlement (1) | 8.4%             | 8.0%                | 4.5%             |
| Net interest margin                                    | 3.06%            | 3.04%               | 3.00%            |
| Cost:income ratio                                      | 84%              | 69%                 | 72%              |
| Cost:income ratio - excluding litigation settlement    | 72%              | 69%                 | 72%              |

|   | 31 March<br>2012 | 31 December<br>2011 | Change | 31 March<br>2011 | Change |
|---|------------------|---------------------|--------|------------------|--------|
|   | \$bn             | \$bn                |        | \$bn             |        |
| <b>Capital and balance sheet</b>        |                  |                     |        |                  |        |
| Total third party assets                | 117.9            | 117.3               | 1%     | 115.2            | 2%     |
| Loans and advances to customers (gross) |                  |                     |        |                  |        |
| - residential mortgages                 | 9.5              | 9.4                 | 1%     | 9.1              | 4%     |
| - home equity                           | 22.6             | 23.1                | (2%)   | 23.6             | (4%)   |
| - corporate and commercial              | 36.2             | 35.3                | 3%     | 32.2             | 12%    |
| - other consumer                        | 13.2             | 12.0                | 10%    | 10.5             | 26%    |
| Customer deposits (excluding repos)     | 81.5             | 79.8                | 2%     | 75.4             | 8%     |
| Risk elements in lending                | 93.9             | 92.8                | 1%     | 91.8             | 2%     |
| - retail                                | 0.9              | 1.0                 | (10%)  | 0.8              | 13%    |
| - commercial                            | 0.6              | 0.6                 | -      | 0.8              | (25%)  |
| Total risk elements in lending          | 1.5              | 1.6                 | (6%)   | 1.6              | (6%)   |
| Loan:deposit ratio (excluding repos)    | 86%              | 85%                 | 100bp  | 81%              | 500bp  |
| Risk-weighted assets                    | 93.7             | 91.8                | 2%     | 86.7             | 8%     |

## Note:

(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).

## Key points

In Q1 2012 US R&C continued to focus on its back-to-basics strategy, with the goal of increasing profitability through developing the customer franchise, managing expenses, and enhancing credit quality.

Consumer Banking accelerated the roll-out of its four core customer commitments to the entire branch footprint, finishing ahead of schedule. The aim of the commitments is to enhance the customer experience and further strengthen the Citizens brand, and is built around feedback received from customers.

Q1 2012 also saw Treasury Solutions (Domestic Global Transaction Services) reintegrated into the Commercial Banking Division. This reintegration will strengthen the cross-sell of Treasury Solutions products to the Commercial client base and follows the formation of a consolidated Consumer Banking division in H2 2011, aimed at strengthening the retail alignment and improving efficiencies.

A continued focus on strengthening and growing valued customer and client relationships has delivered results. For example, in Consumer Banking, the penetration of on-line banking customers, a key indicator of customer retention, continued to improve in Q1 2012 and the penetration of loan products to deposit households has shown a steady increase over the past eleven consecutive quarters.



## US Retail &amp; Commercial (US Dollar) (continued)

## Key points (continued)

In Commercial Banking, a recent Greenwich Associates survey indicated strong year-on-year improvements. Clients placed Citizens number one or number two versus peers in several key categories, including ‘values long-term relationships’, ‘understanding of your industry’, ‘likelihood to recommend bank’ and ‘likelihood to continue using for future banking needs’.

## Q1 2012 compared with Q4 2011

- Operating profit of £102 million (\$160 million) compares with £177 million (\$279 million) in the prior quarter, a decrease of £75 million (\$119 million), or 42%, reflecting the settlement of an outstanding litigation matter. Excluding the litigation settlement, operating profit increased by £13 million (\$19 million) or 7%, to £190 million (\$298 million) reflecting lower impairment losses partially offset by lower gains on the sale of securities.
- The macroeconomic operating environment remained challenging, with low rates, high unemployment, a soft housing market, sluggish consumer activity and the continuing impact of legislative changes.
- Net interest income was stable. In US dollar terms net interest income was down \$2 million reflecting reducing asset yields offset by lower funding costs. Net interest margin was up 2 basis points from the prior quarter.
- Loans and advances were down £0.7 billion, or 1%. In US dollar terms loans and advances were up \$1.7 billion, or 2%, due to strong growth in commercial loan volumes and the purchase of a \$1 billion auto loan portfolio, partly offset by the planned run-off of long term fixed rate consumer products.
- Non-interest income was down £34 million (\$53 million), or 12%, largely reflecting lower securities gains.
- Total expenses were up £87 million (\$135 million), or 16%, reflecting a litigation settlement of £88 million (\$138 million) in Q1 2012. A settlement has been reached in a class action lawsuit relating to how overdraft fees were assessed on customer accounts prior to 2010. Citizens was one of more than 30 banks included in these class action lawsuits.
- Excluding the litigation settlement, total expenses were down £1 million (\$3 million) reflecting a mortgage servicing rights recapture, lower costs related to regulatory projects and the elimination of the Everyday Points rewards programme for consumer debit card customers, partially offset by the phasing of the annual incentive plan accruals, and a seasonal increase in payroll taxes.
- Impairment losses were down £46 million (\$71 million), or 71%, reflecting an improved credit environment and lower impairments related to securities. REIL decreased from £1.0 million (\$1.6 billion) to £0.9 billion (\$1.5 billion).

## Q1 2012 compared with Q1 2011

- Operating profit increased to £102 million (\$160 million) from £94 million (\$150 million), an increase of £8 million (\$10 million), or 9%, substantially driven by significantly lower impairments and increased income, largely offset by the settlement of an outstanding litigation. Excluding the litigation settlement operating profit increased by £96 million (\$148 million), or 102%, to £190 million (\$298 million).

Net interest income was up £44 million (\$55 million), or 10%, driven by commercial loan growth, deposit pricing discipline and lower funding costs, partially offset by consumer loan run off.

US Retail & Commercial (US Dollar) (continued)

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Key points (continued)

Q1 2012 compared with Q1 2011 (continued)

- Customer deposits were up 3% with strong growth achieved in checking balances. Consumer checking balances grew by 3% while small business checking balances grew by 9% over the year.
- Non-interest income was down £15 million (\$31 million), or 5%, reflecting lower debit card fees, as a result of the Durbin Amendment legislation, and lower gains on the sale of securities, partially offset by strong mortgage banking fees.
- The Durbin Amendment became effective on 1 October 2011 and lowers the allowable interchange on debit transactions by approximately 50% to \$0.23 - \$0.24 per transaction.
- Total expenses excluding the litigation settlement were up £25 million (\$22 million), or 5% reflecting a change in accrual methodology related to the annual incentive plan during Q1 2011, partially offset by a mortgage servicing rights recapture and the elimination of the Everyday Points rewards programme for consumer debit card customers in Q1 2012.
- Impairment losses declined by £92 million (\$146 million), or 83%, reflecting an improved credit environment as well as lower impairments related to securities.

## Markets

|   | Quarter ended          |                        |                        |
|---|------------------------|------------------------|------------------------|
|   | 31 March<br>2012<br>£m | December<br>2011<br>£m | 31 March<br>2011<br>£m |
| <b>Income statement</b>                   |                        |                        |                        |
| Net interest income                       | 16                     | 20                     | 53                     |
| Net fees and commissions receivable       | 77                     | 25                     | 155                    |
| Income from trading activities            | 1,379                  | 501                    | 1,623                  |
| Other operating income                    | 262                    | 146                    | 277                    |
| Non-interest income                       | 1,718                  | 672                    | 2,055                  |
| Total income                              | 1,734                  | 692                    | 2,108                  |
| Direct expenses                           |                        |                        |                        |
| - staff                                   | (544)                  | (354)                  | (727)                  |
| - other                                   | (166)                  | (197)                  | (166)                  |
| Indirect expenses                         | (198)                  | (193)                  | (186)                  |
|   | (908)                  | (744)                  | (1,079)                |
| Impairment losses                         | (2)                    | (57)                   | -                      |
| Operating profit/(loss)                   | 824                    | (109)                  | 1,029                  |
| <b>Of which:</b>                          |                        |                        |                        |
| Ongoing businesses                        | 861                    | (96)                   | 1,039                  |
| Run-off businesses                        | (37)                   | (13)                   | (10)                   |
| <b>Analysis of income by product</b>      |                        |                        |                        |
| Rates                                     | 801                    | 396                    | 749                    |
| Currencies                                | 246                    | 259                    | 241                    |
| Asset backed products                     | 427                    | 29                     | 617                    |
| Credit markets                            | 313                    | 36                     | 430                    |
| Investor products and equity derivatives  | 123                    | 118                    | 216                    |
| Total income continuing businesses        | 1,910                  | 838                    | 2,253                  |
| Inter-divisional revenue share            | (186)                  | (177)                  | (208)                  |
| Run-off businesses                        | 10                     | 31                     | 63                     |
| Total income                              | 1,734                  | 692                    | 2,108                  |
| <b>Memo - Fixed income and currencies</b> |                        |                        |                        |
| Rates/currencies/ABP/credit markets       | 1,785                  | 718                    | 2,038                  |
| Less: primary credit markets              | (171)                  | (134)                  | (229)                  |
| Total fixed income and currencies         | 1,614                  | 584                    | 1,809                  |



## Markets (continued)

## Key metrics

|   | Quarter ended    |                     |                  |
|---|------------------|---------------------|------------------|
|   | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
| Performance ratios (ongoing businesses) |                  |                     |                  |
| Return on equity (1)                    | 21.1%            | (2.4%)              | 26.0%            |
| Cost:income ratio                       | 50%              | 106%                | 49%              |
| Compensation ratio (2)                  | 29%              | 49%                 | 33%              |

|   | 31 March<br>2012<br>£bn | 31 December<br>2011<br>£bn | Change | 31 March<br>2011<br>£bn | Change |
|---|-------------------------|----------------------------|--------|-------------------------|--------|
| Capital and balance sheet (ongoing businesses)                  |                         |                            |        |                         |        |
| Loans and advances  | 50.5                    | 61.2                       | (17%)  | 67.5                    | (25%)  |
| Reverse repos   | 90.8                    | 100.4                      | (10%)  | 104.9                   | (13%)  |
| Securities  | 106.6                   | 108.1                      | (1%)   | 128.7                   | (17%)  |
| Cash and eligible bills   | 24.2                    | 28.1                       | (14%)  | 33.9                    | (29%)  |
| Other   | 27.7                    | 14.8                       | 87%    | 31.6                    | (12%)  |
| Total third party assets (excluding derivatives mark-to-market) | 299.8                   | 312.6                      | (4%)   | 366.6                   | (18%)  |
| Net derivative assets (after netting)                           | 29.3                    | 37.0                       | (21%)  | 34.5                    | (15%)  |
| Risk-weighted assets  | 115.6                   | 120.3                      | (4%)   | 114.3                   | 1%     |

## Notes:

- (1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions), for the ongoing businesses.
- (2) Compensation ratio is based on staff costs as a percentage of total income.

|   | Quarter ended          |                           |                        |
|---|------------------------|---------------------------|------------------------|
|   | 31 March<br>2012<br>£m | 31 December<br>2011<br>£m | 31 March<br>2011<br>£m |
| Run-off businesses (1)  |                        |                           |                        |
| Total income  | 10                     | 31                        | 63                     |
| Direct expenses   | (47)                   | (44)                      | (73)                   |
| Operating loss  | (37)                   | (13)                      | (10)                   |
| Balance sheet   |                        |                           |                        |
| Total third party assets (excluding derivatives mark to market) | 0.8                    | 1.3                       | 3.0                    |

Note:

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

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## Markets (continued)

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### Key points

Good progress has been made on the restructure announced in January 2012. The sale of Hoare Govett has been completed and sales of other businesses designated for exit are well advanced. The Markets management team and governance structure is in place and implementation of the new structure through the lower levels of the organisation is underway.

Markets benefited from a traditionally strong first quarter of the year as investors returned boosted by the ECB's Long Term Refinancing Operation (LTRO) programme and a re-emergence of confidence. However, overall activity and risk appetite remained tempered by continued concerns over the economic outlook, especially in Europe.

### Q1 2012 compared with Q4 2011

- Markets returned to profit during Q1 2012, reflecting seasonally improved trading conditions and greater investor confidence.
- Rates benefited from the increased liquidity and normalisation in the markets following the success of the ECB's LTRO.
- Currencies fell back as client activity declined. In response, client interaction has been increased through a more extensive programme of trading and research contact.
- Asset backed products recovered strongly from a poor performance in Q4 2011. Trading volumes for non-agency products doubled, driven by strong investor demand, partly reflecting an improving macroeconomic environment in the United States.
- Capital Markets benefited from the improved credit environment following the ECB's LTRO and a seasonal recovery in origination activity. The EMEA origination business completed two large transactions during the quarter, generating significant fees. Flow credit trading benefited from a rally in corporate credit and inflows from US and European investors contrasting sharply with Q4 2011, when client activity and investor confidence were both weak.
- Total expenses increased by 22%, with staff costs up 54%, reflecting a higher incentive compensation accrual related to increased revenue compared with Q4 2011, partially offset by reduced headcount. Other costs declined as cost saving programmes continued to take effect. Improvement in the cost:income ratio, and a reduction in the compensation ratio largely reflected improved revenue performance.
- Impairments in both Q1 2012 and Q4 2011 reflected a small number of individual provisions.
- Markets continued to carefully manage the balance sheet, with third party assets falling by 4% compared with the end of 2011, well on track to meet previously disclosed funded balance sheet targets.
- Return on equity for the ongoing businesses was 21%, a significant improvement on the prior quarter due to the recovery in revenue.





Markets (continued)

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Key points (continued)

Q1 2012 compared with Q1 2011

- Both Q1 2012 and Q1 2011 benefited from seasonally high levels of investor activity, with Q1 2012 reflecting a significant recovery from prior quarter activity levels.
- Operating profit of the ongoing businesses fell 17%, driven by lower revenue, partly offset by lower costs.
  - The largest absolute fall in revenue was in Asset Backed Products where the recovery in client demand in Q1 2012, though significant, was not as strong as Q1 2011. Balance sheet usage was materially reduced, despite an increase in 'pass-through' trading volumes following the reorganisation of the agency desk.
  - Similarly, Credit Markets also recovered in the quarter, although the increase in confidence and activity was less pronounced than Q1 2011.
  - Investor Products and Equity Derivatives weakened significantly compared with a particularly strong Q1 2011, falling by 43%, as client volumes were significantly below the levels of a year ago.
- Costs also declined, reflecting a lower level of incentive rewards and the implementation of cost saving measures, driving reduced headcount.
- Active balance sheet management has lowered third party assets by 18% with an emphasis on reducing levels of short-term unsecured wholesale funding, improving the stability of the funding base.
- Risk-weighted assets increased by 1% driven by the implementation of CRD III at the end of 2011, partially offset by lower levels of market risk across the period.
- Return on equity for the ongoing businesses fell from 26% to 21% reflecting lower revenue, combined with higher risk-weighted assets.

## Direct Line Group

|  | Quarter ended    |                     |                  |
|--|------------------|---------------------|------------------|
|  | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
|  | £m               | £m                  | £m               |
| <b>Income statement</b>                          |                  |                     |                  |
| Earned premiums                                  | 1,020            | 1,043               | 1,065            |
| Reinsurers' share                                | (82)             | (71)                | (54)             |
| Net premium income                               | 938              | 972                 | 1,011            |
| Fees and commissions                             | (109)            | (161)               | (75)             |
| Instalment income                                | 31               | 33                  | 35               |
| Investment income                                | 90               | 60                  | 64               |
| Other income                                     | 16               | 19                  | 35               |
| Total income                                     | 966              | 923                 | 1,070            |
| Direct expenses                                  |                  |                     |                  |
| - staff expenses                                 | (79)             | (75)                | (76)             |
| - other expenses                                 | (91)             | (79)                | (87)             |
| Indirect expenses                                | (63)             | (55)                | (56)             |
|  | (233)            | (209)               | (219)            |
| Net claims                                       | (649)            | (589)               | (784)            |
| Operating profit                                 | 84               | 125                 | 67               |
| <b>Analysis of income by product</b>             |                  |                     |                  |
| Personal lines motor excluding broker            |                  |                     |                  |
| - own brands                                     | 451              | 460                 | 468              |
| - partnerships                                   | 36               | 36                  | 80               |
| Personal lines home excluding broker             |                  |                     |                  |
| - own brands                                     | 121              | 126                 | 121              |
| - partnerships                                   | 92               | 83                  | 102              |
| Personal lines rescue and other excluding broker |                  |                     |                  |
| - own brands                                     | 46               | 47                  | 47               |
| - partnerships                                   | 44               | (15)                | 49               |
| Commercial                                       | 91               | 95                  | 87               |
| International                                    | 87               | 88                  | 81               |
| Other (1)  | (2)              | 3                   | 35               |
| Total income                                     | 966              | 923                 | 1,070            |

For the notes to this table refer to page 54.

## Direct Line Group (continued)

## Key metrics

|  | Quarter ended    |                     |                  |
|--|------------------|---------------------|------------------|
|  | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
| <b>In-force policies (000s)</b>                  |                  |                     |                  |
| Personal lines motor excluding broker            |                  |                     |                  |
| - own brands                                     | 3,827            | 3,787               | 4,071            |
| - partnerships                                   | 322              | 320                 | 559              |
| Personal lines home excluding broker             |                  |                     |                  |
| - own brands                                     | 1,812            | 1,811               | 1,776            |
| - partnerships                                   | 2,520            | 2,497               | 2,501            |
| Personal lines rescue and other excluding broker |                  |                     |                  |
| - own brands                                     | 1,803            | 1,844               | 1,971            |
| - partnerships                                   | 7,493            | 7,307               | 7,909            |
| Commercial                                       | 417              | 422                 | 383              |
| International                                    | 1,412            | 1,387               | 1,234            |
| Other (1)  | 43               | 1                   | 418              |
| Total in-force policies (2)                      | 19,649           | 19,376              | 20,822           |
| <b>Gross written premium (£m)</b>                |                  |                     |                  |
| Personal lines motor excluding broker            |                  |                     |                  |
| - own brands                                     | 398              | 348                 | 390              |
| - partnerships                                   | 37               | 28                  | 37               |
| Personal lines home excluding broker             |                  |                     |                  |
| - own brands                                     | 110              | 112                 | 112              |
| - partnerships                                   | 136              | 132                 | 138              |
| Personal lines rescue and other excluding broker |                  |                     |                  |
| - own brands                                     | 43               | 40                  | 42               |
| - partnerships                                   | 41               | 44                  | 40               |
| Commercial                                       | 107              | 102                 | 112              |
| International                                    | 173              | 142                 | 169              |
| Other (1)  | 1                | 2                   | (3)              |
| Total gross written premium                      | 1,046            | 950                 | 1,037            |

For the notes to this table refer to page 54.

## Direct Line Group (continued)

## Key metrics (continued)

|                                     | Quarter ended |                  |               |
|-------------------------------------|---------------|------------------|---------------|
|                                     | 31 March 2012 | 31 December 2011 | 31 March 2011 |
| <b>Performance ratios</b>           |               |                  |               |
| Return on tangible equity (3)       | 7.4%          | 11.0%            | 6.3%          |
| Loss ratio (4)                      | 69%           | 61%              | 78%           |
| Commission ratio (5)                | 12%           | 17%              | 7%            |
| Expense ratio (6)                   | 25%           | 22%              | 22%           |
| Combined operating ratio (7)        | 106%          | 100%             | 107%          |
| <b>Balance sheet</b>                |               |                  |               |
| Total insurance reserves - (£m) (8) | 8,132         | 7,284            | 7,617         |

## Notes:

- (1) 'Other' predominantly consists of the personal lines broker business and from Q1 2012 business previously reported in Non-Core.
- (2) Total in-force policies include travel and creditor policies sold through RBS Group. These comprise travel policies included in bank accounts e.g. Royalties Gold Account, and creditor policies sold with bank products including mortgage, loan and card payment protection.
- (3) Return on tangible equity is based on annualised operating profit after tax divided by average tangible equity. Q1 2012 tangible equity has been adjusted for a £300 million dividend paid to RBS Group on 27 March 2012.
- (4) Loss ratio is based on net claims divided by net premium income.
- (5) Commission ratio is based on fees and commissions divided by net premium income.
- (6) Expense ratio is based on expenses divided by net premium income.
- (7) Combined operating ratio is the sum of the loss, commission and expense ratios.
- (8) Consists of general and life insurance liabilities, unearned premium reserve and liability adequacy reserve. Q1 2012 includes business previously reported in Non-Core.

## Key points

Direct Line Group continues to make good progress ahead of its divestment from the RBS Group. Q1 2012 operating profit of £84 million was negatively affected by adverse weather, but benefited from reserve releases from prior years.

The second phase of Direct Line Group's transformation plan - to rebuild competitive advantage - is continuing and tangible benefits are beginning to be delivered. During Q1 2012, Direct Line Group began renewing own brand Home policies on its new rating engine as part of the ongoing roll out of increased functionality. Additionally, since July last year, over 200,000 claims have been registered on the new claims management system and over 1,500 new claims are now processed every day. The rationalisation of sites continues as planned with one further location exited during Q1 2012.

In the period from 2009 to 2011 Motor in-force policies decreased by 27%, in line with the de-risking and exit of certain business lines during the first phase of Direct Line Group's transformation plan. During Q1 2012 Motor in-force policies grew by 1% marking a stabilisation of the portfolio. This was achieved whilst maintaining underwriting discipline.



## Direct Line Group (continued)

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### Key points (continued)

During Q1 2012 Direct Line Group made progress with a number of partnership arrangements, which represent a significant portion of the Home segment. Expanding on the established relationship with Nationwide Building Society, a contract was signed to extend the provision of home insurance until the end of 2015. Direct Line Group is also concluding terms with UK Retail division for an arm's length, five year distribution agreement for the continued provision of general insurance products to its customers after the divestment of Direct Line Group. Additionally, following the launch of the Sainsbury's Bank car insurance partnership, during Q1 2012 the contract was extended to provide home insurance for Sainsbury's customers.

Following a period of strong growth, the International division consolidated its position in the quarter. Growth in Italy arose primarily from price increases, while in Germany a contract was signed with Check24 to expand Direct Line Group's market reach.

Commercial maintained underwriting discipline in a difficult market and work continued to improve the product offering and service to brokers.

Investment markets remained challenging with continued low yields. Direct Line Group's investment portfolio is composed primarily of cash, investment grade corporate bonds and gilts with minimal exposure to periphery Eurozone nations. At 31 March 2012, there was no exposure to debt issued in Portugal or Greece and a total exposure of £57 million, less than 1% of the portfolio, to debt issued in Ireland, Italy and Spain.

### Separation update

Ahead of the planned divestment from RBS Group, which is targeted to commence in the second half of 2012 by way of a public flotation, subject to market conditions, Direct Line Group has continued with activities in readiness for standalone status. The first stage of the separation programme is progressing as Direct Line Group begins the novation or transfer of contracts with RBS Group suppliers, and where necessary, commencement of the tendering process for new contracts. Standalone head office and other control functions are being established and key senior management have been appointed. On 23 March 2012 the appointment of Mike Biggs as Chairman of Direct Line Group was announced. He brings with him extensive industry experience and a successful track record.

A significant milestone was reached for Direct Line Group's principal underwriting entity, U K Insurance Limited, being assigned an inaugural credit rating of A, with a stable outlook, from Standard and Poor's and an A2 rating, with a stable outlook, from Moody's Investors Service. Following publication of these ratings, Direct Line Group issued £500 million of Tier 2 subordinated debt on 27 April 2012.

Overall, Direct Line Group has powerful brands and is focused on delivering a disciplined, profitable business while maintaining a robust balance sheet. It has continued to make progress in executing the second phase of its business transformation plan, rebuilding competitive advantage.

Direct Line Group (continued)

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Key points (continued)

Q1 2012 compared with Q4 2011

- Operating profit of £84 million was £41 million, 33%, lower compared with Q4 2011, due to higher weather related claims experienced during Q1 2012 and increased expenses resulting from the timing of marketing expenditure, partially offset by higher investment income. Q1 2012 includes the results of insurance business previously reported in Non-Core, which overall had a negligible impact on operating result.
- Gross written premium of £1,046 million rose by £96 million, or 10%, primarily as a result of the Motor sales campaign with enhanced Direct Line and Churchill marketing activity and an increase in International gross written premium, where a significant proportion of policies on the German book start on 1 January each year.
- Total income of £966 million rose £43 million, or 5%, primarily due to the non-repeat of £57 million profit share paid to UK Retail during Q4 2011, which was partially offset by commissions payable relating to business previously reported in Non-Core and lower net premium income.
- Net claims of £649 million were £60 million, or 10%, higher partly due to the adverse weather experienced early in Q1 2012 and the non-repeat of a release from creditor insurance reserves in Q4 2011, which was matched by a similar payment to UK Retail within fees and commissions.
- Direct expenses of £170 million were £16 million, or 10%, higher mainly due to the timing of marketing expenditure associated with the new Churchill advertising campaign.
- Investment income of £90 million was £30 million, or 50%, higher than Q4 2011 largely as a result of the inclusion of business previously reported in Non-Core and investment gains arising from portfolio management initiatives.
- Total in-force policies grew by 1% due to Rescue and other personal lines, Motor and International. Rescue and other personal lines business grew as a result of a one-off migration of UK Retail customers to packaged current accounts, increasing the uptake of bundled travel insurance. Additionally 43,000 in-force policies relate to business moved across from Non-Core during Q1 2012 in preparation for separation.



Direct Line Group (continued)

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Key points (continued)

Q1 2012 compared with Q1 2011

- Operating profit rose by £17 million, or 25%, compared with Q1 2011 due to an improvement in loss ratio and higher investment income, which was partially offset by higher commissions payable and increased direct expenses relating to the timing of marketing and to the preparation for separation.
- Gross written premiums rose by £9 million, or 1%, driven by Motor as a result of sale and marketing campaigns and due to price increases in International.
- Total income fell by £104 million, or 10%, reflecting lower volumes written during the previous year following planned de-risking and higher commissions payable, partly due to the inclusion of business previously reported within Non-Core.
- Net claims decreased by £135 million, or 17%, through a combination of reduced exposure on Motor and the exit of certain business lines. Additionally Q1 2012 includes reserve releases from prior years.
- Direct expenses increased by £7 million or 4%, due to the marketing expenditure associated with the new Churchill advertising campaign, and activity to support separation.
- Investment income rose by £26 million, or 41%, compared with Q1 2011 due to the inclusion of business previously reported within Non-Core and investment gains arising from portfolio management initiatives.
- Combined operating ratio improved by 1 percent compared with Q1 2011 due to lower claims offset by higher expenses and commissions payable. For continuing business only (excluding personal lines broker and business previously reported in Non-Core) the combined operating ratio was 104% in Q1 2012 compared to 106% in Q1 2011.

## Central items

|                             | Quarter ended    |                     |                  |
|-----------------------------|------------------|---------------------|------------------|
|                             | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
|                             | £m               | £m                  | £m               |
| Central items not allocated | (144)            | 89                  | (32)             |

## Note:

(1) Costs/charges are denoted by brackets.

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

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

## Key points

## Q1 2012 compared with Q4 2011

- Central items not allocated represented a debit of £144 million, a decrease of £233 million compared with Q4 2011. The debit primarily results from unallocated volatility costs in Group Treasury.
- Q4 2011 benefited from higher securities gains and a VAT recovery.

## Q1 2012 compared with Q1 2011

- Central items not allocated represented a debit of £144 million, a decrease of £112 million compared with Q1 2011.
- The decrease was largely as a result of lower securities gains in Q1 2012, £90 million compared with £158 million.

## Non-Core

|                                | Quarter ended    |                     |                  |
|--------------------------------|------------------|---------------------|------------------|
|                                | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
|                                | £m               | £m                  | £m               |
| <b>Income statement</b>        |                  |                     |                  |
| Net interest income            | 13               | 43                  | 146              |
| Funding costs of rental assets | 51               | 56                  | 53               |
| Net interest income            | 64               | 99                  | 199              |
| Net fees and commissions       | 31               | (47)                | 47               |
| Loss from trading activities   | (270)            | (407)               | (298)            |
| Insurance net premium income   | -                | 9                   | 138              |
| Other operating income         |                  |                     |                  |
| - rental income                | 219              | 219                 | 245              |
| - other (1)                    | 225              | (151)               | 104              |
| Non-interest income            | 205              | (377)               | 236              |
| Total income/(loss)            | 269              | (278)               | 435              |
| Direct expenses                |                  |                     |                  |
| - staff                        | (71)             | (82)                | (91)             |
| - operating lease depreciation | (83)             | (91)                | (87)             |
| - other                        | (41)             | (57)                | (69)             |
| Indirect expenses              | (68)             | (84)                | (76)             |
|                                | (263)            | (314)               | (323)            |
| Insurance net claims           | -                | 61                  | (128)            |
| Impairment losses              | (489)            | (751)               | (1,075)          |
| Operating loss                 | (483)            | (1,282)             | (1,091)          |

## Note:

(1) Includes gains/(losses) on disposals (Q1 2012 - £182 million gain; Q4 2011 - £36 million loss; Q1 2011 - £34 million loss).

## Non-Core (continued)

|   | Quarter ended    |                     |                  |
|---|------------------|---------------------|------------------|
|   | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
|   | £m               | £m                  | £m               |
| <b>Analysis of income/(loss) by business</b>  |                  |                     |                  |
| Banking and portfolios  | 177              | (142)               | 556              |
| International businesses  | 85               | 92                  | 81               |
| Markets   | 7                | (228)               | (202)            |
| Total income/(loss)   | 269              | (278)               | 435              |
| <b>Loss from trading activities</b>   |                  |                     |                  |
| Monoline exposures  | (128)            | (243)               | (130)            |
| Credit derivative product companies   | (38)             | (19)                | (40)             |
| Asset-backed products (1)   | 31               | (22)                | 66               |
| Other credit exotics  | 20               | (8)                 | (168)            |
| Equities  | (1)              | 1                   | 1                |
| Banking book hedges   | -                | (36)                | (29)             |
| Other   | (154)            | (80)                | 2                |
|   | (270)            | (407)               | (298)            |
| <b>Impairment losses</b>  |                  |                     |                  |
| Banking and portfolios  | 484              | 714                 | 1,058            |
| International businesses  | 11               | 30                  | 20               |
| Markets   | (6)              | 7                   | (3)              |
| Total impairment losses   | 489              | 751                 | 1,075            |
| <b>Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) (2)</b> |                  |                     |                  |
| Banking and portfolios  | 2.8%             | 3.6%                | 4.1%             |
| International businesses  | 2.1%             | 5.3%                | 2.1%             |
| Markets   | (0.8%)           | (8.8%)              | (0.1%)           |
| Total   | 2.7%             | 3.7%                | 4.0%             |

## Notes:

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

(2) Includes disposal groups.

## Non-Core (continued)

## Key metrics

|                            | Quarter ended    |                     |                  |
|----------------------------|------------------|---------------------|------------------|
|                            | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
| Performance ratios         |                  |                     |                  |
| Net interest margin        | 0.31%            | 0.42%               | 0.72%            |
| Cost:income ratio          | 98%              | nm                  | 74%              |
| Adjusted cost:income ratio | 98%              | nm                  | 105%             |

|  | 31 March<br>2012 | 31 December<br>2011 | Change | 31 March<br>2011 | Change |
|--|------------------|---------------------|--------|------------------|--------|
|  | £bn              | £bn                 |        | £bn              |        |
| Capital and balance sheet                            |                  |                     |        |                  |        |
| Total third party assets (excluding derivatives) (1) | 83.3             | 93.7                | (11%)  | 124.8            | (33%)  |
| Total third party assets (including derivatives)     | 91.8             | 104.7               | (12%)  | 137.1            | (33%)  |
| Loans and advances to customers (gross) (2)          | 72.7             | 79.4                | (8%)   | 101.0            | (28%)  |
| Customer deposits (2)                                | 3.1              | 3.5                 | (11%)  | 7.1              | (56%)  |
| Risk elements in lending (2)                         | 23.5             | 24.0                | (2%)   | 24.0             | (2%)   |
| Risk-weighted assets (1)                             | 89.9             | 93.3                | (4%)   | 128.5            | (30%)  |

nm = not meaningful

## Notes:

- (1) Includes RBS Sempra Commodities JV (31 March 2012 third party assets, excluding derivatives (TPAs) nil, RWAs £1.0 billion, 31 December 2011 TPAs £0.1 billion, RWAs £2.4 billion, 31 March 2011 TPAs £3.9 billion, RWAs £1.6 billion).
- (2) Excludes disposal groups.

|  | 31 March<br>2012 | 31 December<br>2011 | 31 March<br>2011 |
|--|------------------|---------------------|------------------|
|  | £bn              | £bn                 | £bn              |
| Gross customer loans and advances          |                  |                     |                  |
| Banking and portfolios                     | 70.8             | 77.3                | 98.0             |
| International businesses                   | 1.9              | 2.0                 | 2.9              |
| Markets                                    | -                | 0.1                 | 0.1              |
|  | 72.7             | 79.4                | 101.0            |
| Risk-weighted assets                       |                  |                     |                  |
| Banking and portfolios                     | 66.1             | 64.8                | 76.5             |
| International businesses                   | 3.8              | 4.1                 | 5.1              |
| Markets                                    | 20.0             | 24.4                | 46.9             |
|  | 89.9             | 93.3                | 128.5            |
| Third party assets (excluding derivatives) |                  |                     |                  |

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|                          |      |      |       |
|--------------------------|------|------|-------|
| Banking and portfolios   | 73.2 | 81.3 | 105.4 |
| International businesses | 2.7  | 2.9  | 3.8   |
| Markets                  | 7.4  | 9.5  | 15.6  |
|                          | 83.3 | 93.7 | 124.8 |

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## Non-Core (continued)

## Third party assets (excluding derivatives)

## Quarter ended 31 March 2012

|                               | 31 December<br>2011<br>£bn | Run-off | Disposals/<br>restructuring<br>£bn | Drawings/<br>roll overs<br>£bn | Impairments<br>£bn | FX<br>£bn | 31 March<br>2012<br>£bn |
|-------------------------------|----------------------------|---------|------------------------------------|--------------------------------|--------------------|-----------|-------------------------|
| Commercial real estate        | 31.5                       | (1.5)   | (0.4)                              | 0.1                            | (0.4)              | (0.2)     | 29.1                    |
| Corporate                     | 42.2                       | (0.8)   | (1.1)                              | 0.4                            | (0.1)              | (0.5)     | 40.1                    |
| SME                           | 2.1                        | (0.3)   | -                                  | 0.1                            | -                  | -         | 1.9                     |
| Retail                        | 6.1                        | (0.2)   | (1.6)                              | -                              | -                  | (0.1)     | 4.2                     |
| Other                         | 1.9                        | (1.2)   | -                                  | -                              | -                  | (0.1)     | 0.6                     |
| Markets                       | 9.8                        | (0.2)   | (2.1)                              | 0.1                            | -                  | (0.2)     | 7.4                     |
| Total (excluding derivatives) | 93.6                       | (4.2)   | (5.2)                              | 0.7                            | (0.5)              | (1.1)     | 83.3                    |
| Markets - RBS                 |                            |         |                                    |                                |                    |           |                         |
| Sempra Commodities JV         | 0.1                        | (0.1)   | -                                  | -                              | -                  | -         | -                       |
| Total (1)                     | 93.7                       | (4.3)   | (5.2)                              | 0.7                            | (0.5)              | (1.1)     | 83.3                    |

## Quarter ended 31 December 2011

|                               | 30<br>September<br>2011<br>£bn | Run-off | Disposals/<br>restructuring<br>£bn | Drawings/<br>roll overs<br>£bn | Impairments<br>£bn | FX<br>£bn | 31<br>December<br>2011<br>£bn |
|-------------------------------|--------------------------------|---------|------------------------------------|--------------------------------|--------------------|-----------|-------------------------------|
| Commercial real estate        | 35.3                           | (1.8)   | (1.1)                              | 0.1                            | (0.6)              | (0.4)     | 31.5                          |
| Corporate                     | 46.9                           | (1.6)   | (3.6)                              | 0.6                            | (0.1)              | -         | 42.2                          |
| SME                           | 2.4                            | (0.3)   | -                                  | 0.1                            | (0.1)              | -         | 2.1                           |
| Retail                        | 7.4                            | (0.2)   | (1.1)                              | -                              | -                  | -         | 6.1                           |
| Other                         | 1.9                            | -       | -                                  | -                              | -                  | -         | 1.9                           |
| Markets                       | 10.9                           | (0.2)   | (1.0)                              | -                              | -                  | 0.1       | 9.8                           |
| Total (excluding derivatives) | 104.8                          | (4.1)   | (6.8)                              | 0.8                            | (0.8)              | (0.3)     | 93.6                          |
| Markets - RBS                 |                                |         |                                    |                                |                    |           |                               |
| Sempra Commodities JV         | 0.3                            | -       | (0.2)                              | -                              | -                  | -         | 0.1                           |
| Total (1)                     | 105.1                          | (4.1)   | (7.0)                              | 0.8                            | (0.8)              | (0.3)     | 93.7                          |

## Note:

(1) Disposals of £5 billion have been signed as at 31 March 2012 but are pending completion (31 December 2011 - £0.2 billion; 31 March 2011 - £7 billion).

## Non-Core (continued)

|   | Quarter ended |                  |               |
|---|---------------|------------------|---------------|
|   | 31 March 2012 | 31 December 2011 | 31 March 2011 |
|   | £m            | £m               | £m            |
| Impairment losses by donating division and sector |               |                  |               |
| <b>UK Retail</b>                                  |               |                  |               |
| Mortgages   | -             | -                | 3             |
| Personal  | 2             | (28)             | (3)           |
| <b>Total UK Retail</b>                            | <b>2</b>      | <b>(28)</b>      | <b>-</b>      |
| <b>UK Corporate</b>                               |               |                  |               |
| Manufacturing and infrastructure                  | 7             | 26               | -             |
| Property and construction                         | 55            | 83               | 13            |
| Transport   | (2)           | 6                | 20            |
| Financial institutions                            | 1             | 1                | 3             |
| Lombard   | 10            | 20               | 18            |
| Other   | 6             | 21               | 11            |
| <b>Total UK Corporate</b>                         | <b>77</b>     | <b>157</b>       | <b>65</b>     |
| <b>Ulster Bank</b>                                |               |                  |               |
| Commercial real estate                            |               |                  |               |
| - investment                                      | 84            | 151              | 223           |
| - development                                     | 142           | 77               | 503           |
| Other corporate                                   | 34            | 15               | 107           |
| Other EMEA  | 4             | 2                | 6             |
| <b>Total Ulster Bank</b>                          | <b>264</b>    | <b>245</b>       | <b>839</b>    |
| <b>US Retail &amp; Commercial</b>                 |               |                  |               |
| Auto and consumer                                 | 9             | 7                | 25            |
| Cards   | 5             | 1                | (7)           |
| SBO/home equity                                   | 18            | 33               | 53            |
| Residential mortgages                             | 3             | 2                | 4             |
| Commercial real estate                            | (3)           | 14               | 19            |
| Commercial and other                              | (4)           | 7                | (3)           |
| <b>Total US Retail &amp; Commercial</b>           | <b>28</b>     | <b>64</b>        | <b>91</b>     |
| <b>International Banking</b>                      |               |                  |               |
| Manufacturing and infrastructure                  | 6             | 42               | (2)           |
| Property and construction                         | 86            | 241              | 105           |
| Transport   | 13            | 10               | (6)           |
| Telecoms, media and technology                    | 16            | 18               | (11)          |
| Banking and financial institutions                | (12)          | (31)             | 1             |
| Other   | 9             | 29               | (8)           |



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|                             |     |     |       |
|-----------------------------|-----|-----|-------|
| Total International Banking | 118 | 309 | 79    |
| Other                       |     |     |       |
| Wealth                      | (1) | -   | 1     |
| Central items               | 1   | 4   | -     |
| Total Other                 | -   | 4   | 1     |
| Total impairment losses     | 489 | 751 | 1,075 |

## Non-Core (continued)

|   | 31 March 2012 | 31 December 2011 | 31 March 2011 |
|---|---------------|------------------|---------------|
|   | £bn           | £bn              | £bn           |
| Gross loans and advances to customers (excluding reverse repurchase agreements) by donating division and sector |               |                  |               |
| <b>UK Retail</b>  |               |                  |               |
| Mortgages   | -             | 1.4              | 1.6           |
| Personal  | 0.1           | 0.1              | 0.3           |
| Total UK Retail   | 0.1           | 1.5              | 1.9           |
| <b>UK Corporate</b>   |               |                  |               |
| Manufacturing and infrastructure  | 0.1           | 0.1              | 0.2           |
| Property and construction   | 4.8           | 5.9              | 8.0           |
| Transport   | 4.3           | 4.5              | 5.1           |
| Financial institutions  | 0.6           | 0.6              | 0.8           |
| Lombard   | 0.9           | 1.0              | 1.5           |
| Other   | 7.0           | 7.5              | 7.5           |
| Total UK Corporate  | 17.7          | 19.6             | 23.1          |
| <b>Ulster Bank</b>  |               |                  |               |
| Commercial real estate  |               |                  |               |
| - investment  | 3.7           | 3.9              | 3.9           |
| - development   | 8.0           | 8.5              | 8.9           |
| Other corporate   | 1.7           | 1.6              | 2.0           |
| Other EMEA  | 0.4           | 0.4              | 0.5           |
| Total Ulster Bank   | 13.8          | 14.4             | 15.3          |
| <b>US Retail &amp; Commercial</b>   |               |                  |               |
| Auto and consumer   | 0.8           | 0.8              | 2.4           |
| Cards   | 0.1           | 0.1              | 0.1           |
| SBO/home equity   | 2.4           | 2.5              | 2.9           |
| Residential mortgages   | 0.5           | 0.6              | 0.7           |
| Commercial real estate  | 0.9           | 1.0              | 1.4           |
| Commercial and other  | -             | 0.4              | 0.4           |
| Total US Retail & Commercial  | 4.7           | 5.4              | 7.9           |
| <b>International Banking</b>  |               |                  |               |
| Manufacturing and infrastructure  | 5.8           | 6.6              | 8.9           |
| Property and construction   | 15.4          | 15.3             | 19.1          |
| Transport   | 2.4           | 3.2              | 4.5           |
| Telecoms, media and technology  | 0.7           | 0.7              | 1.1           |
| Banking and financial institutions  | 5.7           | 5.6              | 11.1          |
| Other   | 6.4           | 7.0              | 8.4           |
| Total International Banking   | 36.4          | 38.4             | 53.1          |

|   |       |       |       |
|---|-------|-------|-------|
| Other   |       |       |       |
| Wealth  | 0.2   | 0.2   | 0.4   |
| Direct Line Group   | -     | -     | 0.1   |
| Central items   | (0.3) | (0.2) | (1.0) |
| Total Other   | (0.1) | -     | (0.5) |
| Gross loans and advances to customers (excluding reverse repurchase agreements) | 72.6  | 79.3  | 100.8 |

Non-Core (continued)

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Key points

Non-Core has maintained momentum from 2011 and delivered further reductions in third party assets, impairments and costs during Q1 2012.

Third party assets fell to £83 billion in the first quarter, a reduction of £11 billion driven principally by disposals of £5 billion and run-off of £4 billion. The division has also signed, but not yet completed, a further £5 billion of disposals, including the sale of RBS Aviation Capital.

The division continues to focus upon reducing exposures to current and future capital intensive positions. Risk-weighted assets decreased by £3 billion resulting from foreign exchange and mark-to-market movements of £4 billion, sales and run-off of £2 billion and market risk movements of £2 billion, largely offset by higher operational risk RWAs, up £4 billion. Restructuring and disposal activity also reduced Non-Core deductions to the capital base by £0.8 billion in Q1 2012.

An operating loss of £483 million in Q1 2012 was £799 million lower than Q4 2011. Income increased as the losses associated with restructuring monoline exposures and valuation movements on equity positions in Q4 2011 were not repeated. In addition, trading income increased as a result of tightening spreads and favourable market conditions. Impairments declined by £262 million which reflected improvements across the portfolio in general, although Ulster Bank charges remain elevated.

Q1 2012 compared with Q4 2011

- The lower operating loss of £483 million reflected improvements in income, costs and impairments.
- Trading losses decreased by £137 million, principally reflecting lower losses resulting from restructuring activity focussed on reducing capital intensive positions. Trading revenues also improved, as prices rallied and spreads tightened. Other income of £225 million was £376 million favourable to Q4 2011 due to positive equity valuation movements as well as gains on disposal of £182 million compared with losses of £36 million in Q4 2011.
- Third party assets fell by £11 billion to £83 billion in Q1 2012 principally reflecting disposals of £5 billion and run-off of £4 billion.

Q1 2012 compared with Q1 2011

- Third party assets of £83 billion were £42 billion lower than Q1 2011 principally reflecting disposals of £22 billion and run-off of £19 billion.
- Risk-weighted assets decreased by £39 billion between Q1 2011 and Q1 2012. The decrease principally reflects the restructuring of monoline exposures in 2011 which totalled £15 billion, and sales and run-off of £14 billion. A further £9 billion reduction was due to market risk reductions as a result of de-risking activities. These were partially offset by an increase in operational risk RWAs.
- The Q1 2012 operating loss of £483 million was £608 million favourable to Q1 2011 principally due to lower impairments incurred in relation to the Ulster Bank portfolio and reduced costs due to the ongoing run-down of the division, partially offset by lower revenues relate to the reduction of the balance sheet.
-

Since Q1 2011 headcount has reduced by approximately 2,400, 36%, reflecting business and country exits and run-down, specifically in India, China, RBS Sempra Commodities and Non-Core Insurance.

Condensed consolidated income statement  
for the quarter ended 31 March 2012

|   | Quarter ended          |                        |                        |
|---|------------------------|------------------------|------------------------|
|   | 31 March<br>2012<br>£m | December<br>2011<br>£m | 31 March<br>2011<br>£m |
| Interest receivable   | 5,017                  | 5,234                  | 5,401                  |
| Interest payable  | (2,018)                | (2,160)                | (2,100)                |
| Net interest income   | 2,999                  | 3,074                  | 3,301                  |
| Fees and commissions receivable                                 | 1,487                  | 1,590                  | 1,642                  |
| Fees and commissions payable                                    | (290)                  | (573)                  | (260)                  |
| Income from trading activities                                  | 212                    | (238)                  | 835                    |
| Gain/(loss) on redemption of own debt                           | 577                    | (1)                    | -                      |
| Other operating income (excluding insurance net premium income) | (747)                  | 205                    | 391                    |
| Insurance net premium income                                    | 938                    | 981                    | 1,149                  |
| Non-interest income   | 2,177                  | 1,964                  | 3,757                  |
| Total income  | 5,176                  | 5,038                  | 7,058                  |
| Staff costs   | (2,570)                | (1,993)                | (2,399)                |
| Premises and equipment  | (563)                  | (674)                  | (571)                  |
| Other administrative expenses                                   | (1,016)                | (1,296)                | (921)                  |
| Depreciation and amortisation                                   | (468)                  | (513)                  | (424)                  |
| Write-down of goodwill and other intangible assets              | -                      | (91)                   | -                      |
| Operating expenses  | (4,617)                | (4,567)                | (4,315)                |
| Profit before insurance net claims and impairment losses        | 559                    | 471                    | 2,743                  |
| Insurance net claims  | (649)                  | (529)                  | (912)                  |
| Impairment losses   | (1,314)                | (1,918)                | (1,947)                |
| Operating loss before tax                                       | (1,404)                | (1,976)                | (116)                  |
| Tax (charge)/credit   | (139)                  | 186                    | (423)                  |
| Loss from continuing operations                                 | (1,543)                | (1,790)                | (539)                  |
| Profit from discontinued operations, net of tax                 | 5                      | 10                     | 10                     |
| Loss for the period   | (1,538)                | (1,780)                | (529)                  |
| Non-controlling interests                                       | 14                     | (18)                   | 1                      |
| Loss attributable to ordinary and B shareholders                | (1,524)                | (1,798)                | (528)                  |

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|  |        |        |        |
|--|--------|--------|--------|
| Basic loss per ordinary and B share from continuing operations     | (1.4p) | (1.7p) | (0.5p) |
| Diluted loss per ordinary and B share from continuing operations   | (1.4p) | (1.7p) | (0.5p) |
| Basic loss per ordinary and B share from discontinued operations   | -      | -      | -      |
| Diluted loss per ordinary and B share from discontinued operations | -      | -      | -      |

Condensed consolidated statement of comprehensive income  
for the quarter ended 31 March 2012

|  | Quarter ended          |                        |                        |
|--|------------------------|------------------------|------------------------|
|  | 31 March<br>2012<br>£m | December<br>2011<br>£m | 31 March<br>2011<br>£m |
| Loss for the period                          | (1,538)                | (1,780)                | (529)                  |
| Other comprehensive income/(loss)            |                        |                        |                        |
| Available-for-sale financial assets          | 525                    | (107)                  | (37)                   |
| Cash flow hedges                             | 33                     | 124                    | (227)                  |
| Currency translation                         | (554)                  | (117)                  | (360)                  |
| Actuarial losses on defined benefit plans    | -                      | (581)                  | -                      |
| Other comprehensive income/(loss) before tax | 4                      | (681)                  | (624)                  |
| Tax (charge)/credit                          | (19)                   | (500)                  | 32                     |
| Other comprehensive loss after tax           | (15)                   | (1,181)                | (592)                  |
| Total comprehensive loss for the period      | (1,553)                | (2,961)                | (1,121)                |
| Total comprehensive loss is attributable to: |                        |                        |                        |
| Non-controlling interests                    | (3)                    | (12)                   | (9)                    |
| Ordinary and B shareholders                  | (1,550)                | (2,949)                | (1,112)                |
|  | (1,553)                | (2,961)                | (1,121)                |

Key points

- The movement in available-for-sale financial assets reflects net unrealised gains on sovereign bonds.
- Currency translation losses largely result from the 3.4% weakening of the US dollar against sterling during the quarter.
- The tax charge for Q4 2011 included a £664 million write-off of deferred tax assets in The Netherlands associated with available-for-sale assets in the liquidity portfolio.



Condensed consolidated balance sheet  
at 31 March 2012

|   | 31 March<br>2012<br>£m | 31<br>December<br>2011<br>£m |
|---|------------------------|------------------------------|
| <b>Assets</b>                                     |                        |                              |
| Cash and balances at central banks                | 82,363                 | 79,269                       |
| Net loans and advances to banks                   | 36,064                 | 43,870                       |
| Reverse repurchase agreements and stock borrowing | 34,626                 | 39,440                       |
| Loans and advances to banks                       | 70,690                 | 83,310                       |
| Net loans and advances to customers               | 440,406                | 454,112                      |
| Reverse repurchase agreements and stock borrowing | 56,503                 | 61,494                       |
| Loans and advances to customers                   | 496,909                | 515,606                      |
| Debt securities                                   | 195,931                | 209,080                      |
| Equity shares                                     | 17,603                 | 15,183                       |
| Settlement balances                               | 20,970                 | 7,771                        |
| Derivatives                                       | 453,354                | 529,618                      |
| Intangible assets                                 | 14,771                 | 14,858                       |
| Property, plant and equipment                     | 11,442                 | 11,868                       |
| Deferred tax                                      | 3,849                  | 3,878                        |
| Prepayments, accrued income and other assets      | 10,079                 | 10,976                       |
| Assets of disposal groups                         | 25,060                 | 25,450                       |
| <b>Total assets</b>                               | <b>1,403,021</b>       | <b>1,506,867</b>             |
| <b>Liabilities</b>                                |                        |                              |
| Bank deposits                                     | 65,735                 | 69,113                       |
| Repurchase agreements and stock lending           | 41,415                 | 39,691                       |
| Deposits by banks                                 | 107,150                | 108,804                      |
| Customer deposits                                 | 410,207                | 414,143                      |
| Repurchase agreements and stock lending           | 87,303                 | 88,812                       |
| Customer accounts                                 | 497,510                | 502,955                      |
| Debt securities in issue                          | 142,943                | 162,621                      |
| Settlement balances                               | 17,597                 | 7,477                        |
| Short positions                                   | 37,322                 | 41,039                       |
| Derivatives                                       | 446,534                | 523,983                      |
| Accruals, deferred income and other liabilities   | 20,278                 | 23,125                       |
| Retirement benefit liabilities                    | 1,840                  | 2,239                        |
| Deferred tax                                      | 1,788                  | 1,945                        |
| Insurance liabilities                             | 6,251                  | 6,312                        |
| Subordinated liabilities                          | 25,513                 | 26,319                       |
| Liabilities of disposal groups                    | 23,664                 | 23,995                       |
| <b>Total liabilities</b>                          | <b>1,328,390</b>       | <b>1,430,814</b>             |

|                                   |           |           |
|-----------------------------------|-----------|-----------|
| Equity                            |           |           |
| Non-controlling interests         | 1,215     | 1,234     |
| Owners' equity*                   |           |           |
| Called up share capital           | 15,397    | 15,318    |
| Reserves                          | 58,019    | 59,501    |
| Total equity                      | 74,631    | 76,053    |
| Total liabilities and equity      | 1,403,021 | 1,506,867 |
| * Owners' equity attributable to: |           |           |
| Ordinary and B shareholders       | 68,672    | 70,075    |
| Other equity owners               | 4,744     | 4,744     |
|                                   | 73,416    | 74,819    |

Commentary on condensed consolidated balance sheet

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Total assets of £1,403.0 billion at 31 March 2012 were down £103.8 billion, 7%, compared with 31 December 2011. This was principally driven by a decrease in the mark-to-market value of derivatives and a reduction in loans and advances to banks and customers.

Cash and balances at central banks increased £3.1 billion, 4%, to £82.4 billion principally due to the placing of short term surpluses.

Loans and advances to banks decreased £12.6 billion, 15%, to £70.7 billion. Within this, reverse repurchase agreements and stock borrowing ('reverse repos') were down £4.8 billion, 12%, to £34.6 billion and bank placings declined £7.8 billion, 18%, to £36.1 billion.

Loans and advances to customers declined £18.7 billion, 4%, to £496.9 billion. Within this, reverse repurchase agreements were down £5.0 billion, 8%, to £56.5 billion. Customer lending decreased by £13.7 billion, 3%, to £440.4 billion, or £13.4 billion, 3%, to £460.5 billion before impairments. This reflected planned reductions in Non-Core of £6.1 billion, along with declines in International Banking, £4.0 billion, Markets, £2.3 billion, UK Corporate, £0.9 billion, and Ulster Bank, £0.1 billion, together with the effect of exchange rate and other movements, £2.9 billion. These were partially offset by growth in UK Retail, £1.8 billion, US Retail & Commercial, £1.0 billion and Wealth, £0.1 billion.

Debt securities were down £13.1 billion, 6%, to £195.9 billion, driven mainly by reductions in holdings of Government securities within Markets and Group Treasury.

Equity shares increased £2.4 billion, 16%, to £17.6 billion reflecting seasonal increases in holdings.

Settlement balances increased £13.2 billion to £21.0 billion as a result of increased customer activity from seasonal year-end lows.

Movements in the value of derivative assets, down £76.3 billion, 14%, to £453.4 billion, and liabilities, down £77.4 billion, 15% to £446.5 billion, primarily reflect the mark-to-market movements on interest rate contracts and the effect of currency movements, with Sterling strengthening against both the US dollar and the Euro.

Deposits by banks decreased £1.7 billion, 2%, to £107.1 billion, with a decrease in inter-bank deposits, down £3.4 billion, 5%, to £65.7 billion partly offset by higher repurchase agreements and stock lending ('repos'), up £1.7 billion, 4%, to £41.4 billion.

Customer accounts were down £5.4 billion, 1%, to £497.5 billion. Within this, repos decreased £1.5 billion, 2%, to £87.3 billion. Excluding repos, customer deposits were down £3.9 billion, 1%, at £410.2 billion, reflecting decreases in Markets, £1.7 billion, UK Corporate, £1.8 billion, Ulster Bank, £0.7 billion, Non-Core, £0.6 billion and exchange and other movements, £2.5 billion. This was partly offset by increases in UK Retail, £2.4 billion, US Retail & Commercial, £0.6 billion, and International Banking, £0.4 billion.

Commentary on condensed consolidated balance sheet (continued)

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Debt securities in issue declined £19.7 billion, 12%, to £142.9 billion largely due to the maturity of government guaranteed medium term notes within Markets and Group Treasury.

Settlement balances increased £10.1 billion to £17.6 billion as a result of increased customer activity from seasonal year-end lows.

Short positions were down £3.7 billion, 9%, to £37.3 billion, mirroring decreases in debt securities.

Subordinated liabilities were down £0.8 billion, 3%, to £25.5 billion, primarily reflecting the £0.6 billion net decrease in dated loan capital as a result of the liability management exercise completed in March 2012, with redemptions of £3.4 billion offset by the issuance of £2.8 billion new capital, together with exchange rate movements and other adjustments of £0.2 billion.

Owners' equity decreased by £1.4 billion, 2%, to £73.4 billion, due to the attributable loss for the period of £1.5 billion and exchange and other movements of £0.5 billion, partially offset by positive movements in available-for-sale reserves of £0.5 billion and the issue of £0.1 billion new ordinary shares in settlement of deferred variable compensation awards.

## Average balance sheet

|   | Quarter ended         |                             |
|---|-----------------------|-----------------------------|
|   | 31 March<br>2012<br>% | 31<br>December<br>2011<br>% |
| Average yields, spreads and margins of the banking business |                       |                             |
| Gross yield on interest-earning assets of banking business  | 3.15                  | 3.13                        |
| Cost of interest-bearing liabilities of banking business    | (1.62)                | (1.70)                      |
| Interest spread of banking business                         | 1.53                  | 1.43                        |
| Benefit from interest-free funds                            | 0.35                  | 0.41                        |
| Net interest margin of banking business                     | 1.88                  | 1.84                        |
| Average interest rates                                      |                       |                             |
| The Group's base rate                                       | 0.50                  | 0.50                        |
| London inter-bank three month offered rates                 |                       |                             |
| - Sterling  | 1.06                  | 0.99                        |
| - Eurodollar  | 0.51                  | 0.43                        |
| - Euro  | 0.97                  | 1.50                        |

## Average balance sheet (continued)

|  | Quarter ended<br>31 March 2012 |                |             | Quarter ended<br>31 December 2011 |                |             |
|--|--------------------------------|----------------|-------------|-----------------------------------|----------------|-------------|
|  | Average<br>balance<br>£m       | Interest<br>£m | Rate<br>%   | Average<br>balance<br>£m          | Interest<br>£m | Rate<br>%   |
| <b>Assets</b>  |                                |                |             |                                   |                |             |
| Loans and advances to banks                                | 87,025                         | 148            | 0.68        | 91,370                            | 207            | 0.90        |
| Loans and advances to<br>customers                         | 443,414                        | 4,252          | 3.86        | 452,530                           | 4,336          | 3.80        |
| Debt securities  | 110,219                        | 617            | 2.25        | 119,619                           | 691            | 2.29        |
| <b>Interest-earning assets -<br/>banking business</b>      | <b>640,658</b>                 | <b>5,017</b>   | <b>3.15</b> | <b>663,519</b>                    | <b>5,234</b>   | <b>3.13</b> |
| Trading business   | 251,081                        |                |             | 271,183                           |                |             |
| Non-interest earning assets                                | 633,995                        |                |             | 656,468                           |                |             |
| <b>Total assets</b>  | <b>1,525,734</b>               |                |             | <b>1,591,170</b>                  |                |             |
| <b>Liabilities</b>   |                                |                |             |                                   |                |             |
| Deposits by banks  | 44,472                         | 191            | 1.73        | 60,397                            | 226            | 1.48        |
| Customer accounts  | 327,442                        | 914            | 1.12        | 335,577                           | 926            | 1.09        |
| Debt securities in issue                                   | 112,454                        | 698            | 2.50        | 128,701                           | 793            | 2.44        |
| Subordinated liabilities                                   | 21,636                         | 190            | 3.53        | 22,906                            | 191            | 3.31        |
| Internal funding of trading<br>business                    | (6,432)                        | 25             | (1.56)      | (44,408)                          | 24             | (0.21)      |
| <b>Interest-bearing liabilities -<br/>banking business</b> | <b>499,572</b>                 | <b>2,018</b>   | <b>1.62</b> | <b>503,173</b>                    | <b>2,160</b>   | <b>1.70</b> |
| Trading business   | 262,047                        |                |             | 299,789                           |                |             |
| Non-interest-bearing liabilities                           |                                |                |             |                                   |                |             |
| - demand deposits  | 72,370                         |                |             | 70,538                            |                |             |
| - other liabilities  | 617,945                        |                |             | 642,503                           |                |             |
| Owners' equity   | 73,800                         |                |             | 75,167                            |                |             |
| <b>Total liabilities and<br/>owners' equity</b>            | <b>1,525,734</b>               |                |             | <b>1,591,170</b>                  |                |             |

## Note:

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



Condensed consolidated statement of changes in equity  
for the quarter ended 31 March 2012

|  | Quarter ended          |                        |                        |
|--|------------------------|------------------------|------------------------|
|  | 31 March<br>2012<br>£m | December<br>2011<br>£m | 31 March<br>2011<br>£m |
| Called-up share capital                    |                        |                        |                        |
| At beginning of period                     | 15,318                 | 15,318                 | 15,125                 |
| Ordinary shares issued                     | 79                     | -                      | 31                     |
| At end of period                           | 15,397                 | 15,318                 | 15,156                 |
| Paid-in equity                             |                        |                        |                        |
| At beginning and end of period             | 431                    | 431                    | 431                    |
| Share premium account                      |                        |                        |                        |
| At beginning of period                     | 24,001                 | 23,923                 | 23,922                 |
| Ordinary shares issued                     | 26                     | 78                     | -                      |
| At end of period                           | 24,027                 | 24,001                 | 23,922                 |
| Merger reserve                             |                        |                        |                        |
| At beginning and end of period             | 13,222                 | 13,222                 | 13,272                 |
| Available-for-sale reserve (1)             |                        |                        |                        |
| At beginning of period                     | (957)                  | (292)                  | (2,037)                |
| Unrealised gains/(losses)                  | 724                    | (179)                  | 162                    |
| Realised (gains)/losses                    | (212)                  | 69                     | (197)                  |
| Tax  | 6                      | (555)                  | 9                      |
| At end of period                           | (439)                  | (957)                  | (2,063)                |
| Cash flow hedging reserve                  |                        |                        |                        |
| At beginning of period                     | 879                    | 798                    | (140)                  |
| Amount recognised in equity                | 290                    | 389                    | 14                     |
| Amount transferred from equity to earnings | (257)                  | (265)                  | (241)                  |
| Tax  | 9                      | (43)                   | 53                     |
| At end of period                           | 921                    | 879                    | (314)                  |

Note:

(1) Analysis provided on page 90.





Condensed consolidated statement of changes in equity  
for the quarter ended 31 March 2012 (continued)

|   | Quarter ended          |                        |                        |
|---|------------------------|------------------------|------------------------|
|   | 31 March<br>2012<br>£m | December<br>2011<br>£m | 31 March<br>2011<br>£m |
| Foreign exchange reserve  |                        |                        |                        |
| At beginning of period  | 4,775                  | 4,847                  | 5,138                  |
| Retranslation of net assets   | (648)                  | (111)                  | (429)                  |
| Foreign currency gains on hedges of net assets                                    | 96                     | 20                     | 76                     |
| Tax   | 4                      | 13                     | (31)                   |
| Recycled to profit or loss on disposal of businesses                              | -                      | 6                      | -                      |
| At end of period  | 4,227                  | 4,775                  | 4,754                  |
| Capital redemption reserve  |                        |                        |                        |
| At beginning and end of period  | 198                    | 198                    | 198                    |
| Contingent capital reserve  |                        |                        |                        |
| At beginning and end of period  | (1,208)                | (1,208)                | (1,208)                |
| Retained earnings   |                        |                        |                        |
| At beginning of period  | 18,929                 | 20,977                 | 21,239                 |
| (Loss)/profit attributable to ordinary and B shareholders and other equity owners |                        |                        |                        |
| - continuing operations   | (1,524)                | (1,798)                | (530)                  |
| - discontinued operations   | -                      | -                      | 2                      |
| Actuarial losses recognised in retirement benefit schemes                         |                        |                        |                        |
| - gross   | -                      | (581)                  | -                      |
| - tax   | (38)                   | 86                     | -                      |
| Shares issued under employee share schemes  | (13)                   | 151                    | (41)                   |
| Share-based payments  |                        |                        |                        |
| - gross   | 45                     | 98                     | 38                     |
| - tax   | 6                      | (4)                    | 5                      |
| At end of period  | 17,405                 | 18,929                 | 20,713                 |

Condensed consolidated statement of changes in equity  
for the quarter ended 31 March 2012 (continued)

|  | Quarter ended          |                        |                        |
|--|------------------------|------------------------|------------------------|
|  | 31 March<br>2012<br>£m | December<br>2011<br>£m | 31 March<br>2011<br>£m |
| Own shares held  |                        |                        |                        |
| At beginning of period   | (769)                  | (771)                  | (808)                  |
| (Purchase)/disposal of own shares  | (2)                    | 1                      | 12                     |
| Shares issued under employee share schemes   | 6                      | 1                      | 11                     |
| At end of period   | (765)                  | (769)                  | (785)                  |
| Owners' equity at end of period  | 73,416                 | 74,819                 | 74,076                 |
| Non-controlling interests  |                        |                        |                        |
| At beginning of period   | 1,234                  | 1,433                  | 1,719                  |
| Currency translation adjustments and other movements   | (2)                    | (32)                   | (7)                    |
| (Loss)/profit attributable to non-controlling interests  |                        |                        |                        |
| - continuing operations  | (20)                   | 8                      | (9)                    |
| - discontinued operations  | 6                      | 10                     | 8                      |
| Dividends paid   | -                      | (1)                    | -                      |
| Movements in available-for-sale securities   |                        |                        |                        |
| - unrealised (losses)/gains  | (4)                    | 1                      | 1                      |
| - realised losses  | 17                     | 2                      | (3)                    |
| - tax  | -                      | (1)                    | 1                      |
| Equity withdrawn and disposals   | (16)                   | (186)                  | -                      |
| At end of period   | 1,215                  | 1,234                  | 1,710                  |
| Total equity at end of period  | 74,631                 | 76,053                 | 75,786                 |
| Total comprehensive loss recognised in the statement of<br>changes in equity is attributable to: |                        |                        |                        |
| Non-controlling interests  | (3)                    | (12)                   | (9)                    |
| Ordinary and B shareholders  | (1,550)                | (2,949)                | (1,112)                |
|  | (1,553)                | (2,961)                | (1,121)                |

Notes

1. Basis of preparation

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 quarter ended 31 March 2012 has been prepared on a going concern basis.

2. Accounting policies

The annual accounts are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS). There have been no significant changes to the Group's principal accounting policies as set out on pages 273 to 282 of the 2011 Form 20-F.

Notes (continued)

## 3. Analysis of income, expenses and impairment losses

|  | Quarter ended          |                        |                        |
|--|------------------------|------------------------|------------------------|
|  | 31 March<br>2012<br>£m | December<br>2011<br>£m | 31 March<br>2011<br>£m |
| Loans and advances to customers  | 4,252                  | 4,336                  | 4,593                  |
| Loans and advances to banks  | 148                    | 207                    | 172                    |
| Debt securities  | 617                    | 691                    | 636                    |
| Interest receivable  | 5,017                  | 5,234                  | 5,401                  |
| Customer accounts  | 914                    | 926                    | 831                    |
| Deposits by banks  | 191                    | 226                    | 259                    |
| Debt securities in issue   | 698                    | 794                    | 817                    |
| Subordinated liabilities   | 190                    | 190                    | 185                    |
| Internal funding of trading businesses   | 25                     | 24                     | 8                      |
| Interest payable   | 2,018                  | 2,160                  | 2,100                  |
| Net interest income  | 2,999                  | 3,074                  | 3,301                  |
| Fees and commissions receivable  | 1,487                  | 1,590                  | 1,642                  |
| Fees and commissions payable   |                        |                        |                        |
| - banking  | (179)                  | (339)                  | (181)                  |
| - insurance related  | (111)                  | (234)                  | (79)                   |
| Net fees and commissions   | 1,197                  | 1,017                  | 1,382                  |
| Foreign exchange   | 225                    | 308                    | 203                    |
| Interest rate  | 672                    | 76                     | 649                    |
| Credit   | (799)                  | (695)                  | (248)                  |
| Other  | 114                    | 73                     | 231                    |
| Income/(loss) from trading activities  | 212                    | (238)                  | 835                    |
| Gain on redemption of own debt   | 577                    | (1)                    | -                      |
| Operating lease and other rental income  | 301                    | 308                    | 322                    |
| Own credit adjustments   | (1,447)                | (200)                  | (294)                  |
| Changes in the fair value of securities and other financial assets and liabilities | 81                     | 6                      | 68                     |
| Changes in the fair value of investment properties                                 | 32                     | (65)                   | (25)                   |
| Profit on sale of securities   | 223                    | 179                    | 236                    |
| Profit/(loss) on sale of property, plant and equipment                             | 5                      | (5)                    | 11                     |

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|  |       |      |      |
|--|-------|------|------|
| Loss on sale of subsidiaries and associates                  | (12)  | (15) | (29) |
| Life business losses   | (2)   | -    | (2)  |
| Dividend income  | 16    | 15   | 15   |
| Share of (losses)/profits less losses of associated entities | (4)   | 6    | 7    |
| Other income/(loss)  | 60    | (24) | 82   |
| Other operating (loss)/income                                | (747) | 205  | 391  |

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Notes (continued)

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

|   | Quarter ended |          |          |
|---|---------------|----------|----------|
|   | 31 March      | December | 31 March |
|   | 2012          | 2011     | 2011     |
|   | £m            | £m       | £m       |
| Non-interest income (excluding insurance net premium income)            | 1,239         | 983      | 2,608    |
| Insurance net premium income  | 938           | 981      | 1,149    |
| Total non-interest income   | 2,177         | 1,964    | 3,757    |
| Total income  | 5,176         | 5,038    | 7,058    |
| Staff costs   | 2,570         | 1,993    | 2,399    |
| Premises and equipment  | 563           | 674      | 571      |
| Other   | 1,016         | 1,296    | 921      |
| Administrative expenses   | 4,149         | 3,963    | 3,891    |
| Depreciation and amortisation   | 468           | 513      | 424      |
| Write-down of goodwill and other intangible assets                      | -             | 91       | -        |
| Operating expenses  | 4,617         | 4,567    | 4,315    |
| Loan impairment losses  | 1,295         | 1,654    | 1,898    |
| Securities impairment losses  |               |          |          |
| - sovereign debt impairment and related interest rate hedge adjustments | -             | 224      | -        |
| - other   | 19            | 40       | 49       |
| Impairment losses   | 1,314         | 1,918    | 1,947    |

## Payment Protection Insurance (PPI)

To reflect current experience of PPI complaints received, the Group has strengthened its provision for PPI by £125 million in Q1 2012, bringing the cumulative charge taken to £1.2 billion, of which £501 million in redress had been paid by 31 March 2012. The eventual cost is dependent upon complaint volumes, uphold rates and average redress costs. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different than the amount provided. The Group will continue to monitor the position closely and refresh its assumptions as more information becomes available.

|  | Quarter  | Year     |
|--|----------|----------|
|  | ended    | ended    |
|  | 31 March | December |
|  | 2012     | 2011     |
|  | £m       | £m       |

|   |       |       |
|---|-------|-------|
| At beginning of period                        | 745   | -     |
| Transfers from accruals and other liabilities | -     | 215   |
| Charge to income statement                    | 125   | 850   |
| Utilisations                                  | (181) | (320) |
| At end of period                              | 689   | 745   |

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## Notes (continued)

## 4. Loan impairment provisions

Operating loss is stated after charging loan impairment losses of £1,295 million (Q4 2011 - £1,654 million; Q1 2011 - £1,898 million). The balance sheet loan impairment provisions increased in the quarter ended 31 March 2012 from £19,883 million to £20,211 million and the movements thereon were:

|  | 31 March 2012 |                    |             | Quarter ended<br>31 December 2011 |                    |                 |             | 31 March 2011 |                    |             |
|--|---------------|--------------------|-------------|-----------------------------------|--------------------|-----------------|-------------|---------------|--------------------|-------------|
|  | Core<br>£m    | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m                        | Non-<br>Core<br>£m | RFS<br>MI<br>£m | Total<br>£m | Core<br>£m    | Non-<br>Core<br>£m | Total<br>£m |
| At beginning of period                             | 8,414         | 11,469             | 19,883      | 8,873                             | 11,850             | -               | 20,723      | 7,866         | 10,316             | 18,182      |
| Transfers to disposal groups                       | -             | -                  | -           | (773)                             | -                  | -               | (773)       | -             | (9)                | (9)         |
| Intra-group transfers                              | -             | -                  | -           | -                                 | -                  | -               | -           | 177           | (177)              | -           |
| Currency translation and other adjustments         | (8)           | (80)               | (88)        | (75)                              | (162)              | -               | (237)       | 56            | 95                 | 151         |
| Disposals  | -             | -                  | -           | -                                 | -                  | (3)             | (3)         | -             | -                  | -           |
| Amounts written-off                                | (405)         | (440)              | (845)       | (526)                             | (981)              | -               | (1,507)     | (514)         | (438)              | (952)       |
| Recoveries of amounts previously written-off       | 62            | 33                 | 95          | 48                                | 99                 | -               | 147         | 39            | 80                 | 119         |
| Charge to income statement                         |               |                    |             |                                   |                    |                 |             |               |                    |             |
| - continuing                                       | 796           | 499                | 1,295       | 924                               | 730                | -               | 1,654       | 852           | 1,046              | 1,898       |
| - discontinued                                     | -             | -                  | -           | -                                 | -                  | 3               | 3           | -             | -                  | -           |
| Unwind of discount (recognised in interest income) | (62)          | (67)               | (129)       | (57)                              | (67)               | -               | (124)       | (60)          | (71)               | (131)       |
| At end of period                                   | 8,797         | 11,414             | 20,211      | 8,414                             | 11,469             | -               | 19,883      | 8,416         | 10,842             | 19,258      |

Provisions at 31 March 2012 include £135 million (31 December 2011 - £123 million; 31 March 2011 - £130 million) in respect of loans and advances to banks.

The table above excludes impairments relating to securities (see page 109).



## Notes (continued)

## 5. Tax

The actual tax (charge)/credit differs from the expected tax credit computed by applying the standard UK corporation tax rate of 24.5% (2011 - 26.5%) as follows:

|   | Quarter ended          |                              |                        |
|---|------------------------|------------------------------|------------------------|
|   | 31 March<br>2012<br>£m | 31<br>December<br>2011<br>£m | 31 March<br>2011<br>£m |
| Loss before tax   | (1,404)                | (1,976)                      | (116)                  |
| Expected tax credit   | 344                    | 524                          | 31                     |
| Sovereign debt impairment where no deferred tax asset recognised      | -                      | (56)                         | -                      |
| Derecognition of deferred tax asset in respect of losses in Australia | (161)                  | -                            | -                      |
| Other losses in period where no deferred tax asset recognised         | (173)                  | (195)                        | (166)                  |
| Foreign profits taxed at other rates                                  | (102)                  | (46)                         | (200)                  |
| UK tax rate change - deferred tax impact                              | (30)                   | 27                           | (87)                   |
| Unrecognised timing differences                                       | -                      | -                            | 5                      |
| Non-deductible goodwill impairment                                    | -                      | (24)                         | -                      |
| Items not allowed for tax   |                        |                              |                        |
| - losses on strategic disposals and write-downs                       | (4)                    | (58)                         | (3)                    |
| - UK bank levy  | (18)                   | (80)                         | -                      |
| - employee share schemes  | (15)                   | (101)                        | (4)                    |
| - other disallowable items  | (51)                   | (123)                        | (36)                   |
| Non-taxable items   |                        |                              |                        |
| - gain on sale of Global Merchant Services                            | -                      | -                            | 12                     |
| - other non-taxable items   | 24                     | 208                          | 12                     |
| Taxable foreign exchange movements                                    | 1                      | 2                            | 2                      |
| Losses brought forward and utilised                                   | 15                     | (29)                         | 16                     |
| Adjustments in respect of prior periods                               | 31                     | 137                          | (5)                    |
| Actual tax (charge)/credit  | (139)                  | 186                          | (423)                  |

The tax charge in the quarter ended 31 March 2012 reflects profits in high tax regimes (principally US) and losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland and the Netherlands) and the derecognition of deferred tax assets of £161 million in respect of losses in Australia, following the strategic changes to the Markets and International Banking businesses announced in January 2012.

The combined effect of the tax losses in Ireland and the Netherlands in the quarter ended 31 March 2012 for which no deferred tax asset has been recognised and the derecognition of the deferred tax asset in respect of losses in Australia account for £387 million (80%) of the difference between the actual tax charge and the tax credit derived from applying the standard UK Corporation Tax rate to the results for the period.

The Group has recognised a deferred tax asset at 31 March 2012 of £3,849 million (31 December 2011 - £3,878 million; 31 March 2011 - £6,299 million) of which £3,134 million (31 December 2011 - £2,933 million; 31 March 2011 - £3,770 million) relates to carried forward trading losses in the UK. Under UK tax legislation, these UK losses can be carried forward indefinitely to be utilised against profits arising in the future. The Group has considered the carrying value of this asset as at 31 March 2012 and concluded that it is recoverable based on future profit projections.

Notes (continued)

## 6. (Loss)/profit attributable to non-controlling interests

|   | Quarter ended |          |          |
|---|---------------|----------|----------|
|   | 31 March      | December | 31 March |
|   | 2012          | 2011     | 2011     |
|   | £m            | £m       | £m       |
| RBS Sempra Commodities JV                               | -             | (5)      | (9)      |
| RFS Holdings BV Consortium Members                      | (19)          | 8        | 10       |
| Other   | 5             | 15       | (2)      |
| (Loss)/profit attributable to non-controlling interests | (14)          | 18       | (1)      |

## 7. Dividends

On 26 November 2009, RBS entered into a State Aid Commitment Deed with HM Treasury containing commitments and undertakings that were designed to ensure that HM Treasury was able to comply with the commitments to be given by it to the European Commission for the purposes of obtaining approval for the State aid provided to RBS. As part of these commitments and undertakings, RBS agreed not to pay discretionary coupons and dividends on its existing hybrid capital instruments for a period of two years. This period commenced on 30 April 2010 for RBS Group instruments (the two year deferral period for RBS Holdings N.V. instruments commenced on 1 April 2011). On 30 April 2012 this period ended for RBS Group instruments. RBS has determined that it is now in a position to recommence payments on the RBS Group instruments.

The Core Tier 1 capital impact of discretionary amounts that will be payable over the remainder of 2012 on the RBS Group instruments on which payments have previously been stopped is c.£350 million. In the context of recent macro-prudential policy discussions, the Board of RBS has decided to neutralise any impact on Core Tier 1 capital through equity issuance. Approximately £250 million of this is ascribed to equity funding of employee incentive awards through the sale of surplus shares held by the Group's Employee Benefit Trust, which is now substantially complete. An additional c.£100 million will be raised through the issue of new ordinary shares, which is expected to take place over time during the second half of 2012.

The Directors have declared the discretionary dividends on Series M, N, P, Q, R, S, and T non-cumulative dollar preference shares of US\$0.01 each for the three months to 30 June 2012, and the discretionary dividend on the Series 2 non-cumulative Euro preference shares of €0.01 for the 12 months to 30 June 2012. These discretionary dividends as well as the discretionary distributions on the RBSG/RBS innovative securities RBS Capital Trust A, RBS Capital Trust B, RBS Capital Trust D, RBS Capital Trust I, RBS Capital Trust II and RBS Capital Trust IV will be paid on their scheduled payment dates in June 2012. Future coupons and dividends on RBS Group hybrid capital instruments will only be paid subject to, and in accordance with, the terms of the relevant instruments.

Notes (continued)

## 8. Earnings per ordinary and B share

Earnings per ordinary and B share have been calculated based on the following:

|  | Quarter ended    |                  |                  |
|--|------------------|------------------|------------------|
|  | 31 March<br>2012 | December<br>2011 | 31 March<br>2011 |
| Earnings   |                  |                  |                  |
| Loss from continuing operations attributable to ordinary and B shareholders (£m)       | (1,524)          | (1,798)          | (530)            |
| Profit from discontinued operations attributable to ordinary and B shareholders (£m)   | -                | -                | 2                |
| Ordinary shares in issue during the period (millions)                                  | 57,704           | 57,552           | 56,798           |
| B shares in issue during the period (millions)   | 51,000           | 51,000           | 51,000           |
| Weighted average number of ordinary and B shares in issue during the period (millions) | 108,704          | 108,552          | 107,798          |
| Basic loss per ordinary and B share from continuing operations                         | (1.4p)           | (1.7p)           | (0.5p)           |

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Notes (continued)

## 9. Segmental analysis

In January 2012, the Group announced the reorganisation of its wholesale businesses into 'Markets' and 'International Banking'. Divisional results have been presented based on the new organisational structure. In addition, the Group had previously included movements in the fair value of own derivative liabilities within the Markets operating segment. These movements have now been combined with movements in the fair value of own debt in a single measure, 'own credit adjustments' and presented as a reconciling item. Refer to 'presentation of information' on page 5 for further details. Comparatives have been restated accordingly.

## Analysis of divisional operating profit/(loss)

The following tables provide an analysis of divisional operating profit/(loss) for the quarters ended 31 March 2012, 31 December 2011 and 31 March 2011 by main income statement captions.

| Quarter ended 31 March 2012                       | Net<br>interest<br>income<br>£m | Non-<br>interest<br>income<br>£m | Total<br>income<br>£m | Operating<br>expenses<br>£m | Insurance<br>net claims<br>£m | Impairment<br>losses<br>£m | Operating<br>profit/(loss)<br>£m |
|---|---------------------------------|----------------------------------|-----------------------|-----------------------------|-------------------------------|----------------------------|----------------------------------|
| UK Retail   | 1,001                           | 266                              | 1,267                 | (635)                       | -                             | (155)                      | 477                              |
| UK Corporate                                      | 756                             | 445                              | 1,201                 | (533)                       | -                             | (176)                      | 492                              |
| Wealth  | 179                             | 111                              | 290                   | (235)                       | -                             | (10)                       | 45                               |
| International Banking                             | 251                             | 291                              | 542                   | (410)                       | -                             | (35)                       | 97                               |
| Ulster Bank                                       | 165                             | 49                               | 214                   | (130)                       | -                             | (394)                      | (310)                            |
| US Retail & Commercial                            | 496                             | 260                              | 756                   | (635)                       | -                             | (19)                       | 102                              |
| Markets   | 16                              | 1,718                            | 1,734                 | (908)                       | -                             | (2)                        | 824                              |
| Direct Line Group                                 | 84                              | 882                              | 966                   | (233)                       | (649)                         | -                          | 84                               |
| Central items                                     | (5)                             | (103)                            | (108)                 | (2)                         | -                             | (34)                       | (144)                            |
| Core  | 2,943                           | 3,919                            | 6,862                 | (3,721)                     | (649)                         | (825)                      | 1,667                            |
| Non-Core  | 64                              | 205                              | 269                   | (263)                       | -                             | (489)                      | (483)                            |
| Managed basis                                     | 3,007                           | 4,124                            | 7,131                 | (3,984)                     | (649)                         | (1,314)                    | 1,184                            |
| Reconciling items                                 |                                 |                                  |                       |                             |                               |                            |                                  |
| Own credit adjustments (1)                        | -                               | (2,456)                          | (2,456)               | -                           | -                             | -                          | (2,456)                          |
| Asset Protection Scheme (2)                       | -                               | (43)                             | (43)                  | -                           | -                             | -                          | (43)                             |
| PPI costs   | -                               | -                                | -                     | (125)                       | -                             | -                          | (125)                            |
| Amortisation of purchased<br>intangible<br>assets | -                               | -                                | -                     | (48)                        | -                             | -                          | (48)                             |
| Integration and restructuring costs               | -                               | -                                | -                     | (460)                       | -                             | -                          | (460)                            |
| Gain on redemption of own debt                    | -                               | 577                              | 577                   | -                           | -                             | -                          | 577                              |
| Strategic disposals                               | -                               | (8)                              | (8)                   | -                           | -                             | -                          | (8)                              |
| RFS Holdings minority interest                    | (8)                             | (17)                             | (25)                  | -                           | -                             | -                          | (25)                             |
| Statutory basis                                   | 2,999                           | 2,177                            | 5,176                 | (4,617)                     | (649)                         | (1,314)                    | (1,404)                          |

Notes:

- (1) Comprises £1,009 million loss included in 'Income from trading activities' and £1,447 million loss included in 'Other operating income' on a statutory basis.
- (2) Included in 'Income from trading activities'.



## Notes (continued)

## 9. Segmental analysis (continued)

## Analysis of divisional operating profit/(loss) (continued)

| Quarter ended 31 December 2011                        | Net<br>interest<br>income<br>£m | Non-<br>interest<br>income<br>£m | Total<br>income<br>£m | Operating<br>expenses<br>£m | Insurance<br>net claims<br>£m | Impairment<br>losses<br>£m | Operating<br>profit/(loss)<br>£m |
|---|---------------------------------|----------------------------------|-----------------------|-----------------------------|-------------------------------|----------------------------|----------------------------------|
| UK Retail   | 1,032                           | 277                              | 1,309                 | (660)                       | -                             | (191)                      | 458                              |
| UK Corporate<br>Wealth                                | 758                             | 419                              | 1,177                 | (535)                       | -                             | (236)                      | 406                              |
| International Banking                                 | 168                             | 112                              | 280                   | (194)                       | -                             | (13)                       | 73                               |
| Ulster Bank   | 281                             | 312                              | 593                   | (385)                       | -                             | (56)                       | 152                              |
| US Retail & Commercial<br>Markets)                    | 177                             | 49                               | 226                   | (132)                       | -                             | (327)                      | (233)                            |
| Direct Line Group                                     | 496                             | 294                              | 790                   | (548)                       | -                             | (65)                       | 177                              |
| Central items   | 20                              | 672                              | 692                   | (744)                       | -                             | (57)                       | (109)                            |
|   | 82                              | 841                              | 923                   | (209)                       | (589)                         | -                          | 125                              |
|   | (37)                            | 46                               | 9                     | 77                          | (1)                           | 4                          | 89                               |
| Core  | 2,977                           | 3,022                            | 5,999                 | (3,330)                     | (590)                         | (941)                      | 1,138                            |
| Non-Core  | 99                              | (377)                            | (278)                 | (314)                       | 61                            | (751)                      | (1,282)                          |
| Managed basis   | 3,076                           | 2,645                            | 5,721                 | (3,644)                     | (529)                         | (1,692)                    | (144)                            |
| Reconciling items                                     |                                 |                                  |                       |                             |                               |                            |                                  |
| Own credit adjustments (1)                            | -                               | (472)                            | (472)                 | -                           | -                             | -                          | (472)                            |
| Asset Protection Scheme (2)                           | -                               | (209)                            | (209)                 | -                           | -                             | -                          | (209)                            |
| Sovereign debt impairment                             | -                               | -                                | -                     | -                           | -                             | (224)                      | (224)                            |
| Amortisation of purchased<br>intangible<br>assets     | -                               | -                                | -                     | (53)                        | -                             | -                          | (53)                             |
| Integration and restructuring costs                   | -                               | -                                | -                     | (478)                       | -                             | -                          | (478)                            |
| Loss on redemption of own debt                        | -                               | (1)                              | (1)                   | -                           | -                             | -                          | (1)                              |
| Strategic disposals                                   | -                               | (2)                              | (2)                   | (80)                        | -                             | -                          | (82)                             |
| Bank levy   | -                               | -                                | -                     | (300)                       | -                             | -                          | (300)                            |
| Write-down of goodwill and other<br>intangible assets | -                               | -                                | -                     | (11)                        | -                             | -                          | (11)                             |
| RFS Holdings minority interest                        | (2)                             | 3                                | 1                     | (1)                         | -                             | (2)                        | (2)                              |
| Statutory basis                                       | 3,074                           | 1,964                            | 5,038                 | (4,567)                     | (529)                         | (1,918)                    | (1,976)                          |

## Notes:

(1) Comprises £272 million loss included in 'Income from trading activities' and £200 million loss included in 'Other operating income' on a statutory basis.

(2) Included in 'Income from trading activities'.



Notes (continued)

## 9. Segmental analysis (continued)

## Analysis of divisional operating profit/(loss) (continued)

| Quarter ended 31 March 2011                    | Net<br>interest<br>income<br>£m | Non-<br>interest<br>income<br>£m | Total<br>income<br>£m | Operating<br>expenses<br>£m | Insurance<br>net claims<br>£m | Impairment<br>losses<br>£m | Operating<br>profit/(loss)<br>£m |
|--|---------------------------------|----------------------------------|-----------------------|-----------------------------|-------------------------------|----------------------------|----------------------------------|
| UK Retail                                      | 1,086                           | 304                              | 1,390                 | (678)                       | -                             | (194)                      | 518                              |
| UK Corporate<br>Wealth                         | 811                             | 451                              | 1,262                 | (538)                       | -                             | (107)                      | 617                              |
| International Banking                          | 157                             | 114                              | 271                   | (196)                       | -                             | (5)                        | 70                               |
| Ulster Bank                                    | 293                             | 354                              | 647                   | (427)                       | -                             | 6                          | 226                              |
| US Retail & Commercial<br>Markets              | 181                             | 51                               | 232                   | (136)                       | -                             | (461)                      | (365)                            |
| Direct Line Group                              | 452                             | 275                              | 727                   | (522)                       | -                             | (111)                      | 94                               |
| Central items                                  | 53                              | 2,055                            | 2,108                 | (1,079)                     | -                             | -                          | 1,029                            |
| Core   | 88                              | 982                              | 1,070                 | (219)                       | (784)                         | -                          | 67                               |
| Non-Core                                       | (18)                            | (11)                             | (29)                  | (3)                         | -                             | -                          | (32)                             |
| Managed basis                                  | 3,103                           | 4,575                            | 7,678                 | (3,798)                     | (784)                         | (872)                      | 2,224                            |
| Reconciling items                              | 199                             | 236                              | 435                   | (323)                       | (128)                         | (1,075)                    | (1,091)                          |
| Own credit adjustments (1)                     | 3,302                           | 4,811                            | 8,113                 | (4,121)                     | (912)                         | (1,947)                    | 1,133                            |
| Asset Protection Scheme (2)                    | -                               | (560)                            | (560)                 | -                           | -                             | -                          | (560)                            |
| Amortisation of purchased<br>intangible assets | -                               | (469)                            | (469)                 | -                           | -                             | -                          | (469)                            |
| Integration and restructuring costs            | -                               | -                                | -                     | (44)                        | -                             | -                          | (44)                             |
| Strategic disposals                            | (2)                             | (4)                              | (6)                   | (139)                       | -                             | -                          | (145)                            |
| Bonus tax                                      | -                               | (23)                             | (23)                  | -                           | -                             | -                          | (23)                             |
| RFS Holdings minority interest                 | -                               | -                                | -                     | (11)                        | -                             | -                          | (11)                             |
| Statutory basis                                | 1                               | 2                                | 3                     | -                           | -                             | -                          | 3                                |
|  | 3,301                           | 3,757                            | 7,058                 | (4,315)                     | (912)                         | (1,947)                    | (116)                            |

Notes:

(1) Comprises £266 million loss included in 'Income from trading activities' and £294 million loss included in 'Other operating income' on a statutory basis.

(2) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

## 10. Discontinued operations and assets and liabilities of disposal groups

Profit from discontinued operations, net of tax

|   | Quarter ended    |                  |                  |
|---|------------------|------------------|------------------|
|   | 31 March<br>2012 | December<br>2011 | 31 March<br>2011 |
|   | £m               | £m               | £m               |
| Discontinued operations                                 |                  |                  |                  |
| Total income  | 8                | 15               | 8                |
| Operating expenses                                      | (1)              | (1)              | (1)              |
| Impairment losses                                       | -                | (3)              | -                |
| Profit before tax                                       | 7                | 11               | 7                |
| Tax   | (3)              | (1)              | (3)              |
| Profit after tax  | 4                | 10               | 4                |
| Businesses acquired exclusively with a view to disposal |                  |                  |                  |
| Profit after tax  | 1                | -                | 6                |
| Profit from discontinued operations, net of tax         | 5                | 10               | 10               |

Discontinued operations reflect the results of RFS Holdings attributable to the State of the Netherlands and Santander following the legal separation of ABN AMRO Bank N.V. on 1 April 2010.

Notes (continued)

## 10. Discontinued operations and assets and liabilities of disposal groups (continued)

|  | 31 March 2012                              |             |             | 31<br>December<br>2011<br>£m |
|--|--|-------------|-------------|------------------------------|
|  | UK<br>branch-<br>based<br>businesses<br>£m | Other<br>£m | Total<br>£m |                              |
| Assets of disposal groups                                |  |             |             |                              |
| Cash and balances at central banks                       | 63   | 24          | 87          | 127                          |
| Loans and advances to banks                              | -  | 112         | 112         | 87                           |
| Loans and advances to customers                          | 18,535                                     | 729         | 19,264      | 19,405                       |
| Debt securities and equity shares                        | -  | 5           | 5           | 5                            |
| Derivatives  | 360  | 8           | 368         | 439                          |
| Intangible assets  | -  | 15          | 15          | 15                           |
| Settlement balances                                      | -  | 4           | 4           | 14                           |
| Property, plant and equipment                            | 113  | 4,496       | 4,609       | 4,749                        |
| Other assets   | -  | 438         | 438         | 456                          |
| Discontinued operations and other disposal groups        | 19,071                                     | 5,831       | 24,902      | 25,297                       |
| Assets acquired exclusively with a view to disposal      | -  | 158         | 158         | 153                          |
|  | 19,071                                     | 5,989       | 25,060      | 25,450                       |
| Liabilities of disposal groups                           |  |             |             |                              |
| Deposits by banks  | -  | 83          | 83          | 1                            |
| Customer accounts  | 21,447                                     | 834         | 22,281      | 22,610                       |
| Derivatives  | 41   | 8           | 49          | 126                          |
| Settlement balances                                      | -  | -           | -           | 8                            |
| Other liabilities  | -  | 1,239       | 1,239       | 1,233                        |
| Discontinued operations and other disposal groups        | 21,488                                     | 2,164       | 23,652      | 23,978                       |
| Liabilities acquired exclusively with a view to disposal | -  | 12          | 12          | 17                           |
|  | 21,488                                     | 2,176       | 23,664      | 23,995                       |

The assets and liabilities of disposal groups at 31 March 2012 primarily comprise the RBS England and Wales and NatWest Scotland branch-based businesses (“UK branch-based businesses”) and the RBS Aviation Capital business.

## UK branch-based businesses

Loans, REIL and impairment provisions at 31 March 2012 relating to the Group's UK branch-based businesses are set out below.

| Gross<br>loans | REIL | Impairment<br>provisions |
|----------------|------|--------------------------|
|----------------|------|--------------------------|

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|  | £m     | £m    | £m  |
|--|--------|-------|-----|
| Residential mortgages                      | 5,716  | 184   | 32  |
| Personal lending                           | 1,751  | 333   | 287 |
| Property                                   | 4,042  | 453   | 136 |
| Construction                               | 585    | 171   | 55  |
| Service industries and business activities | 4,226  | 318   | 159 |
| Other                                      | 2,995  | 51    | 32  |
| Latent                                     | -      | -     | 79  |
| Total                                      | 19,315 | 1,510 | 780 |

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## Notes (continued)

## 11. Valuation reserves

When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, liquidity and credit risk.

## Credit valuation adjustments and other adjustments

Credit valuation adjustments (CVA) represent an estimate of the adjustment to fair value that a market participant would make to incorporate the credit risk inherent in counterparty derivative exposures. The following table shows credit valuation adjustments and other reserves.

|   | 31 March<br>2012<br>£m | 31<br>December<br>2011<br>£m |
|---|------------------------|------------------------------|
| CVA   |                        |                              |
| Monoline insurers                           | 991                    | 1,198                        |
| Credit derivative product companies (CDPCs) | 624                    | 1,034                        |
| Other counterparties                        | 2,014                  | 2,254                        |
|   | 3,629                  | 4,486                        |
| Bid-offer, liquidity and other reserves     | 2,228                  | 2,704                        |
|   | 5,857                  | 7,190                        |

## Key points

- The gross exposure to monolines reduced in the quarter from £1.9 billion to £1.6 billion primarily due to an increase in underlying asset prices. The CVA decreased on a total basis reflecting the lower exposure, and also on a relative basis (from 63% to 60%) primarily due to tighter credit spreads.
- The exposure to CDPCs has decreased in Q1 2012 from £1.9 billion to £1.1 billion. This was primarily driven by tighter credit spreads of the underlying reference instruments, together with a decrease in the relative value of senior tranches compared with the underlying reference portfolios. Whilst the CVA decreased in line with the exposure, it increased marginally (from 55% to 56%) on a relative basis.
- The CVA held against exposures to other counterparties decreased in the quarter, principally reflecting credit spreads tightening.
- Bid-offer reserves decreased due to risk reduction and the impact of Greek government debt restructuring. Other reserves were also lower across a range of businesses and products.

Notes (continued)

## 11. Valuation reserves (continued)

## Own credit

The following table shows the cumulative own credit adjustment recorded on securities classified as fair value through profit or loss and derivative liabilities.

| Cumulative own credit adjustment<br>(1)      | Debt securities in issue (2) |           | Subordinated            |        | Total Derivatives<br>£m | Total (3)<br>£m |
|--|------------------------------|-----------|-------------------------|--------|-------------------------|-----------------|
|  | HFT<br>£m                    | DFV<br>£m | Total liabilities<br>£m | DFV £m |                         |                 |
| 31 March 2012                                | 91                           | 1,207     | 1,298                   | 520    | 1,818                   | 2,284           |
| 31 December 2011                             | 882                          | 2,647     | 3,529                   | 679    | 4,208                   | 4,810           |
| Carrying values of underlying<br>liabilities | £bn                          | £bn       | £bn                     | £bn    | £bn                     |                 |
| 31 March 2012                                | 10.7                         | 33.3      | 44.0                    | 1.0    | 45.0                    |                 |
| 31 December 2011                             | 11.5                         | 35.7      | 47.2                    | 0.9    | 48.1                    |                 |

## Notes:

- (1) The own credit adjustment for fair value does not alter cash flows and is not used for performance management. It is disregarded for regulatory capital reporting processes and will reverse over time as the liabilities mature.
- (2) Consists of wholesale and retail note issuances.
- (3) The reserve movement between periods will not equate to the reported profit or loss for own credit. The balance sheet reserves are stated by conversion of underlying currency balances at spot rates for each period whereas the income statement includes intra-period foreign exchange sell-offs.

## Key points

- Own credit adjustment decreased significantly during the quarter reflecting tightening of credit spreads across all tenors.
- Senior issued debt valuation adjustments are determined with reference to secondary debt issuance spreads. At 31 March 2012, the five year level tightened to 265 basis points from 451 basis points at the year end.
- Derivative liability own credit adjustment decreased as credit spreads tightened, for example the five year level was 299 basis points compared with 337 basis points at 31 December 2011.



## Notes (continued)

## 12. Available-for-sale financial assets

The Q1 2012 movement in available-for-sale financial assets primarily reflects net unrealised gains on securities of £724 million, largely as yields tightened on sovereign bonds.

|   | Quarter ended |          |          |
|---|---------------|----------|----------|
|   | 31 March      | December | 31 March |
|   | 2012          | 2011     | 2011     |
|   | £m            | £m       | £m       |
| Available-for-sale reserve                |               |          |          |
| At beginning of period                    | (957)         | (292)    | (2,037)  |
| Unrealised losses on Greek sovereign debt | -             | (224)    | -        |
| Impairment of Greek sovereign debt        | -             | 224      | -        |
| Other unrealised net gains                | 724           | 45       | 162      |
| Realised net gains                        | (212)         | (155)    | (197)    |
| Tax                                       | 6             | (555)*   | 9        |
| At end of period                          | (439)         | (957)    | (2,063)  |

\* The Q4 2011 tax charge included a £664 million write-off of deferred tax assets in The Netherlands.

In Q2 2011, as a result of the deterioration in Greece's fiscal position and the announcement of proposals to restructure Greek government debt, the Group concluded that the Greek sovereign debt was impaired. Accordingly, £733 million of unrealised losses recognised in available-for-sale reserves together with £109 million related interest rate hedge adjustments were recycled to the income statement. Further losses of £224 million were recorded in Q4 2011.

Ireland, Italy, Portugal and Spain are facing less acute fiscal difficulties and the Group's sovereign exposures to these countries were not considered impaired at 31 March 2012.

## 13. Contingent liabilities and commitments

|   | 31 March 2012 |                |             | 31 December 2011 |                |             |
|---|---------------|----------------|-------------|------------------|----------------|-------------|
|   | Core<br>£m    | Non-Core<br>£m | Total<br>£m | Core<br>£m       | Non-Core<br>£m | Total<br>£m |
| Contingent liabilities  |               |                |             |                  |                |             |
| Guarantees and assets pledged as collateral security                          | 22,660        | 921            | 23,581      | 23,702           | 1,330          | 25,032      |
| Other contingent liabilities  | 11,582        | 223            | 11,805      | 10,667           | 245            | 10,912      |
|   | 34,242        | 1,144          | 35,386      | 34,369           | 1,575          | 35,944      |
| Commitments   |               |                |             |                  |                |             |
| Undrawn formal standby facilities, credit lines and other commitments to lend | 225,237       | 11,575         | 236,812     | 227,419          | 12,544         | 239,963     |
| Other commitments   | 666           | 1,919          | 2,585       | 301              | 2,611          | 2,912       |

|  |         |        |         |         |        |         |
|--|---------|--------|---------|---------|--------|---------|
|  | 225,903 | 13,494 | 239,397 | 227,720 | 15,155 | 242,875 |
| Total contingent liabilities and commitments | 260,145 | 14,638 | 274,783 | 262,089 | 16,730 | 278,819 |

Additional contingent liabilities arise in the normal course of the Group's business. It is not anticipated that any material loss will arise from these transactions.

Notes (continued)

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#### 14. Litigation, investigations, reviews and proceedings

Except for the developments noted below, there have been no material changes to the litigation and investigations, reviews and proceedings as disclosed in the Form 20-F for the year ended 31 December 2011.

##### Litigation

RBS Citizens N.A. and its affiliates were among more than thirty banks named as defendants in US class action lawsuits alleging that the way in which banks posted transactions to consumer accounts caused customers to incur excessive overdraft fees. The complaints against Citizens, which concerned the period between 2002 and 2010, alleged that this conduct violated its duty of good faith and fair dealing, and was unconscionable, an unfair trade practice and a conversion of customers' funds. Citizens has agreed to settle this case for \$137.5 million. A notice of settlement has been filed with the court, which requests that all proceedings in the case be stayed. If the settlement is given final approval by the court, consumers who do not opt out of the settlement will be deemed to have released any claims related to the allegations in the lawsuits.

##### Investigations, reviews and proceedings

On 26 March 2012, the FSA published a Final Notice, having reached a settlement with Coutts & Co under which Coutts agreed to pay a fine of £8.75 million. This follows an investigation by the FSA into Coutts & Co's anti-money laundering (AML) systems and controls in relation to high risk clients. The fine relates to activity undertaken between December 2007 and November 2010.

Coutts has cooperated fully and openly with the FSA throughout the investigation. Coutts accepts the findings contained in the FSA's Final Notice regarding certain failures to meet the relevant regulatory standards between December 2007 and November 2010. Coutts has found no evidence that money laundering took place during that time.

Since concerns were first identified by the FSA, Coutts & Co has enhanced its client relationship management process which included a review of its AML procedures, and is confident in its current processes and procedures.

During March 2008, the Group was advised by the SEC that it had commenced a non-public, formal investigation relating to the Group's United States sub-prime securities exposures and United States residential mortgage exposures. In December 2010, the SEC contacted the Group and indicated that it would also examine valuations of various RBS N.V. structured products, including CDOs. With respect to the latter inquiry, in March 2012, the SEC communicated to the Group that it had completed its investigation and that it did not, as of the date of that communication and based upon the information then in its possession, intend to recommend any enforcement action against RBS.

The Group continues to respond to investigations by various authorities into its submissions, communications and procedures relating to the setting of LIBOR and other interest rates, including the US Commodity Futures Trading Commission, the US Department of Justice, the European Commission, the FSA and the Japanese Financial Services Agency. In addition to co-operating with the investigations as described above, the Group is also keeping relevant regulators informed. It is not possible to estimate with any certainty what effect these investigations and any related developments may have on the Group, including the timing and effect of any resolution of these investigations.

Notes (continued)

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## 15. Other developments

Proposed transfers of a substantial part of the business activities of RBS N.V. to The Royal Bank of Scotland plc (RBS plc)

On 19 April 2011, the Group announced its intention to transfer a substantial part of the business activities of The Royal Bank of Scotland N.V. (RBS N.V.) to RBS plc (the "Proposed Transfers"), subject, amongst other matters, to regulatory and other approvals, further tax and other analysis in respect of the assets and liabilities to be transferred and employee consultation procedures.

It is expected that the Proposed Transfers will be implemented on a phased basis over a period ending 31 December 2013. The transfer of substantially all of the UK business was completed during Q4 2011. A large part of the remainder of Proposed Transfers is expected to have taken place by the end of 2012.

On 26 March 2012, the Boards of The Royal Bank of Scotland Group plc, RBS plc, RBS Holdings N.V., RBS N.V. and RBS II B.V. announced that (1) RBS N.V. (as the demerging company) and RBS II B.V. (as the acquiring company) filed a proposal with the Dutch Trade Register for a legal demerger and (2) following a preliminary hearing at the Court of Session in Scotland, RBS plc and RBS II B.V. made filings with Companies House in the UK and the Dutch Trade Register respectively for a proposed cross-border merger of RBS II B.V. into RBS plc ("the Dutch Scheme").

Upon implementation of these proposals, a substantial part of the business conducted by RBS N.V. in the Netherlands as well as in certain EMEA branches of RBS N.V. will be transferred to RBS plc. Implementation will be by the demerger of the transferring businesses into RBS II B.V. by way of a Dutch statutory demerger followed by the merger of RBS II B.V. into RBS plc through a cross-border merger. RBS plc and RBS N.V. have discussed the transfer in detail with De Nederlandsche Bank and the Financial Services Authority.

Implementation is subject, amongst other matters, to regulatory and court approvals. Subject to these matters, it is expected that the Dutch Scheme will take effect on 9 July 2012.

### Rating agencies

On 15 February 2012, Moody's placed the ratings of 114 European banks and 17 firms with global capital markets activities on review for possible downgrade. Included in the rating reviews were the ratings of RBS and certain subsidiaries. Moody's' long term ratings of RBS Group plc (A3), RBS plc (A2), NatWest (A2), RBS N.V. (A2), Ulster Bank Ltd (Baa1) and Ulster Bank Ireland Ltd (Baa1) are on review for possible downgrade; along with the short-term P-1 ratings of RBS plc, NatWest and RBS N.V. The short-term ratings of RBS Group plc, Ulster Bank Ireland Ltd and Ulster Bank Ltd were affirmed at P-2. Moody's cite three reasons for their reviews across all of the affected firms; (i) the adverse and prolonged impact of the euro area crisis; (ii) the deteriorating creditworthiness of euro, area sovereigns; and (iii) the substantial challenges faced by banks and securities firms with significant capital market activities.

Notes (continued)

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15. Other developments (continued)

Following their ratings announcement on 15 February 2012, on 22 February 2012 Moody's also placed on review for possible downgrade selected ratings of North American bank subsidiaries of European banks. Included in these rating actions were the long-term (A2) and short-term (P-1) ratings of RBS Citizens, NA and Citizens Bank of Pennsylvania.

During the quarter, no material rating actions have been undertaken on the Group and RBS plc by the rating agencies, Standard & Poor's and Fitch Ratings.

16. Post balance sheet events

There have been no significant events between 31 March 2012 and the date of approval of this announcement which would require a change to or additional disclosure in the announcement.

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## Risk and balance sheet management

## Balance sheet management

## Capital

The Group aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements. Capital adequacy and risk management are closely aligned. The Group's risk-weighted assets and risk asset ratios, calculated in accordance with Financial Services Authority (FSA) definitions, are set out below.

|                                      | 31 March<br>2012 | 31<br>December<br>2011 |
|--------------------------------------|------------------|------------------------|
|                                      | £bn              | £bn                    |
| Risk-weighted assets (RWAs) by risk  |                  |                        |
| Credit risk                          | 332.9            | 344.3                  |
| Counterparty risk                    | 56.8             | 61.9                   |
| Market risk                          | 61.0             | 64.0                   |
| Operational risk                     | 45.8             | 37.9                   |
|                                      | 496.5            | 508.1                  |
| Asset Protection Scheme (APS) relief | (62.2)           | (69.1)                 |
|                                      | 434.3            | 439.0                  |
| Risk asset ratios                    | %                | %                      |
| Core Tier 1                          | 10.8             | 10.6                   |
| Tier 1                               | 13.2             | 13.0                   |
| Total                                | 14.0             | 13.8                   |

## Key points

- RWAs excluding the effect of APS relief fell by £11.6 billion, largely reflecting the impact of large corporate portfolio deleveraging on credit risk RWAs in UK Corporate and International Banking and continued risk reduction in Non-Core.
- The decreases in counterparty risk (£5.1 billion) and market risk (£3.0 billion) RWAs were primarily in the Markets portfolios in Core and Non-Core.
- Operational risk RWAs, which are based on Group income for the three prior years, increased by £7.9 billion as 2008, when the Group recorded a substantial reduction in income, dropped out of the calculation.
- APS RWA relief declined by £6.9 billion, principally reflecting the £11.0 billion decrease in covered assets to £120.8 billion at 31 March 2012, mainly due to maturities, repayments and run-off.
- The Core Tier 1 APS benefit declined marginally from 90bp to 85bp at 31 March 2012.



## Risk and balance sheet management (continued)

## Balance sheet management: Capital (continued)

The Group's regulatory capital resources in accordance with FSA definitions were as follows:

|  | 31 March<br>2012<br>£m | 31<br>December<br>2011<br>£m |
|--|------------------------|------------------------------|
| Shareholders' equity (excluding non-controlling interests)             |                        |                              |
| Shareholders' equity per balance sheet                                 | 73,416                 | 74,819                       |
| Preference shares - equity   | (4,313)                | (4,313)                      |
| Other equity instruments   | (431)                  | (431)                        |
|  | 68,672                 | 70,075                       |
| Non-controlling interests  |                        |                              |
| Non-controlling interests per balance sheet                            | 1,215                  | 1,234                        |
| Non-controlling preference shares                                      | (548)                  | (548)                        |
| Other adjustments to non-controlling interests for regulatory purposes | (259)                  | (259)                        |
|  | 408                    | 427                          |
| Regulatory adjustments and deductions                                  |                        |                              |
| Own credit   | (845)                  | (2,634)                      |
| Unrealised losses on AFS debt securities                               | 547                    | 1,065                        |
| Unrealised gains on AFS equity shares                                  | (108)                  | (108)                        |
| Cash flow hedging reserve  | (921)                  | (879)                        |
| Other adjustments for regulatory purposes                              | 630                    | 571                          |
| Goodwill and other intangible assets                                   | (14,771)               | (14,858)                     |
| 50% excess of expected losses over impairment provisions (net of tax)  | (2,791)                | (2,536)                      |
| 50% of securitisation positions  | (1,530)                | (2,019)                      |
| 50% of APS first loss  | (2,489)                | (2,763)                      |
|  | (22,278)               | (24,161)                     |
| Core Tier 1 capital  | 46,802                 | 46,341                       |
| Other Tier 1 capital   |                        |                              |
| Preference shares - equity   | 4,313                  | 4,313                        |
| Preference shares - debt   | 1,064                  | 1,094                        |
| Innovative/hybrid Tier 1 securities                                    | 4,557                  | 4,667                        |
|  | 9,934                  | 10,074                       |
| Tier 1 deductions  |                        |                              |
| 50% of material holdings   | (300)                  | (340)                        |
| Tax on excess of expected losses over impairment provisions            | 906                    | 915                          |
|  | 606                    | 575                          |
| Total Tier 1 capital   | 57,342                 | 56,990                       |





## Risk and balance sheet management (continued)

## Balance sheet management: Capital (continued)

|  | 31 March<br>2012<br>£m | 31<br>December<br>2011<br>£m |
|--|------------------------|------------------------------|
| Qualifying Tier 2 capital                                      |                        |                              |
| Undated subordinated debt                                      | 1,817                  | 1,838                        |
| Dated subordinated debt - net of amortisation                  | 13,561                 | 14,527                       |
| Unrealised gains on AFS equity shares                          | 108                    | 108                          |
| Collectively assessed impairment provisions                    | 571                    | 635                          |
| Non-controlling Tier 2 capital                                 | 11                     | 11                           |
|  | 16,068                 | 17,119                       |
| Tier 2 deductions  |                        |                              |
| 50% of securitisation positions                                | (1,530)                | (2,019)                      |
| 50% excess of expected losses over impairment provisions       | (3,697)                | (3,451)                      |
| 50% of material holdings                                       | (300)                  | (340)                        |
| 50% of APS first loss  | (2,489)                | (2,763)                      |
|  | (8,016)                | (8,573)                      |
| Total Tier 2 capital   | 8,052                  | 8,546                        |
| Supervisory deductions   |                        |                              |
| Unconsolidated investments                                     |                        |                              |
| - Direct Line Group  | (4,130)                | (4,354)                      |
| - Other investments  | (248)                  | (239)                        |
| Other deductions   | (212)                  | (235)                        |
|  | (4,590)                | (4,828)                      |
| Total regulatory capital                                       | 60,804                 | 60,708                       |
|  |                        | 31 March<br>2012<br>£m       |
| Movement in Core Tier 1 capital                                |                        |                              |
| At beginning of the quarter                                    |                        | 46,341                       |
| Attributable profit net of movements in fair value of own debt |                        | 265                          |
| Foreign currency reserves                                      |                        | (548)                        |
| Decrease in non-controlling interests                          |                        | (19)                         |
| Decrease in capital deductions including APS first loss        |                        | 508                          |
| Decrease in goodwill and other intangible assets               |                        | 87                           |
| Other movements  |                        | 168                          |
| At end of the quarter  |                        | 46,802                       |



## Risk and balance sheet management (continued)

Balance sheet management: Capital: Risk-weighted assets by division  
Risk-weighted assets by risk category and division are set out below.

|                              | Credit<br>risk<br>£bn | Counterparty<br>risk<br>£bn | Market<br>risk<br>£bn | Operational<br>risk<br>£bn | Gross<br>RWAs<br>£bn |
|------------------------------|-----------------------|-----------------------------|-----------------------|----------------------------|----------------------|
| 31 March 2012                |                       |                             |                       |                            |                      |
| UK Retail                    | 40.4                  | -                           | -                     | 7.8                        | 48.2                 |
| UK Corporate<br>Wealth       | 68.3                  | -                           | -                     | 8.6                        | 76.9                 |
| International Banking        | 10.9                  | -                           | 0.1                   | 1.9                        | 12.9                 |
| Ulster Bank                  | 37.0                  | -                           | -                     | 4.8                        | 41.8                 |
| US Retail & Commercial       | 35.9                  | 0.7                         | 0.1                   | 1.7                        | 38.4                 |
|                              | 52.8                  | 0.9                         | -                     | 4.9                        | 58.6                 |
| Retail & Commercial          | 245.3                 | 1.6                         | 0.2                   | 29.7                       | 276.8                |
| Markets                      | 15.0                  | 36.5                        | 48.4                  | 15.7                       | 115.6                |
| Other                        | 9.0                   | 0.2                         | -                     | 1.8                        | 11.0                 |
| Core                         | 269.3                 | 38.3                        | 48.6                  | 47.2                       | 403.4                |
| Non-Core                     | 60.6                  | 18.5                        | 12.4                  | (1.6)                      | 89.9                 |
| Group before RFS Holdings MI | 329.9                 | 56.8                        | 61.0                  | 45.6                       | 493.3                |
| RFS Holdings MI              | 3.0                   | -                           | -                     | 0.2                        | 3.2                  |
| Group                        | 332.9                 | 56.8                        | 61.0                  | 45.8                       | 496.5                |
| APS relief                   | (53.9)                | (8.3)                       | -                     | -                          | (62.2)               |
| Net RWAs                     | 279.0                 | 48.5                        | 61.0                  | 45.8                       | 434.3                |
| 31 December 2011             |                       |                             |                       |                            |                      |
| UK Retail                    | 41.1                  | -                           | -                     | 7.3                        | 48.4                 |
| UK Corporate<br>Wealth       | 71.2                  | -                           | -                     | 8.1                        | 79.3                 |
| International Banking        | 10.9                  | -                           | 0.1                   | 1.9                        | 12.9                 |
| Ulster Bank                  | 38.9                  | -                           | -                     | 4.3                        | 43.2                 |
| US Retail & Commercial       | 33.6                  | 0.6                         | 0.3                   | 1.8                        | 36.3                 |
|                              | 53.6                  | 1.0                         | -                     | 4.7                        | 59.3                 |
| Retail & Commercial          | 249.3                 | 1.6                         | 0.4                   | 28.1                       | 279.4                |
| Markets                      | 16.7                  | 39.9                        | 50.6                  | 13.1                       | 120.3                |
| Other                        | 9.8                   | 0.2                         | -                     | 2.0                        | 12.0                 |
| Core                         | 275.8                 | 41.7                        | 51.0                  | 43.2                       | 411.7                |
| Non-Core                     | 65.6                  | 20.2                        | 13.0                  | (5.5)                      | 93.3                 |
| Group before RFS Holdings MI | 341.4                 | 61.9                        | 64.0                  | 37.7                       | 505.0                |

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|                 |        |       |      |      |        |
|-----------------|--------|-------|------|------|--------|
| RFS Holdings MI | 2.9    | -     | -    | 0.2  | 3.1    |
| Group           | 344.3  | 61.9  | 64.0 | 37.9 | 508.1  |
| APS relief      | (59.6) | (9.5) | -    | -    | (69.1) |
| Net RWAs        | 284.7  | 52.4  | 64.0 | 37.9 | 439.0  |

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## Risk and balance sheet management (continued)

## Balance sheet management: Liquidity and funding risk

## Summary

The Group continued to strengthen and de-risk its balance sheet, the benefits of which are reflected in improvements in its strong liquidity and funding metrics.

- Short-term wholesale funding excluding derivative collateral declined by £22.7 billion to £79.7 billion, 8% of the funded balance sheet, meeting the Group's medium-term target of less than 10%.
- In light of continued economic uncertainty, the Group has taken a prudent view and maintained a liquidity portfolio of £152.7 billion which is nearly twice short-term wholesale funding. This includes £69.5 billion of central bank cash balances, more than 2.5 times the Group's outstanding commercial paper and certificates of deposit.
- UK Retail deposits, both current and savings accounts, grew strongly, up 2% in Q1 2012. This growth was offset by a seasonal drop-off in deposits across other divisions. As a result, Group customer deposits decreased by 1%.
- The Group loan:deposit ratio improved due to deleveraging and stood at 106% at 31 March 2012 compared with 108% at 31 December 2011 and 116% at 31 March 2011.

## Funding sources

The table below shows the Group's primary funding sources including deposits in disposal groups and excluding repurchase agreements.

|  | 31 March 2012 |      | 31 December 2011 |      |
|--|---------------|------|------------------|------|
|  | £m            | %    | £m               | %    |
| Deposits by banks                              |               |      |                  |      |
| - derivative cash collateral                   | 29,390        | 4.4  | 31,807           | 4.6  |
| - other deposits                               | 36,428        | 5.5  | 37,307           | 5.3  |
|  | 65,818        | 9.9  | 69,114           | 9.9  |
| Debt securities in issue                       |               |      |                  |      |
| - conduit asset backed commercial paper (ABCP) | 9,354         | 1.4  | 11,164           | 1.6  |
| - other commercial paper (CP)                  | 3,253         | 0.5  | 5,310            | 0.8  |
| - certificates of deposit (CDs)                | 14,575        | 2.2  | 16,367           | 2.4  |
| - medium-term notes (MTNs)                     | 90,674        | 13.6 | 105,709          | 15.2 |
| - covered bonds                                | 10,107        | 1.5  | 9,107            | 1.3  |
| - securitisations                              | 14,980        | 2.2  | 14,964           | 2.1  |
|  | 142,943       | 21.4 | 162,621          | 23.4 |
| Subordinated liabilities                       | 25,513        | 3.9  | 26,319           | 3.8  |
| Notes issued                                   | 168,456       | 25.3 | 188,940          | 27.2 |

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|  |         |       |         |       |
|--|---------|-------|---------|-------|
| Wholesale funding                      | 234,274 | 35.2  | 258,054 | 37.1  |
| Customer deposits                      |         |       |         |       |
| - cash collateral                      | 8,829   | 1.3   | 9,242   | 1.4   |
| - other deposits                       | 423,659 | 63.5  | 427,511 | 61.5  |
| Total customer deposits                | 432,488 | 64.8  | 436,753 | 62.9  |
| Total funding                          | 666,762 | 100.0 | 694,807 | 100.0 |
| Disposal group deposits included above |         |       |         |       |
| - banks                                | 83      |       | 1       |       |
| - customers                            | 22,281  |       | 22,610  |       |
|  | 22,364  |       | 22,611  |       |

## Risk and balance sheet management (continued)

## Balance sheet management: Liquidity and funding risk: Funding sources (continued)

|   | 31 March<br>2012<br>£bn | 31<br>December<br>2011<br>£bn |
|---|-------------------------|-------------------------------|
| Short-term wholesale funding (STWF) (1)               |                         |                               |
| Bank deposits   | 32.7                    | 32.9                          |
| Notes issued (2)                                      | 47.0                    | 69.5                          |
| STWF excluding derivative collateral                  | 79.7                    | 102.4                         |
| Derivative collateral                                 | 29.4                    | 31.8                          |
| STWF including derivative collateral                  | 109.1                   | 134.2                         |
| Interbank funding excluding derivative collateral (3) |                         |                               |
| - bank deposits                                       | 36.4                    | 37.3                          |
| - bank loans  | (19.7)                  | (24.3)                        |
| Net interbank funding                                 | 16.7                    | 13.0                          |

## Notes:

- (1) Short-term balances denote those with a residual maturity of less than one year and includes longer-term instruments that mature within twelve months of the reporting date.
- (2) See page 100 for details.
- (3) Deposits and loans include all maturities.

## Key points

- Short-term wholesale funding excluding derivative collateral declined by £22.7 billion from £102.4 billion to £79.7 billion, primarily due to the maturity of £15.6 billion of notes issued under the UK Government Credit Guarantee Scheme (CGS). The remaining CGS notes of £5.7 billion will be repaid by May 2012.
- Commercial paper and certificates of deposit declined by £5.7 billion in the quarter and this trend is expected to continue in light of the Group's funding strategy.
- The Group continues to actively diversify its wholesale funding sources through access to both the secured and unsecured wholesale debt markets. During the quarter, the Group raised £2.3 billion of net term wholesale funding. It is not anticipated that there will be any further need to access the public debt markets for term wholesale funding during the remainder of 2012 due to the continuing deleveraging of the Group's balance sheet, growth in deposit balances and robust liquidity and funding position. The Group will continue to monitor market conditions and may selectively take advantage of opportunities in order to bring forward any future term wholesale funding refinancing needs where such issuance would improve the Group's overall wholesale funding costs.
- To further diversify its funding sources, the Group issued its first sterling denominated covered bond of £1 billion with a 12 year maturity and a US\$1.2 billion credit card securitisation.



- The Group accessed €10 billion from the European Central Bank's long-term refinancing operation facility to extend the term of the facilities funding euro denominated assets.

## Risk and balance sheet management (continued)

## Balance sheet management: Liquidity and funding risk: Funding sources (continued)

The table below shows the Group's debt securities in issue and subordinated liabilities by remaining maturity.

## Debt securities in issue

|                   | Conduit<br>ABCP<br>£m | Other<br>CP and<br>CDs<br>£m | MTNs<br>£m | Covered<br>bonds<br>£m | Securitisations<br>£m | Total<br>£m | Subordinated<br>liabilities<br>£m | Total<br>notes<br>issued<br>£m | Total<br>notes<br>issued<br>% |
|-------------------|-----------------------|------------------------------|------------|------------------------|-----------------------|-------------|-----------------------------------|--------------------------------|-------------------------------|
| 31 March 2012     |                       |                              |            |                        |                       |             |                                   |                                |                               |
| Less than 1 year  | 9,354                 | 17,532                       | 19,686     | -                      | 22                    | 46,594      | 454                               | 47,048                         | 28                            |
| 1-3 years         | -                     | 290                          | 30,795     | 2,787                  | 1,231                 | 35,103      | 4,693                             | 39,796                         | 24                            |
| 3-5 years         | -                     | 1                            | 16,416     | 3,666                  | -                     | 20,083      | 4,998                             | 25,081                         | 15                            |
| More than 5 years | -                     | 5                            | 23,777     | 3,654                  | 13,727                | 41,163      | 15,368                            | 56,531                         | 33                            |
|                   | 9,354                 | 17,828                       | 90,674     | 10,107                 | 14,980                | 142,943     | 25,513                            | 168,456                        | 100                           |
| 31 December 2011  |                       |                              |            |                        |                       |             |                                   |                                |                               |
| Less than 1 year  | 11,164                | 21,396                       | 36,302     | -                      | 27                    | 68,889      | 624                               | 69,513                         | 37                            |
| 1-3 years         | -                     | 278                          | 26,595     | 2,760                  | 479                   | 30,112      | 3,338                             | 33,450                         | 18                            |
| 3-5 years         | -                     | 2                            | 16,627     | 3,673                  | -                     | 20,302      | 7,232                             | 27,534                         | 14                            |
| More than 5 years | -                     | 1                            | 26,185     | 2,674                  | 14,458                | 43,318      | 15,125                            | 58,443                         | 31                            |
|                   | 11,164                | 21,677                       | 105,709    | 9,107                  | 14,964                | 162,621     | 26,319                            | 188,940                        | 100                           |

## Term debt issuances

The table below shows debt securities with an original maturity of one year or more issued by the Group during the last two quarters.

|                | Quarter ended          |                           |
|----------------|------------------------|---------------------------|
|                | 31 March<br>2012<br>£m | 31 December<br>2011<br>£m |
| Public         |                        |                           |
| - secured      | 1,784                  | 3,223                     |
| Private        |                        |                           |
| - unsecured    | 1,676                  | 911                       |
| - secured      | -                      | 500                       |
| Gross issuance | 3,460                  | 4,634                     |
| Buybacks       | (1,129)                | (1,270)                   |
| Net issuance   | 2,331                  | 3,364                     |

In addition, the Group issued £2.8 billion of new ten year lower tier 2 securities as part of a liability management exercise.

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## Risk and balance sheet management (continued)

## Balance sheet management: Liquidity and funding risk (continued)

## Liquidity portfolio

The table below shows the composition of the Group's liquidity portfolio (at estimated liquidity value). All assets within the liquidity portfolio are unencumbered.

|   | 31 March 2012           |                  | 31 December 2011        |                  |
|---|-------------------------|------------------|-------------------------|------------------|
|   | Quarterly average<br>£m | Period end<br>£m | Quarterly average<br>£m | Period end<br>£m |
| Cash and balances at central banks              | 91,287                  | 69,489           | 89,377                  | 69,932           |
| Treasury bills                                  | -                       | -                | 444                     | -                |
| Central and local government bonds (1)          |                         |                  |                         |                  |
| - AAA rated governments and US agencies         | 19,085                  | 29,639           | 30,421                  | 29,632           |
| - AA- to AA+ rated governments (2)              | 8,924                   | 14,903           | 5,056                   | 14,102           |
| - governments rated below AA                    | 797                     | 544              | 1,011                   | 955              |
| - local government                              | 3,980                   | 2,933            | 4,517                   | 4,302            |
|   | 32,786                  | 48,019           | 41,005                  | 48,991           |
| Other assets (3)                                |                         |                  |                         |                  |
| - AAA rated                                     | 26,435                  | 24,243           | 25,083                  | 25,202           |
| - below AAA rated and other high quality assets | 9,194                   | 10,972           | 11,400                  | 11,205           |
|   | 35,629                  | 35,215           | 36,483                  | 36,407           |
| Total liquidity portfolio                       | 159,702                 | 152,723          | 167,309                 | 155,330          |

## Notes:

(1) Includes FSA eligible government bonds of £30.5 billion at 31 March 2012 (31 December 2011 - £36.7 billion).

(2) Includes AAA rated US government guaranteed and US government sponsored agencies.

(3) Includes assets eligible for discounting at central banks.

## Key points

- The liquidity portfolio has consistently covered STWF by a wide margin. The £152.7 billion liquidity portfolio equates to 16% of the funded balance sheet and covers STWF by 1.9 times.
- The cash and balances at central banks of £69.5 billion are more than 2.5 times the amount of commercial paper and certificates of deposit outstanding at 31 March 2012.

## Risk and balance sheet management (continued)

## Balance sheet management: Liquidity and funding risk (continued)

## Loan:deposit ratio and customer funding gap

The table below shows the quarterly trends in the Group's loan:deposit ratio and customer funding gap, including disposal groups.

|                   | Loan:deposit ratio |           | Customer<br>funding<br>gap |
|-------------------|--------------------|-----------|----------------------------|
|                   | Group<br>%         | Core<br>% | Group<br>£bn               |
| 31 March 2012     | 106                | 93        | 27                         |
| 31 December 2011  | 108                | 94        | 37                         |
| 30 September 2011 | 112                | 95        | 52                         |
| 30 June 2011      | 114                | 96        | 60                         |
| 31 March 2011     | 116                | 96        | 67                         |

## Note:

(1) Loans are net of provisions and exclude repurchase agreements.

## Key points

- The Group's loan:deposit ratio improved by 2% to 106% in the first quarter, driven by the continuing run-off of Non-Core and accelerated deleveraging in International Banking. It improved 10 percentage points from 116% in Q1 2011.
- The Core loan:deposit ratio improved 100 basis points to 93%.

## Risk and balance sheet management (continued)

## Balance sheet management: Liquidity and funding risk (continued)

## Net stable funding ratio

The table below shows the Group's net stable funding ratio (NSFR), which represents a non-GAAP measure as described on page 4, estimated by applying the Basel III guidance issued in December 2010.

|   | 31 March 2012 |                | 31 December 2011 |                | Weighting<br>% |
|---|---------------|----------------|------------------|----------------|----------------|
|   | £bn           | ASF (1)<br>£bn | £bn              | ASF (1)<br>£bn |                |
| Equity                                      | 75            | 75             | 76               | 76             | 100            |
| Wholesale funding > 1 year                  | 125           | 125            | 124              | 124            | 100            |
| Wholesale funding < 1 year                  | 109           | -              | 134              | -              | -              |
| Derivatives                                 | 447           | -              | 524              | -              | -              |
| Repurchase agreements                       | 129           | -              | 129              | -              | -              |
| Deposits                                    |               |                |                  |                |                |
| - Retail and SME - more stable              | 230           | 207            | 227              | 204            | 90             |
| - Retail and SME - less stable              | 30            | 24             | 31               | 25             | 80             |
| - Other                                     | 173           | 87             | 179              | 89             | 50             |
| Other (2)                                   | 85            | -              | 83               | -              | -              |
| <b>Total liabilities and equity</b>         | <b>1,403</b>  | <b>518</b>     | <b>1,507</b>     | <b>518</b>     |                |
| Cash  | 82            | -              | 79               | -              | -              |
| Inter-bank lending                          | 36            | -              | 44               | -              | -              |
| Debt securities > 1 year                    |               |                |                  |                |                |
| - central and local governments AAA to AA-  | 70            | 3              | 77               | 4              | 5              |
| - other eligible bonds                      | 64            | 13             | 73               | 15             | 20             |
| - other bonds                               | 20            | 20             | 14               | 14             | 100            |
| Debt securities < 1 year                    | 42            | -              | 45               | -              | -              |
| Derivatives                                 | 453           | -              | 530              | -              | -              |
| Reverse repurchase agreements               | 91            | -              | 101              | -              | -              |
| Customer loans and advances > 1 year        |               |                |                  |                |                |
| - residential mortgages                     | 145           | 94             | 145              | 94             | 65             |
| - other                                     | 167           | 167            | 173              | 173            | 100            |
| Customer loans and advances < 1 year        |               |                |                  |                |                |
| - retail loans                              | 19            | 16             | 19               | 16             | 85             |
| - other                                     | 129           | 65             | 137              | 69             | 50             |
| Other (3)                                   | 85            | 85             | 70               | 70             | 100            |
| <b>Total assets</b>                         | <b>1,403</b>  | <b>463</b>     | <b>1,507</b>     | <b>455</b>     |                |
| Undrawn commitments                         | 237           | 12             | 240              | 12             | 5              |
| <b>Total assets and undrawn commitments</b> | <b>1,640</b>  | <b>475</b>     | <b>1,747</b>     | <b>467</b>     |                |
| <b>Net stable funding ratio</b>             |               | <b>109%</b>    |                  | <b>111%</b>    |                |

Notes:

- (1) Available stable funding.
- (2) Deferred tax, insurance liabilities and other liabilities.
- (3) Prepayments, accrued income, deferred tax, settlement balances and other assets.

Key points

- The NSFR remained broadly stable at 109% despite an £8 billion increase in term assets.
- Equity and long-term wholesale funding remained unchanged in the quarter resulting in available stable funding being maintained at £518 billion.
- Term assets increased by £8 billion in the quarter reflecting an increase in the seasonal settlement balances (£16 billion) and higher ineligible debt securities (£6 billion) due to some eurozone country downgrades. This was partially offset by reductions in both customer loans and advances (£10 billion) and eligible debt securities (£3 billion).

## Risk and balance sheet management (continued)

## Risk management: Credit risk

Credit risk is the risk of financial loss due to the failure of a customer to meet its obligation to settle outstanding amounts. The quantum and nature of credit risk assumed across the Group's different businesses vary considerably, while the overall credit risk outcome usually exhibits a high degree of correlation with the macroeconomic environment.

## Loans and advances to customers by sector

In the table below loans and advances exclude disposal groups and repurchase agreements. Totals including disposal groups are also presented. Non-Core includes amounts relating to RFS MI of £0.5 billion at 31 March 2012 (31 December 2011 - £0.4 billion).

|  | 31 March 2012 |                |             | 31 December 2011 |                |             |
|--|---------------|----------------|-------------|------------------|----------------|-------------|
|  | Core<br>£m    | Non-Core<br>£m | Total<br>£m | Core<br>£m       | Non-Core<br>£m | Total<br>£m |
| Central and local government                         | 8,577         | 1,397          | 9,974       | 8,359            | 1,383          | 9,742       |
| Finance  | 42,035        | 3,442          | 45,477      | 46,452           | 3,229          | 49,681      |
| Residential mortgages                                | 139,784       | 3,438          | 143,222     | 138,509          | 5,102          | 143,611     |
| Personal lending                                     | 31,209        | 1,297          | 32,506      | 31,067           | 1,556          | 32,623      |
| Property   | 38,355        | 36,346         | 74,701      | 38,704           | 38,064         | 76,768      |
| Construction   | 6,065         | 2,434          | 8,499       | 6,781            | 2,672          | 9,453       |
| Manufacturing  | 22,587        | 4,207          | 26,794      | 23,201           | 4,931          | 28,132      |
| Service industries and business activities           |               |                |             |                  |                |             |
| - retail, wholesale and repairs                      | 20,528        | 1,981          | 22,509      | 21,314           | 2,339          | 23,653      |
| - transport and storage                              | 15,760        | 4,525          | 20,285      | 16,454           | 5,477          | 21,931      |
| - health, education and recreation                   | 13,294        | 1,304          | 14,598      | 13,273           | 1,419          | 14,692      |
| - hotels and restaurants                             | 7,072         | 1,013          | 8,085       | 7,143            | 1,161          | 8,304       |
| - utilities  | 6,355         | 1,777          | 8,132       | 6,543            | 1,849          | 8,392       |
| - other  | 23,660        | 3,663          | 27,323      | 24,228           | 3,772          | 28,000      |
| Agriculture, forestry and fishing                    | 3,497         | 83             | 3,580       | 3,471            | 129            | 3,600       |
| Finance leases and instalment credit                 | 8,534         | 5,596          | 14,130      | 8,440            | 6,059          | 14,499      |
| Interest accruals                                    | 551           | 116            | 667         | 675              | 116            | 791         |
| Gross loans  | 387,863       | 72,619         | 460,482     | 394,614          | 79,258         | 473,872     |
| Loan impairment provisions                           | (8,663)       | (11,413)       | (20,076)    | (8,292)          | (11,468)       | (19,760)    |
| Net loans  | 379,200       | 61,206         | 440,406     | 386,322          | 67,790         | 454,112     |
| Gross loans including disposal groups                | 407,178       | 73,364         | 480,542     | 414,063          | 80,005         | 494,068     |
| Loan impairment provisions including disposal groups | (9,443)       | (11,429)       | (20,872)    | (9,065)          | (11,486)       | (20,551)    |
| Net loans including disposal groups                  | 397,735       | 61,935         | 459,670     | 404,998          | 68,519         | 473,517     |

## Key points

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Gross loans and advances excluding disposal groups decreased by £13.4 billion primarily driven by the managed run-off of Non-Core, which contracted by 8%. Other than UK Retail, lending declined in all Core businesses, most notably International Banking and Markets, reflecting both management action and weak customer demand.

- Despite a challenging environment, UK Retail lending to customers was up £1.8 billion as the business continues to focus on building its franchise.
- In International Banking, the portfolio loan book decreased by £4.7 billion across various sectors, reflecting capital management discipline and accelerated repayments.
- Markets' lending decreased by £2.6 billion, mainly to non-bank financial institutions reflecting lower collateral requirements.
- Property and construction lending decreased by £3.0 billion, principally due to Non-Core run-off and disposals.

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Risk elements in lending

The table below analyses the Group's risk elements in lending (REIL). REIL are stated without giving effect to any security held which could reduce the eventual loss should it occur, nor any provision marked.

|   | 31 March 2012 |                    |             | 31 December 2011 |                    |             |
|---|---------------|--------------------|-------------|------------------|--------------------|-------------|
|   | Core<br>£m    | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m       | Non-<br>Core<br>£m | Total<br>£m |
| Impaired loans (1)                          | 15,007        | 23,023             | 38,030      | 15,306           | 23,441             | 38,747      |
| Accruing loans past due 90 days or more (2) | 1,323         | 447                | 1,770       | 1,556            | 542                | 2,098       |
| Total REIL                                  | 16,330        | 23,470             | 39,800      | 16,862           | 23,983             | 40,845      |
| REIL including disposal groups              |               |                    | 41,330      |                  |                    | 42,394      |
| REIL as a % of gross loans and advances (3) | 4.3%          | 32.2%              | 8.6%        | 4.4%             | 30.1%              | 8.6%        |
| Provisions as a % of REIL                   | 54%           | 49%                | 51%         | 50%              | 48%                | 49%         |

## Notes:

(1) All loans against which an impairment provision is held.

(2) Loans where an impairment event has taken place but no impairment provision recognised. This category is used for fully collateralised non-revolving credit facilities.

(3) Includes disposal groups and excludes reverse repos.

## Key points

- Whilst overall Group REIL remained relatively stable at 8.6% of gross loans, provision coverage increased to 51% from 49%.
- Core REIL declined marginally and provision coverage increased to 54% from 50% which included increased coverage in Ulster Bank to 53% from 50%.
- The increase in Non-Core's REIL to gross loans ratio to 32.2% from 30.1% reflects a contraction in gross loans (8%), due to the continuing progress in managing down the Non-Core portfolio.

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Risk elements in lending (continued)

The table below details the movements in REIL for the quarter ended 31 March 2012.

|  | Impaired loans |                    |             | Other loans (1) |                    |             | REIL       |                    |             |
|--|----------------|--------------------|-------------|-----------------|--------------------|-------------|------------|--------------------|-------------|
|  | Core<br>£m     | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m      | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m | Non-<br>Core<br>£m | Total<br>£m |
| At 1 January 2012                          | 15,306         | 23,441             | 38,747      | 1,556           | 542                | 2,098       | 16,862     | 23,983             | 40,845      |
| Currency translation and other adjustments | (31)           | (136)              | (167)       | 10              | (6)                | 4           | (21)       | (142)              | (163)       |
| Additions                                  | 1,627          | 981                | 2,608       | 637             | 74                 | 711         | 2,264      | 1,055              | 3,319       |
| Transfers                                  | (92)           | 17                 | (75)        | (10)            | (22)               | (32)        | (102)      | (5)                | (107)       |
| Disposals and restructurings               | (597)          | (123)              | (720)       | (93)            | (6)                | (99)        | (690)      | (129)              | (819)       |
| Repayments                                 | (801)          | (717)              | (1,518)     | (777)           | (135)              | (912)       | (1,578)    | (852)              | (2,430)     |
| Amounts written-off                        | (405)          | (440)              | (845)       | -               | -                  | -           | (405)      | (440)              | (845)       |
| At 31 March 2012                           | 15,007         | 23,023             | 38,030      | 1,323           | 447                | 1,770       | 16,330     | 23,470             | 39,800      |

Note:

(1) Accruing loans past due 90 days or more.

## Key points

- REIL decreased by £1 billion, or 3% in the quarter, split equally between Core and Non-Core. Transfers to the performing book and disposals (£0.8 billion), debt repayments (£2.4 billion) and write-offs (£0.8 billion) were partially offset by additions (£3.3 billion).
- Ulster Bank (Core and Non-Core) REIL increased by £0.4 billion largely reflecting the challenging market conditions.

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Loans, REIL and impairments by division

The table below analyses loans and advances to banks and customers (excluding reverse repos) and related REIL, provisions, impairments, write-offs and coverage ratios by division.

|                                 | Gross loans to banks | Gross loans to customers | REIL   | Provisions | REIL as a % of gross loans to customers | Provisions as a % of REIL | Impairment charge | Amounts written-off |
|---------------------------------|----------------------|--------------------------|--------|------------|---|---------------------------|-------------------|---------------------|
|                                 | £m                   | £m                       | £m     | £m         | %                                       | %                         | £m                | £m                  |
| 31 March 2012                   |                      |                          |        |            |   |                           |                   |                     |
| UK Retail                       | 942                  | 105,196                  | 4,120  | 2,364      | 3.9                                     | 57                        | 155               | 155                 |
| UK Corporate                    | 926                  | 97,702                   | 3,929  | 1,698      | 4.0                                     | 43                        | 176               | 98                  |
| Wealth                          | 2,028                | 16,967                   | 228    | 87         | 1.3                                     | 38                        | 10                | 3                   |
| International Banking           | 4,045                | 53,060                   | 873    | 845        | 1.6                                     | 97                        | 35                | 31                  |
| Ulster Bank                     | 1,555                | 33,932                   | 5,874  | 3,101      | 17.3                                    | 53                        | 394               | 14                  |
| US Retail & Commercial          | 185                  | 50,949                   | 910    | 391        | 1.8                                     | 43                        | 16                | 87                  |
| Retail & Commercial             | 9,681                | 357,806                  | 15,934 | 8,486      | 4.5                                     | 53                        | 786               | 388                 |
| Markets                         | 21,963               | 28,848                   | 396    | 311        | 1.4                                     | 79                        | 10                | 17                  |
| Direct Line Group and other     | 4,129                | 1,209                    | -      | -          | -                                       | -                         | -                 | -                   |
| Core                            | 35,773               | 387,863                  | 16,330 | 8,797      | 4.2                                     | 54                        | 796               | 405                 |
| Non-Core                        | 426                  | 72,619                   | 23,470 | 11,414     | 32.3                                    | 49                        | 499               | 440                 |
| Group                           | 36,199               | 460,482                  | 39,800 | 20,211     | 8.6                                     | 51                        | 1,295             | 845                 |
| Total including disposal groups | 36,311               | 480,542                  | 41,330 | 21,007     | 8.6                                     | 51                        | 1,295             | 845                 |
| 31 December 2011                |                      |                          |        |            |   |                           |                   |                     |
| UK Retail                       | 628                  | 103,377                  | 4,087  | 2,344      | 4.0                                     | 57                        | 191               | 165                 |
| UK Corporate                    | 806                  | 98,563                   | 3,988  | 1,623      | 4.0                                     | 41                        | 236               | 156                 |
| Wealth                          | 2,422                | 16,913                   | 211    | 81         | 1.2                                     | 38                        | 13                | 3                   |
| International Banking           | 3,411                | 57,728                   | 1,632  | 851        | 2.8                                     | 52                        | 56                | 20                  |
| Ulster Bank                     | 2,079                | 34,052                   | 5,523  | 2,749      | 16.2                                    | 50                        | 327               | 61                  |
| US Retail & Commercial          | 208                  | 51,562                   | 1,007  | 455        | 2.0                                     | 45                        | 53                | 105                 |
| Retail & Commercial             | 9,554                | 362,195                  | 16,448 | 8,103      | 4.5                                     | 49                        | 876               | 510                 |
| Markets                         | 29,991               | 31,490                   | 414    | 311        | 1.3                                     | 75                        | 48                | 16                  |
| Direct Line Group and other     | 3,829                | 929                      | -      | -          | -                                       | -                         | -                 | -                   |
| Core                            | 43,374               | 394,614                  | 16,862 | 8,414      | 4.3                                     | 50                        | 924               | 526                 |
| Non-Core                        | 619                  | 79,258                   | 23,983 | 11,469     | 30.3                                    | 48                        | 730               | 981                 |

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|                                 |        |         |        |        |      |    |       |       |
|---------------------------------|--------|---------|--------|--------|------|----|-------|-------|
| Group                           | 43,993 | 473,872 | 40,845 | 19,883 | 8.6  | 49 | 1,654 | 1,507 |
| Total including disposal groups | 44,080 | 494,068 | 42,394 | 20,674 | 8.6  | 49 | 1,654 | 1,507 |
| 31 March 2011                   |        |         |        |        |      |    |       |       |
| UK Retail                       | 448    | 110,045 | 4,641  | 2,652  | 4.2  | 57 | 194   | 274   |
| UK Corporate Wealth             | 101    | 114,840 | 4,618  | 1,929  | 4.0  | 42 | 107   | 107   |
| International Banking           | 2,200  | 16,475  | 214    | 64     | 1.3  | 30 | 5     | 5     |
| Ulster Bank                     | 3,822  | 63,320  | 1,531  | 802    | 2.4  | 52 | (6)   | 19    |
| US Retail & Commercial          | 2,689  | 37,167  | 4,638  | 2,111  | 12.5 | 46 | 461   | 11    |
|                                 | 186    | 46,960  | 972    | 499    | 2.1  | 51 | 84    | 96    |
| Retail & Commercial Markets     | 9,446  | 388,807 | 16,614 | 8,057  | 4.3  | 48 | 845   | 512   |
| Direct Line Group and other     | 46,931 | 22,473  | 404    | 359    | 1.8  | 89 | 7     | 2     |
|                                 | 2,057  | 1,217   | -      | -      | -    | -  | -     | -     |
| Core                            | 58,434 | 412,497 | 17,018 | 8,416  | 4.1  | 49 | 852   | 514   |
| Non-Core                        | 999    | 100,779 | 24,023 | 10,842 | 23.8 | 45 | 1,046 | 438   |
| Group                           | 59,433 | 513,276 | 41,041 | 19,258 | 8.0  | 47 | 1,898 | 952   |
| Total including disposal groups | 60,046 | 516,886 | 41,087 | 19,289 | 7.9  | 47 | 1,898 | 952   |

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Loan impairment provisions

The table below analyses impairment provisions in respect of loans and advances to banks and customers.

|   | 31 March 2012 |                |             | 31 December 2011 |                |             |
|---|---------------|----------------|-------------|------------------|----------------|-------------|
|   | Core<br>£m    | Non-Core<br>£m | Total<br>£m | Core<br>£m       | Non-Core<br>£m | Total<br>£m |
| Individually assessed                               | 2,829         | 9,998          | 12,827      | 2,674            | 9,960          | 12,634      |
| Collectively assessed                               | 4,543         | 792            | 5,335       | 4,279            | 861            | 5,140       |
| Latent loss   | 1,291         | 623            | 1,914       | 1,339            | 647            | 1,986       |
| Loans to customers                                  | 8,663         | 11,413         | 20,076      | 8,292            | 11,468         | 19,760      |
| Loans to banks                                      | 134           | 1              | 135         | 122              | 1              | 123         |
| Total provisions                                    | 8,797         | 11,414         | 20,211      | 8,414            | 11,469         | 19,883      |
| Provisions as a % of REIL                           | 54%           | 49%            | 51%         | 50%              | 48%            | 49%         |
| Customer provisions as a % of customer loans<br>(1) | 2.3%          | 15.7%          | 4.4%        | 2.2%             | 14.4%          | 4.2%        |

## Note:

(1) Includes disposal groups and excludes reverse repos.

## Key points

- Group customer provisions remained relatively stable, although coverage of loans increased from 4.2% to 4.4%.
- Impairment provisions increased by £0.3 billion in the quarter predominately in Ulster Bank Core where continued elevated impairment charges on mortgages more than offset write-offs.
- Non-Core provisions remained at 2011 year end levels, with Ulster Bank contributing approximately 60% of the total, provision coverage increased to 15.7% from 14.4%.

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Impairment charge

The table below analyses the impairment charge for loans and securities.

|                                     | 31 March 2012 |                    |             | Quarter ended<br>31 December 2011 |                    |                 |             | 31 March 2011 |                    |             |
|-------------------------------------|---------------|--------------------|-------------|-----------------------------------|--------------------|-----------------|-------------|---------------|--------------------|-------------|
|                                     | Core<br>£m    | Non-<br>Core<br>£m | Total<br>£m | Core<br>£m                        | Non-<br>Core<br>£m | RFS<br>MI<br>£m | Total<br>£m | Core<br>£m    | Non-<br>Core<br>£m | Total<br>£m |
| Individually assessed               | 294           | 451                | 745         | 533                               | 720                | -               | 1,253       | 384           | 901                | 1,285       |
| Collectively assessed               | 530           | 65                 | 595         | 478                               | 113                | -               | 591         | 584           | 136                | 720         |
| Latent loss                         | (40)          | (17)               | (57)        | (87)                              | (103)              | -               | (190)       | (116)         | 9                  | (107)       |
| Loans to customers                  | 784           | 499                | 1,283       | 924                               | 730                | -               | 1,654       | 852           | 1,046              | 1,898       |
| Loans to banks                      | 12            | -                  | 12          | -                                 | -                  | -               | -           | -             | -                  | -           |
| Securities - sovereign<br>debt (1)  | -             | -                  | -           | 224                               | -                  | -               | 224         | -             | -                  | -           |
| - other                             | 29            | (10)               | 19          | 17                                | 21                 | 2               | 40          | 20            | 29                 | 49          |
| Charge to income<br>statement       | 825           | 489                | 1,314       | 1,165                             | 751                | 2               | 1,918       | 872           | 1,075              | 1,947       |
| Charge as a % of gross<br>loans (2) | 0.8%          | 2.7%               | 1.1%        | 0.9%                              | 3.7%               | -               | 1.3%        | 0.8%          | 4.0%               | 1.5%        |

## Notes:

(1) Sovereign debt impairment and related interest rate hedge adjustments.

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

## Key points

- Group loan impairment losses of £1.3 billion fell by £0.4 billion or 22%, driven by lower individual charges in Non-Core and improvement across Retail & Commercial businesses, with the exception of Ulster Bank. Ulster Bank continues to face challenging credit conditions.
- Total Ulster Bank Group impairments were £0.7 billion compared with £0.6 billion in Q4 2011, primarily due to further deterioration in asset quality in the Core residential mortgage portfolio.
- The Group's customer loan impairment charge as a percentage of customer loans and advances was 1.1% compared with 1.3% in Q4 2011 and 1.5% in Q1 2011.
- In Q1 2012, as part of private sector involvement in the Greek government bail-out, the vast majority of the Group's available-for-sale portfolio of Greek government debt was exchanged for Greek government debt and European Financial Stability Facility notes. The Greek government debt received in the exchange was sold. During April 2012, the remaining Greek government debt that had not been exchanged in Q1 2012 was exchanged and the bonds received were also sold.

For more details on Ulster Bank (Core and Non-Core) loans, REIL, provisions and related coverage ratios, refer to pages 113 and 114.



## Risk and balance sheet management (continued)

## Risk management: Credit risk: Debt securities

The table below analyses debt securities by issuer and measurement classification.

|                             | Central and local government |          |             | Other financial |                    | Corporate | Total    | Of which<br>ABS |
|-----------------------------|------------------------------|----------|-------------|-----------------|--------------------|-----------|----------|-----------------|
|                             | UK<br>£m                     | US<br>£m | Other<br>£m | Banks<br>£m     | institutions<br>£m |           |          |                 |
| 31 March 2012               |                              |          |             |                 |                    |           |          |                 |
| Held-for-trading            | 6,855                        | 17,079   | 37,552      | 2,986           | 24,726             | 3,052     | 92,250   | 22,422          |
| Designated as at fair value | 1                            | -        | 132         | 97              | 581                | 7         | 818      | 556             |
| Available-for-sale          | 11,871                       | 20,547   | 20,012      | 12,214          | 30,509             | 2,228     | 97,381   | 38,759          |
| Loans and receivables       | 10                           | -        | 4           | 368             | 4,638              | 462       | 5,482    | 4,630           |
| Long positions              | 18,737                       | 37,626   | 57,700      | 15,665          | 60,454             | 5,749     | 195,931  | 66,367          |
| - Of which US agencies      | -                            | 4,778    | -           | -               | 27,221             | -         | 31,999   | 30,185          |
| Short positions (HFT)       | (2,133)                      | (8,855)  | (18,613)    | (1,997)         | (2,125)            | (903)     | (34,626) | (213)           |
| Available-for-sale          |                              |          |             |                 |                    |           |          |                 |
| Gross unrealised gains      | 1,141                        | 1,083    | 1,071       | 88              | 658                | 93        | 4,134    | 747             |
| Gross unrealised losses     | -                            | -        | (63)        | (603)           | (1,601)            | (9)       | (2,276)  | (2,179)         |
| 31 December 2011            |                              |          |             |                 |                    |           |          |                 |
| Held-for-trading            | 9,004                        | 19,636   | 36,928      | 3,400           | 23,160             | 2,948     | 95,076   | 20,816          |
| Designated as at fair value | 1                            | -        | 127         | 53              | 457                | 9         | 647      | 558             |
| Available-for-sale          | 13,436                       | 20,848   | 25,552      | 13,175          | 31,752             | 2,535     | 107,298  | 40,735          |
| Loans and receivables       | 10                           | -        | 1           | 312             | 5,259              | 477       | 6,059    | 5,200           |
| Long positions              | 22,451                       | 40,484   | 62,608      | 16,940          | 60,628             | 5,969     | 209,080  | 67,309          |
| - Of which US agencies      | -                            | 4,896    | -           | -               | 25,924             | -         | 30,820   | 28,558          |
| Short positions (HFT)       | (3,098)                      | (10,661) | (19,136)    | (2,556)         | (2,854)            | (754)     | (39,059) | (352)           |
| Available-for-sale          |                              |          |             |                 |                    |           |          |                 |
| Gross unrealised gains      | 1,428                        | 1,311    | 1,180       | 52              | 913                | 94        | 4,978    | 1,001           |
| Gross unrealised losses     | -                            | -        | (171)       | (838)           | (2,386)            | (13)      | (3,408)  | (3,158)         |

## Key points

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Debt securities decreased by £13.1 billion or 6% in the first quarter, of which £9.9 billion were available-for-sale securities across the Group and £2.8 billion related to held-for-trading positions in Markets.

- Held-for-trading: decreased by £2.8 billion primarily in government bonds. The decrease in UK and US central and local government long positions was due to disposals, along with an increase in netting opportunities. Other government bonds included £21.2 billion long and £13.4 billion short positions relating to eurozone countries, of which £5.0 billion and £5.3 billion respectively related to eurozone periphery countries. The increase in financial institutions mainly relates to US agency residential mortgage-backed securities, as markets picked up.
- Available-for-sale: decreased by £9.9 billion, comprising £7.4 billion central and local government and £2.2 billion financial institutions. UK government bonds fell by £1.6 billion due to additional netting benefits (£1.1 billion) and a change in Direct Line Group investment strategy. Disposals from the RBS N.V. liquidity portfolio resulted in lower government bonds (£3.3 billion), primarily German and French. Non-Core disposals led to a £1.0 billion net reduction in ABS issued by non-bank financial institutions.

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Debt securities (continued)

The table below analyses debt securities by issuer and external ratings. Ratings are based on the lowest of S&P, Moody's and Fitch.

|                      | Central and local government |          |             | Other financial |                    |                 | Total<br>£m | % of<br>total | Of<br>which<br>ABS<br>£m |
|----------------------|------------------------------|----------|-------------|-----------------|--------------------|-----------------|-------------|---------------|--------------------------|
|                      | UK<br>£m                     | US<br>£m | Other<br>£m | Banks<br>£m     | institutions<br>£m | Corporate<br>£m |             |               |                          |
| 31 March 2012        |                              |          |             |                 |                    |                 |             |               |                          |
| AAA                  | 18,737                       | 12       | 22,792      | 2,651           | 14,460             | 156             | 58,808      | 30            | 12,982                   |
| AA to AA+            | -                            | 37,609   | 9,432       | 3,553           | 31,988             | 702             | 83,284      | 43            | 36,532                   |
| A to AA-             | -                            | -        | 17,285      | 5,978           | 4,032              | 1,496           | 28,791      | 15            | 5,761                    |
| BBB- to A-           | -                            | 5        | 7,569       | 2,719           | 4,616              | 1,411           | 16,320      | 8             | 6,306                    |
| Non-investment grade | -                            | -        | 620         | 421             | 3,876              | 1,247           | 6,164       | 3             | 3,837                    |
| Unrated              | -                            | -        | 2           | 343             | 1,482              | 737             | 2,564       | 1             | 949                      |
|                      | 18,737                       | 37,626   | 57,700      | 15,665          | 60,454             | 5,749           | 195,931     | 100           | 66,367                   |
| 31 December 2011     |                              |          |             |                 |                    |                 |             |               |                          |
| AAA                  | 22,451                       | 45       | 32,522      | 5,155           | 15,908             | 452             | 76,533      | 37            | 17,156                   |
| AA to AA+            | -                            | 40,435   | 2,000       | 2,497           | 30,403             | 639             | 75,974      | 36            | 33,615                   |
| A to AA-             | -                            | 1        | 24,966      | 6,387           | 4,979              | 1,746           | 38,079      | 18            | 6,331                    |
| BBB- to A-           | -                            | -        | 2,194       | 2,287           | 2,916              | 1,446           | 8,843       | 4             | 4,480                    |
| Non-investment grade | -                            | -        | 924         | 575             | 5,042              | 1,275           | 7,816       | 4             | 4,492                    |
| Unrated              | -                            | 3        | 2           | 39              | 1,380              | 411             | 1,835       | 1             | 1,235                    |
|                      | 22,451                       | 40,484   | 62,608      | 16,940          | 60,628             | 5,969           | 209,080     | 100           | 67,309                   |

## Key points

- The decrease in AAA rated debt securities related to the downgrading of France and Austria to AA+ and a decrease in UK government debt securities. Additionally, certain Spanish covered bonds and the Dutch bond portfolio were downgraded during the quarter.
- The decrease in A to AA- debt securities related to the further downgrade of Italy to BBB+ and a decrease in Japanese debt securities.
- Non-investment grade and unrated debt securities now account for 4% of the debt securities portfolio, down from 5% at the start of the year.

The table below analyses available-for-sale debt securities and related reserves, gross of tax.

| 31 March 2012 |          |                 |             | 31 December 2011 |          |                 |             |
|---------------|----------|-----------------|-------------|------------------|----------|-----------------|-------------|
| US<br>£m      | UK<br>£m | Other (1)<br>£m | Total<br>£m | US<br>£m         | UK<br>£m | Other (1)<br>£m | Total<br>£m |

|                              |        |        |         |        |        |        |         |         |
|------------------------------|--------|--------|---------|--------|--------|--------|---------|---------|
| Central and local Government | 20,547 | 11,871 | 20,012  | 52,430 | 20,848 | 13,436 | 25,552  | 59,836  |
| Banks                        | 326    | 1,207  | 10,681  | 12,214 | 376    | 1,391  | 11,408  | 13,175  |
| Other financial institutions | 15,858 | 3,129  | 11,522  | 30,509 | 17,453 | 3,100  | 11,199  | 31,752  |
| Corporate                    | 191    | 1,060  | 977     | 2,228  | 131    | 1,105  | 1,299   | 2,535   |
| Total                        | 36,922 | 17,267 | 43,192  | 97,381 | 38,808 | 19,032 | 49,458  | 107,298 |
| Of which ABS                 | 18,547 | 3,848  | 16,364  | 38,759 | 20,256 | 3,659  | 16,820  | 40,735  |
| AFS reserves (gross)         | 616    | 723    | (1,315) | 24     | 486    | 845    | (1,815) | (484)   |

Note:

(1) Includes eurozone countries that are detailed on pages 119 to 130.

Risk and balance sheet management (continued)

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Risk management: Credit risk: Ulster Bank Group (Core and Non-Core)

Overview

At 31 March 2012, Ulster Bank Group accounted for 10% of the Group's total gross customer loans and 9% of the Group's Core gross customer loans. The impairment charge of £654 million for Q1 2012 was £84 million higher than the charge for Q4 2011. The Q1 2012 charge was mainly driven by the residential mortgage and commercial real estate portfolios as high unemployment, austerity measures and economic uncertainty have reduced incomes and, together with limited liquidity, have depressed the property market.

Core

The impairment charge for Q1 2012 of £394 million was £67 million higher than the Q4 2011 charge. The mortgage sector accounted for £215 million (55%) of the Q1 2012 impairment charge (Q4 2011 - 41%). High unemployment, lower incomes and falling house prices have driven increases in mortgage impairments. An increase in the mortgage default portfolio in the quarter accounted for 75% of the rise in Q1 2012 REIL.

REIL increased by £351 million in the quarter, largely due to the continuing difficult conditions in residential mortgages.

Non-Core

The impairment charge for Q1 2012 was £260 million (Q4 2011 - £243 million), with the commercial real estate sector accounting for £226 million (87%) of the Q1 2012 charge. At 31 March 2012, 67% of REIL was in Non-Core (Q4 2011 - 68%). The majority of the Non-Core commercial real estate development portfolio (94%) is REIL, with 58% provision coverage.

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

## Loans, risk elements in lending (REIL) and impairments by sector

|                        | Gross<br>loans<br>£m | REIL<br>£m | Provisions<br>£m | REIL<br>as a % of<br>gross<br>loans<br>% | Provisions<br>as a % of<br>REIL<br>% | Provisions<br>as a % of<br>gross loans<br>% | Impairment<br>charge<br>£m | Amounts<br>written-off<br>£m |
|------------------------|----------------------|------------|------------------|--|--------------------------------------|---|----------------------------|------------------------------|
| 31 March 2012          |                      |            |                  |  |                                      |   |                            |                              |
| Core                   |                      |            |                  |  |                                      |   |                            |                              |
| Mortgages              | 19,814               | 2,449      | 1,144            | 12.4                                     | 47                                   | 5.8   | 215                        | 6                            |
| Personal unsecured     | 1,317                | 203        | 188              | 15.4                                     | 93                                   | 14.3  | 11                         | 7                            |
| Commercial real estate |                      |            |                  |  |                                      |   |                            |                              |
| - investment           | 3,835                | 976        | 448              | 25.4                                     | 46                                   | 11.7  | 40                         | -                            |
| - development          | 825                  | 325        | 158              | 39.4                                     | 49                                   | 19.2  | 14                         | -                            |
| Other corporate        | 8,141                | 1,921      | 1,163            | 23.6                                     | 61                                   | 14.3  | 114                        | 1                            |
|                        | 33,932               | 5,874      | 3,101            | 17.3                                     | 53                                   | 9.1   | 394                        | 14                           |
| Non-Core               |                      |            |                  |  |                                      |   |                            |                              |
| Commercial real estate |                      |            |                  |  |                                      |   |                            |                              |
| - investment           | 3,719                | 3,010      | 1,429            | 80.9                                     | 47                                   | 38.4  | 84                         | -                            |
| - development          | 7,969                | 7,492      | 4,382            | 94.0                                     | 58                                   | 55.0  | 142                        | 20                           |
| Other corporate        | 1,696                | 1,170      | 664              | 69.0                                     | 57                                   | 39.2  | 34                         | 5                            |
|                        | 13,384               | 11,672     | 6,475            | 87.2                                     | 55                                   | 48.4  | 260                        | 25                           |
| Ulster Bank Group      |                      |            |                  |  |                                      |   |                            |                              |
| Mortgages              | 19,814               | 2,449      | 1,144            | 12.4                                     | 47                                   | 5.8   | 215                        | 6                            |
| Personal unsecured     | 1,317                | 203        | 188              | 15.4                                     | 93                                   | 14.3  | 11                         | 7                            |
| Commercial real estate |                      |            |                  |  |                                      |   |                            |                              |
| - investment           | 7,554                | 3,986      | 1,877            | 52.8                                     | 47                                   | 24.8  | 124                        | -                            |
| - development          | 8,794                | 7,817      | 4,540            | 88.9                                     | 58                                   | 51.6  | 156                        | 20                           |
| Other corporate        | 9,837                | 3,091      | 1,827            | 31.4                                     | 59                                   | 18.6  | 148                        | 6                            |
|                        | 47,316               | 17,546     | 9,576            | 37.1                                     | 55                                   | 20.2  | 654                        | 39                           |
| 31 December 2011       |                      |            |                  |  |                                      |   |                            |                              |
| Core                   |                      |            |                  |  |                                      |   |                            |                              |
| Mortgages              | 20,020               | 2,184      | 945              | 10.9                                     | 43                                   | 4.7   | 133                        | 7                            |
| Personal unsecured     | 1,533                | 201        | 184              | 13.1                                     | 92                                   | 12.0  | 11                         | 6                            |
| Commercial real estate |                      |            |                  |  |                                      |   |                            |                              |
| - investment           | 3,882                | 1,014      | 413              | 26.1                                     | 41                                   | 10.6  | 51                         | -                            |
| - development          | 881                  | 290        | 145              | 32.9                                     | 50                                   | 16.5  | 32                         | 16                           |
| Other corporate        | 7,736                | 1,834      | 1,062            | 23.7                                     | 58                                   | 13.7  | 100                        | 33                           |

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|                        |        |        |       |      |    |      |     |    |
|------------------------|--------|--------|-------|------|----|------|-----|----|
|                        | 34,052 | 5,523  | 2,749 | 16.2 | 50 | 8.1  | 327 | 62 |
| Non-Core               |        |        |       |      |    |      |     |    |
| Commercial real estate |        |        |       |      |    |      |     |    |
| - investment           | 3,860  | 2,916  | 1,364 | 75.5 | 47 | 35.3 | 151 | -  |
| - development          | 8,490  | 7,536  | 4,295 | 88.8 | 57 | 50.6 | 77  | 31 |
| Other corporate        | 1,630  | 1,159  | 642   | 71.1 | 55 | 39.4 | 15  | 5  |
|                        | 13,980 | 11,611 | 6,301 | 83.1 | 54 | 45.1 | 243 | 36 |
| Ulster Bank Group      |        |        |       |      |    |      |     |    |
| Mortgages              | 20,020 | 2,184  | 945   | 10.9 | 43 | 4.7  | 133 | 7  |
| Personal unsecured     | 1,533  | 201    | 184   | 13.1 | 92 | 12.0 | 11  | 6  |
| Commercial real estate |        |        |       |      |    |      |     |    |
| - investment           | 7,742  | 3,930  | 1,777 | 50.8 | 45 | 23.0 | 202 | -  |
| - development          | 9,371  | 7,826  | 4,440 | 83.5 | 57 | 47.4 | 109 | 47 |
| Other corporate        | 9,366  | 2,993  | 1,704 | 32.0 | 57 | 18.2 | 115 | 38 |
|                        | 48,032 | 17,134 | 9,050 | 35.7 | 53 | 18.8 | 570 | 98 |

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

## Loans, REIL and impairments by sector (continued)

| 31 March 2011            | Gross<br>loans<br>£m | REIL<br>£m | Provisions<br>£m | REIL<br>as a % of<br>gross loans<br>% | Provisions<br>as a % of<br>REIL<br>% | Provisions<br>as a % of<br>gross loans<br>% | Impairment<br>charge<br>£m | Amounts<br>written-off<br>£m |
|--------------------------|----------------------|------------|------------------|---------------------------------------|--------------------------------------|---|----------------------------|------------------------------|
| <b>Core</b>              |                      |            |                  |                                       |                                      |   |                            |                              |
| Mortgages                | 21,495               | 1,780      | 676              | 8.3                                   | 38                                   | 3.1   | 233                        | 2                            |
| Personal unsecured       | 1,499                | 193        | 164              | 12.9                                  | 85                                   | 10.9  | 11                         | 8                            |
| Commercial real estate   |                      |            |                  |                                       |                                      |   |                            |                              |
| - investment             | 4,272                | 773        | 282              | 18.1                                  | 36                                   | 6.6   | 73                         | -                            |
| - development            | 1,015                | 210        | 99               | 20.7                                  | 47                                   | 9.8   | 24                         | -                            |
| Other corporate          | 8,886                | 1,682      | 890              | 18.9                                  | 53                                   | 10.0  | 120                        | 1                            |
|                          | 37,167               | 4,638      | 2,111            | 12.5                                  | 46                                   | 5.7   | 461                        | 11                           |
| <b>Non-Core</b>          |                      |            |                  |                                       |                                      |   |                            |                              |
| Commercial real estate   |                      |            |                  |                                       |                                      |   |                            |                              |
| - investment             | 3,947                | 2,449      | 1,060            | 62.0                                  | 43                                   | 26.9  | 223                        | -                            |
| - development            | 8,881                | 7,588      | 3,524            | 85.4                                  | 46                                   | 39.7  | 503                        | -                            |
| Other corporate          | 1,995                | 1,186      | 658              | 59.4                                  | 55                                   | 33.0  | 107                        | -                            |
|                          | 14,823               | 11,223     | 5,242            | 75.7                                  | 47                                   | 35.4  | 833                        | -                            |
| <b>Ulster Bank Group</b> |                      |            |                  |                                       |                                      |   |                            |                              |
| Mortgages                | 21,495               | 1,780      | 676              | 8.3                                   | 38                                   | 3.1   | 233                        | 2                            |
| Personal unsecured       | 1,499                | 193        | 164              | 12.9                                  | 85                                   | 10.9  | 11                         | 8                            |
| Commercial real estate   |                      |            |                  |                                       |                                      |   |                            |                              |
| - investment             | 8,219                | 3,222      | 1,342            | 39.2                                  | 42                                   | 16.3  | 296                        | -                            |
| - development            | 9,896                | 7,798      | 3,623            | 78.8                                  | 46                                   | 36.6  | 527                        | -                            |
| Other corporate          | 10,881               | 2,868      | 1,548            | 26.4                                  | 54                                   | 14.2  | 227                        | 1                            |
|                          | 51,990               | 15,861     | 7,353            | 30.5                                  | 46                                   | 14.1  | 1,294                      | 11                           |



## Risk and balance sheet management (continued)

## Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

## Residential mortgages

The table below shows how the continued decrease in property values has affected the distribution of residential mortgages by indexed loan-to-value (LTV). LTV is based upon gross loan amounts and, whilst including defaulted loans, does not take account of provisions made.

|   | 31 March<br>2012 | 31<br>December<br>2011 |
|---|------------------|------------------------|
|   | £m               | £m                     |
| LTV distribution calculated on a value basis    |                  |                        |
| <= 70%  | 4,393            | 4,526                  |
| > 70% and <= 90%                                | 2,275            | 2,501                  |
| > 90% and <= 110%                               | 2,806            | 3,086                  |
| > 110% and <= 130%                              | 2,850            | 3,072                  |
| > 130%  | 7,486            | 6,517                  |
| Total portfolio average LTV at quarter end      | 112.5%           | 106.1%                 |
| Average LTV on new originations during the year | 69.8%            | 73.9%                  |

## Key points

- The residential mortgage portfolio across Ulster Bank Group totalled £19.8 billion at 31 March 2012, with 89% in the Republic of Ireland and 11% in Northern Ireland.
- The mortgage REIL continued to increase as a result of the continued challenging economic environment. At 31 March 2012, REIL as a percentage of gross mortgages was 12.4% (by value) compared with 8.3% at 31 March 2011. The impairment charge for Q1 2012 was £215 million compared with £233 million for Q1 2011. Repossession levels were higher than in Q1 2011, with a total of 46 properties repossessed during Q1 2012 (compared with 37 during Q1 2011). 50% of repossessions during Q1 2012 were through voluntary surrender or abandonment of the property.
- Ulster Bank Group is assisting customers in this difficult environment. Mortgage forbearance policies, which are deployed through the 'Flex' initiative, are aimed at assisting customers in financial difficulty. At 31 March 2012, 9.4% (by value) of the mortgage book (£1.9 billion) was on a forbearance arrangement compared with 9.1% (£1.8 billion) at 31 December 2011. The majority of these forbearance arrangements are in the performing book (75%) and not 90 days past due.

## Risk and balance sheet management (continued)

## Risk management: Credit risk: Ulster Bank Group (Core and Non-Core) (continued)

## Commercial real estate

The commercial real estate lending portfolio for Ulster Bank Group totalled £16.3 billion at 31 March 2012, of which £11.7 billion or 71% is Non-Core. The geographic split of the total Ulster Bank Group commercial real estate portfolio remained similar to 2011, with 26% in Northern Ireland, 63% in the Republic of Ireland and 11% in the UK excluding Northern Ireland.

| Exposure by geography | Development      |                   | Investment       |                   | Total<br>£m |
|-----------------------|------------------|-------------------|------------------|-------------------|-------------|
|                       | Commercial<br>£m | Residential<br>£m | Commercial<br>£m | Residential<br>£m |             |
| 31 March 2012         |                  |                   |                  |                   |             |
| Ireland (ROI & NI)    | 2,472            | 5,897             | 4,965            | 1,106             | 14,440      |
| UK (excluding NI)     | 72               | 315               | 1,353            | 100               | 1,840       |
| RoW                   | 6                | 32                | 25               | 5                 | 68          |
|                       | 2,550            | 6,244             | 6,343            | 1,211             | 16,348      |
| 31 December 2011      |                  |                   |                  |                   |             |
| Ireland (ROI & NI)    | 2,591            | 6,317             | 5,097            | 1,132             | 15,137      |
| UK (excluding NI)     | 95               | 336               | 1,371            | 111               | 1,913       |
| RoW                   | -                | 32                | 27               | 4                 | 63          |
|                       | 2,686            | 6,685             | 6,495            | 1,247             | 17,113      |

## Key points

- The outlook for commercial real estate remains challenging, with limited liquidity in the marketplace to support sales or refinancing. The decline in asset valuations continues to place pressure on the portfolio.
- Ulster Bank Group remains focused on proactive management, debt reduction and de-risking of its commercial real estate portfolio while maintaining and responsibly servicing the Core client base through the cycle.

Risk and balance sheet management (continued)

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Risk management: Country risk

Country risk is the risk of material losses arising from significant country-specific events such as sovereign events (default or restructuring); economic events (contagion of sovereign default to other parts of the economy, cyclical economic shock); political events (transfer or convertibility restrictions and expropriation or nationalisation); and natural disaster or conflict. Such events have the potential to affect elements of the Group's credit portfolio that are directly or indirectly linked to the country in question and can also give rise to market, liquidity, operational and franchise risk related losses.

For further details of the Group's approach to country risk management, refer to pages 166 to 168 of the Group's 2011 Form 20-F.

The following tables show the Group's exposures by country of incorporation of the counterparty at 31 March 2012. Countries shown are those where the Group's balance sheet exposure to counterparties incorporated in the country exceeded £1 billion and the country had an external rating of A+ or below from S&P, Moody's or Fitch at 31 March 2012, as well as selected eurozone countries. The numbers are stated before taking into account the impact of mitigants, such as collateral (with the exception of repos), insurance or guarantees, which may have been taken to reduce or eliminate exposure to country risk events. Exposures relating to ocean-going vessels are not included due to their multinational nature.

Definitions of headings in the following tables:

Lending comprises gross loans and advances to: central and local government; central banks, including cash balances; other banks and financial institutions, incorporating overdraft and other short-term facilities; corporates, in large part loans and leases; and individuals, comprising mortgages, personal loans and credit card balances. Lending includes impaired loans and loans where an impairment event has taken place but no impairment provision is recognised.

Debt securities comprise securities classified as available-for-sale (AFS), loans and receivables (LAR), held-for-trading (HFT) and designated as at fair value through profit or loss (DFV). All debt securities other than LAR securities are carried at fair value. LAR debt securities are carried at amortised cost less impairment. HFT debt securities are presented as gross long positions (including DFV securities) and short positions per country. Impairment losses and exchange differences relating to AFS debt securities, together with interest are recognised in the income statement; other changes in the fair value of AFS securities are reported within AFS reserves, which are presented gross of tax.

Derivatives comprise the mark-to-market (mtm) value of such contracts after the effect of legally enforceable netting agreements, but gross of collateral. Reverse repurchase agreements (repos) comprise the mtm value of counterparty exposure arising from repo transactions net of collateral.

Balance sheet exposures comprise lending exposures, debt securities and derivatives and repo exposures.

Risk and balance sheet management (continued)

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Risk management: Country risk (continued)

Contingent liabilities and commitments comprise contingent liabilities, including guarantees, and committed undrawn facilities.

Asset quality (AQ) - for the probability of default range relating to each internal asset quality band, refer to page 172 of the Group's 2011 Annual Report and Accounts.

Credit default swaps (CDSs) - under a CDS contract, the credit risk on the reference entity is transferred from the buyer to the seller. The fair value, or mtm, represents the balance sheet carrying value. The mtm value of CDSs is included within derivatives against the counterparty of the trade, as opposed to the reference entity. The notional is the par amount of the credit protection bought or sold and is included against the reference entity of the CDS contract.

The column CDS notional less fair value represents the notional less fair value amounts arising from sold positions netted against those arising from bought positions, and represents the net change in exposure for a given reference entity should the CDS contract be triggered by a credit event, assuming there is zero recovery rate. However, in most cases, the Group expects the recovery rate to be greater than zero and the change in exposure to be less than this amount.

Other eurozone - comprises Austria, Cyprus, Estonia, Finland, Malta, Slovakia and Slovenia.

## Risk and balance sheet management (continued)

## Risk management: Country risk: Summary

| 31 March 2012             |                                    |                  |                |                                    |               |               |                  |                      |                    |  |                              |
|---------------------------|------------------------------------|------------------|----------------|------------------------------------|---------------|---------------|------------------|----------------------|--------------------|--|------------------------------|
| Lending                   |                                    |                  |                |                                    |               |               |                  |                      |                    |  |                              |
|                           | Central<br>and local<br>government | Central<br>banks | Other<br>banks | Other<br>financial<br>institutions | Corporate     | Personal      | Total<br>lending | Of which<br>Non-Core | Debt<br>securities | Derivatives<br>(gross of<br>collateral)<br>and repos | Balan<br>she<br>exposur<br>£ |
|                           | £m                                 | £m               | £m             | £m                                 | £m            | £m            | £m               | £m                   | £m                 | £m   | £                            |
| <b>Eurozone</b>           |                                    |                  |                |                                    |               |               |                  |                      |                    |  |                              |
| Ireland                   | 45                                 | 1,068            | 41             | 435                                | 18,690        | 18,631        | 38,910           | 10,113               | 773                | 2,577  | 42,2                         |
| Spain                     | 9                                  | -                | 277            | 122                                | 5,340         | 353           | 6,101            | 3,502                | 6,363              | 2,148  | 14,6                         |
| Italy                     | -                                  | 40               | 200            | 344                                | 1,709         | 22            | 2,315            | 1,127                | 1,065              | 2,174  | 5,5                          |
| Portugal                  | -                                  | -                | 1              | -                                  | 422           | 4             | 427              | 262                  | 204                | 544  | 1,1                          |
| Greece                    | 3                                  | 5                | 1              | 31                                 | 395           | 14            | 449              | 90                   | 38                 | 322  | 8                            |
| Germany                   | 10                                 | 20,471           | 473            | 325                                | 5,939         | 148           | 27,366           | 4,819                | 17,395             | 15,496   | 60,2                         |
| Netherlands               | 2,582                              | 9,842            | 967            | 1,556                              | 4,691         | 22            | 19,660           | 2,440                | 10,287             | 10,063   | 40,0                         |
| France                    | 517                                | 4                | 1,254          | 346                                | 3,266         | 74            | 5,461            | 2,268                | 5,486              | 8,729  | 19,6                         |
| Luxembourg                | -                                  | -                | 20             | 1,416                              | 2,222         | 3             | 3,661            | 1,379                | 125                | 2,260  | 6,0                          |
| Belgium                   | 286                                | 55               | 177            | 271                                | 741           | 21            | 1,551            | 409                  | 1,125              | 2,844  | 5,5                          |
| Other<br>eurozone         | 117                                | -                | 22             | 111                                | 1,465         | 26            | 1,741            | 322                  | 835                | 1,860  | 4,4                          |
| <b>Total<br/>eurozone</b> | <b>3,569</b>                       | <b>31,485</b>    | <b>3,433</b>   | <b>4,957</b>                       | <b>44,880</b> | <b>19,318</b> | <b>107,642</b>   | <b>26,731</b>        | <b>43,696</b>      | <b>49,017</b>  | <b>200,3</b>                 |
| <b>Other countries</b>    |                                    |                  |                |                                    |               |               |                  |                      |                    |  |                              |
| India                     | -                                  | 142              | 739            | 42                                 | 3,132         | 114           | 4,169            | 328                  | 1,403              | 100  | 5,6                          |
| China                     | 239                                | 172              | 1,503          | 34                                 | 764           | 28            | 2,740            | 234                  | 479                | 383  | 3,6                          |
| South Korea               | -                                  | 20               | 716            | 1                                  | 543           | 1             | 1,281            | 3                    | 792                | 423  | 2,4                          |
| Turkey                    | 152                                | 56               | 263            | 45                                 | 1,059         | 23            | 1,598            | 342                  | 278                | 98   | 1,9                          |
| Brazil                    | -                                  | -                | 775            | -                                  | 200           | 3             | 978              | 64                   | 790                | 90   | 1,8                          |
| Russia                    | -                                  | 24               | 900            | 7                                  | 580           | 59            | 1,570            | 74                   | 223                | 23   | 1,8                          |
| Romania                   | 25                                 | 136              | 14             | 4                                  | 446           | 381           | 1,006            | 1,005                | 311                | 5  | 1,3                          |

## Risk and balance sheet management (continued)

## Risk management: Country risk: Summary (continued)

| 31 December 2011  |  |                        |                      |  |                 |                |                        |                            |                          |  |                      |
|-------------------|--|------------------------|----------------------|--|-----------------|----------------|------------------------|----------------------------|--------------------------|--|----------------------|
| Lending           |  |                        |                      |  |                 |                |                        |                            |                          |  |                      |
|                   | Central<br>and local<br>government<br>£m | Central<br>banks<br>£m | Other<br>banks<br>£m | Other<br>financial<br>institutions<br>£m | Corporate<br>£m | Personal<br>£m | Total<br>lending<br>£m | Of which<br>Non-Core<br>£m | Debt<br>securities<br>£m | Derivatives<br>(gross of<br>collateral)<br>and repos<br>£m | Bala<br>sh<br>exposu |
| Eurozone          |  |                        |                      |  |                 |                |                        |                            |                          |  |                      |
| Ireland           | 45                                       | 1,467                  | 136                  | 336                                      | 18,994          | 18,858         | 39,836                 | 10,156                     | 886                      | 2,824  | 43,                  |
| Spain             | 9  | 3                      | 206                  | 154                                      | 5,775           | 362            | 6,509                  | 3,735                      | 6,155                    | 2,393  | 15,                  |
| Italy             | -  | 73                     | 233                  | 299                                      | 2,444           | 23             | 3,072                  | 1,155                      | 1,258                    | 2,314  | 6,                   |
| Portugal          | -  | -                      | 10                   | -  | 495             | 5              | 510                    | 341                        | 113                      | 519  | 1,                   |
| Greece            | 7  | 6                      | -                    | 31                                       | 427             | 14             | 485                    | 94                         | 409                      | 355  | 1,                   |
| Germany           | -  | 18,068                 | 653                  | 305                                      | 6,608           | 155            | 25,789                 | 5,402                      | 15,767                   | 16,037   | 57,                  |
| Netherlands       | 2,567                                    | 7,654                  | 623                  | 1,575                                    | 4,827           | 20             | 17,266                 | 2,498                      | 9,893                    | 10,285   | 37,                  |
| France            | 481                                      | 3                      | 1,273                | 437                                      | 3,761           | 79             | 6,034                  | 2,317                      | 7,794                    | 9,058  | 22,                  |
| Luxembourg        | -  | -                      | 101                  | 1,779                                    | 2,228           | 2              | 4,110                  | 1,497                      | 130                      | 3,689  | 7,                   |
| Belgium           | 213                                      | 8                      | 287                  | 354                                      | 588             | 20             | 1,470                  | 480                        | 652                      | 3,010  | 5,                   |
| Other<br>eurozone | 121                                      | -                      | 28                   | 115                                      | 1,375           | 26             | 1,665                  | 324                        | 710                      | 1,971  | 4,                   |
| Total<br>eurozone | 3,443                                    | 27,282                 | 3,550                | 5,385                                    | 47,522          | 19,564         | 106,746                | 27,999                     | 43,767                   | 52,455   | 202,                 |
| Other countries   |  |                        |                      |  |                 |                |                        |                            |                          |  |                      |
| India             | -  | 275                    | 610                  | 35                                       | 2,949           | 127            | 3,996                  | 350                        | 1,530                    | 218  | 5,                   |
| China             | 74                                       | 178                    | 1,237                | 17                                       | 654             | 30             | 2,190                  | 50                         | 597                      | 413  | 3,                   |
| South Korea       | -  | 5                      | 812                  | 3  | 576             | 1              | 1,397                  | 3                          | 845                      | 404  | 2,                   |
| Turkey            | 215                                      | 193                    | 253                  | 66                                       | 1,072           | 16             | 1,815                  | 423                        | 361                      | 94   | 2,                   |
| Brazil            | -  | -                      | 936                  | -  | 227             | 4              | 1,167                  | 70                         | 790                      | 24   | 1,                   |
| Russia            | -  | 36                     | 970                  | 8  | 659             | 62             | 1,735                  | 76                         | 186                      | 66   | 1,                   |
| Romania           | 66                                       | 145                    | 30                   | 8  | 413             | 392            | 1,054                  | 1,054                      | 220                      | 6  | 1,                   |

## Risk and balance sheet management (continued)

## Risk management: Country risk (continued)

## Key points

Exposures are affected by currency movements. Over the first quarter of 2012, sterling appreciated 3.4% against the US dollar and 0.4% against the euro.

- Balance sheet and off-balance sheet exposures to most countries declined in the first quarter of 2012 as the Group maintained a cautious stance and many clients reduced debt levels. The reductions were seen in all broad product categories and in all client groups, with a few exceptions as noted below. Non-Core exposure declined in most countries, particularly Germany and Spain, as a result of sales and repayments.
- Eurozone periphery (Ireland, Spain, Italy, Portugal and Greece) - Exposure decreased in all five countries, in part caused by significant reductions in available-for-sale debt securities. Most of the Group's exposure arises from the activities of Markets, International Banking, Ulster Bank (with respect to Ireland), and Group Treasury. The Group has large holdings of Spanish bank and financial institution mortgage-backed securities bonds and smaller quantities of Italian bonds. International Banking provides trade finance facilities to clients across Europe including the eurozone periphery.
- Ireland - The Group's exposure to Ireland is driven by Ulster Bank Group (88% of the Group's Irish exposure at 31 March 2012). The largest components of the Group's exposure are corporate lending of £18.7 billion (more than half of these loans being to the property sector - mainly commercial real estate, plus construction and building materials) and personal lending of £18.6 billion (mainly mortgages). In addition, the Group has cash and derivatives exposure to the Central Bank of Ireland (CBI), financial institutions and large international clients with funding subsidiaries based in Ireland.

Exposure to the central bank declined by £0.3 billion; this reduction was driven by a change in CBI regulatory requirements. Commercial real estate lending amounted to £10.8 billion at 31 March 2012, only slightly down from the 31 December 2011 level as adverse market conditions hampered asset disposals and refinancing. The commercial real estate lending exposure is largely in Ulster Bank Non-Core and includes REIL of £7.9 billion and loan provisions of £4.2 billion. In personal lending, residential mortgage loans amounted to £17.6 billion, including REIL of £2.4 billion and loan provisions of £1.1 billion. The residential housing market continues to suffer from weak domestic demand, with house prices now approximately 50% below their 2007 peak.

- Spain - The Group maintains strong relationships with selected banks, other financial institutions and large corporate clients. The exposure to Spain is driven by corporate lending and a sizeable ABS portfolio of £6.5 billion, including £6.1 billion of residential mortgage-backed securities covered bonds. The latter portfolio, which is the Group's largest exposure to the financial sector, continues to perform satisfactorily. The Group continues to monitor the situation closely, including undertaking stress analyses of this AFS portfolio.

Corporate lending decreased by £0.4 billion, due to reductions mostly in the natural resources and property sectors. Commercial real estate lending amounted to £2.3 billion at 31 March 2012, nearly all in Non-Core, and includes REIL of £1.0 billion and loan provisions of £0.3 billion.





Risk and balance sheet management (continued)

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Risk management: Country risk (continued)

Key points (continued)

- Italy - The Group maintains strong relationships with Italian government entities, banks, other financial institutions and large corporate clients. In addition, the Group is an active market-maker in Italian government bonds, resulting in large gross long and short positions in held-for-trading securities.

Corporate lending declined by £0.7 billion largely to manufacturing companies. AFS government and private sector bond exposure was significantly reduced through sales.

- Portugal - Exposure was stable during the first quarter of 2012, as reductions in lending and a sale of some Group Treasury available-for-sale bonds were offset by a significant recovery in market prices.
- Greece - The Group recognised an impairment charge in respect of AFS Greek government bonds in 2011. It participated in the restructuring of the Greek government debt in March 2012, which resulted in new bonds, most of which were sold in March (the remainder were sold in April), and in £0.2 billion of AFS bonds issued by the European Financial Stability Facility incorporated in Luxembourg. The Group now has no exposure to AFS bonds issued by the Greek government.

Remaining exposure to Greece at the end of the first quarter was £0.8 billion. This largely comprised corporate lending (part of this being exposure to local subsidiaries of international companies) and also included some partly collateralised derivative and repo exposure to banks.

- Germany and the Netherlands - The Group holds significant short-term surplus liquidity with central banks given credit risk and capital considerations and limited alternative investment opportunities; this exposure also fluctuates as part of the Group's asset and liability management. In addition, net long held-for-trading positions in German and Dutch bonds in Markets increased driven by market opportunities; concurrently, German AFS bond positions in Group Treasury were reduced in line with internal liquidity management strategies.
- France - During the first quarter of 2012, in anticipation of widening credit spreads and as part of general risk management, the Group reduced its holdings in French bonds, both available-for-sale in Group Treasury and held-for-trading in Markets.

Risk and balance sheet management (continued)

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Risk management: Country risk (continued)

Key points (continued)

- CDS protection bought and sold - The Group uses CDS contracts to manage both country and counterparty exposures.

During the first quarter of 2012, gross notional CDS contracts, bought and sold, decreased significantly. This was caused by maturing of contracts and by efforts to reduce counterparty credit exposures and risk-weighted assets through derivative compression trades and other means. In addition, the decrease in gross notional CDS positions contributed to a decrease in the fair value of bought and sold CDS contracts, which also declined due to a general narrowing of eurozone CDS spreads. However, spreads generally widened in April, reflecting renewed eurozone concerns.

Greek sovereign CDS positions were minimal at 31 March 2012 and were fully closed out in April, as the use of the collective action clause in the Greek debt swap resulted in a credit event occurring, which triggered Greek sovereign CDS contracts.

The Group primarily transacts these CDS contracts with investment-grade global financial institutions that are active participants in the CDS market. These transactions are subject to regular margining. For European peripheral sovereigns, credit protection has been purchased from a number of major European banks, predominantly outside the country of the reference entity. In a few cases where protection was bought from banks in the country of the reference entity, giving rise to wrong-way risk, the risk is mitigated through specific collateralisation.

Due to their bespoke nature, exposures relating to CDPCs and associated hedges have not been included as they cannot be meaningfully attributed to a particular country or reference entity. Nth-to-default basket swaps have also been excluded as they cannot be meaningfully attributed to a particular reference entity.

## Risk and balance sheet management (continued)

## Risk management: Country risk: Eurozone

|                              | Lending | REIL   | Provisions | AFS and LAR debt securities |         | HFT debt securities |        | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by Notional |         |
|------------------------------|---------|--------|------------|-----------------------------|---------|---------------------|--------|-----------------------|---|-------------------------|-----------------|---------|
|                              |         |        |            | reserves                    | AFS     | Long                | Short  |                       |   |                         | Bought          | Sold    |
| 31 March 2012                | £m      | £m     | £m         | £m                          | £m      | £m                  | £m     | £m                    | £m  | £m                      | £m              | £m      |
| Central and local government | 3,569   | -      | -          | 14,710                      | 212     | 21,221              | 13,391 | 22,540                | 1,739                                       | 27,848                  | 36,127          | 34,900  |
| Central banks                | 31,485  | -      | -          | -                           | -       | 7                   | -      | 7                     | 5,664                                       | 37,156                  | -               | -       |
| Other banks                  | 3,433   | -      | -          | 8,126                       | (542)   | 1,175               | 1,189  | 8,112                 | 29,338                                      | 40,883                  | 16,333          | 15,900  |
| Other financial institutions | 4,957   | -      | -          | 10,283                      | (1,007) | 1,967               | 533    | 11,717                | 8,621                                       | 25,295                  | 13,122          | 11,600  |
| Corporate                    | 44,880  | 14,468 | 7,394      | 859                         | 27      | 643                 | 182    | 1,320                 | 3,655                                       | 49,855                  | 59,568          | 52,800  |
| Personal                     | 19,318  | 2,548  | 1,272      | -                           | -       | -                   | -      | -                     | -   | 19,318                  | -               | -       |
|                              | 107,642 | 17,016 | 8,666      | 33,978                      | (1,310) | 25,013              | 15,295 | 43,696                | 49,017                                      | 200,355                 | 125,150         | 115,400 |
| 31 December 2011             |         |        |            |                             |         |                     |        |                       |   |                         |                 |         |
| Central and local government | 3,443   | -      | -          | 18,406                      | 81      | 19,597              | 15,049 | 22,954                | 1,925                                       | 28,322                  | 37,080          | 36,700  |
| Central banks                | 27,282  | -      | -          | 20                          | -       | 6                   | -      | 26                    | 5,770                                       | 33,078                  | -               | -       |
| Other banks                  | 3,550   | -      | -          | 8,423                       | (752)   | 1,272               | 1,502  | 8,193                 | 29,685                                      | 41,428                  | 19,736          | 19,200  |
| Other financial institutions | 5,385   | -      | -          | 10,494                      | (1,129) | 1,138               | 471    | 11,161                | 10,956                                      | 27,502                  | 17,949          | 16,600  |
| Corporate                    | 47,522  | 14,152 | 7,267      | 964                         | 23      | 528                 | 59     | 1,433                 | 4,118                                       | 53,073                  | 76,966          | 70,100  |
| Personal                     | 19,564  | 2,280  | 1,069      | -                           | -       | -                   | -      | -                     | 1   | 19,565                  | -               | -       |
|                              | 106,746 | 16,432 | 8,336      | 38,307                      | (1,777) | 22,541              | 17,081 | 43,767                | 52,455                                      | 202,968                 | 151,731         | 142,700 |

## CDS bought protection: counterparty analysis by internal asset quality band

| 31 March 2012 | AQ1      |            | AQ2-AQ3  |            | AQ4-AQ9  |            | AQ10     |            | Total    |            |
|---------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
|               | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
|               | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         |
| Banks         | 62,327   | 2,949      | 1,475    | 120        | 198      | 18         | -        | -          | 64,000   | 3,087      |

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|                              |         |        |       |     |       |     |     |    |         |        |
|------------------------------|---------|--------|-------|-----|-------|-----|-----|----|---------|--------|
| Other financial Institutions | 57,670  | 2,210  | 596   | 85  | 2,674 | 223 | 210 | 73 | 61,150  | 2,591  |
| Total                        | 119,997 | 5,159  | 2,071 | 205 | 2,872 | 241 | 210 | 73 | 125,150 | 5,678  |
| 31 December 2011             | 147,448 | 11,190 | 1,844 | 220 | 2,292 | 301 | 147 | 14 | 151,731 | 11,725 |

## Risk and balance sheet management (continued)

## Risk management: Country risk: Eurozone periphery

|                                    | Lending | REIL   | Provisions | AFS and<br>LAR debt<br>securities | AFS<br>reserves | HFT<br>debt<br>securities |       | Total debt<br>securities | Derivatives<br>(gross of<br>collateral)<br>and repos | Balance<br>sheet<br>exposures | CDS<br>Notion<br>Bought |
|------------------------------------|---------|--------|------------|-----------------------------------|-----------------|---------------------------|-------|--------------------------|--|-------------------------------|-------------------------|
|                                    |         |        |            |                                   |                 | Long                      | Short |                          |  |                               |                         |
| 31 March<br>2012                   | £m      | £m     | £m         | £m                                | £m              | £m                        | £m    | £m                       | £m   | £m                            | £m                      |
| Central and<br>local<br>government | 57      | -      | -          | 562                               | (177)           | 4,977                     | 5,285 | 254                      | 135  | 446                           | 23,858                  |
| Central<br>banks                   | 1,113   | -      | -          | -                                 | -               | -                         | -     | -                        | 101  | 1,214                         | -                       |
| Other banks                        | 520     | -      | -          | 5,270                             | (755)           | 276                       | 227   | 5,319                    | 4,713  | 10,552                        | 7,610                   |
| Other<br>financial<br>institutions | 932     | -      | -          | 2,276                             | (593)           | 312                       | 139   | 2,449                    | 1,354  | 4,735                         | 3,102                   |
| Corporate                          | 26,556  | 12,296 | 6,581      | 176                               | -               | 276                       | 31    | 421                      | 1,462  | 28,439                        | 8,811                   |
| Personal                           | 19,024  | 2,522  | 1,247      | -                                 | -               | -                         | -     | -                        | -  | 19,024                        | -                       |
|                                    | 48,202  | 14,818 | 7,828      | 8,284                             | (1,525)         | 5,841                     | 5,682 | 8,443                    | 7,765  | 64,410                        | 43,381                  |
| 31 December<br>2011                |         |        |            |                                   |                 |                           |       |                          |  |                               |                         |
| Central and<br>local<br>government | 61      | -      | -          | 1,207                             | (339)           | 4,854                     | 5,652 | 409                      | 236  | 706                           | 25,883                  |
| Central<br>banks                   | 1,549   | -      | -          | -                                 | -               | -                         | -     | -                        | -  | 1,549                         | -                       |
| Other banks                        | 585     | -      | -          | 5,279                             | (956)           | 436                       | 318   | 5,397                    | 4,824  | 10,806                        | 9,372                   |
| Other<br>financial<br>institutions | 820     | -      | -          | 2,331                             | (654)           | 228                       | 56    | 2,503                    | 1,855  | 5,178                         | 3,854                   |
| Corporate                          | 28,135  | 12,103 | 6,527      | 274                               | 4               | 238                       | -     | 512                      | 1,489  | 30,136                        | 10,798                  |
| Personal                           | 19,262  | 2,258  | 1,048      | -                                 | -               | -                         | -     | -                        | 1  | 19,263                        | -                       |
|                                    | 50,412  | 14,361 | 7,575      | 9,091                             | (1,945)         | 5,756                     | 6,026 | 8,821                    | 8,405  | 67,638                        | 49,907                  |

## CDS bought protection: counterparty analysis by internal asset quality band

| 31 March 2012 | AQ1      |               | AQ2-AQ3  |               | AQ4-AQ9  |               | AQ10     |               | Total    |               |
|---------------|----------|---------------|----------|---------------|----------|---------------|----------|---------------|----------|---------------|
|               | Notional | Fair<br>value | Notional | Fair<br>value | Notional | Fair<br>value | Notional | Fair<br>value | Notional | Fair<br>value |
|               | £m       | £m            | £m       | £m            | £m       | £m            | £m       | £m            | £m       | £m            |
| Banks         | 23,823   | 2,598         | 978      | 111           | 93       | 11            | -        | -             | 24,894   | 2,720         |

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|                              |        |       |       |     |     |     |    |    |        |       |
|------------------------------|--------|-------|-------|-----|-----|-----|----|----|--------|-------|
| Other financial Institutions | 17,423 | 1,859 | 236   | 50  | 765 | 123 | 63 | 63 | 18,487 | 2,095 |
| Total                        | 41,246 | 4,457 | 1,214 | 161 | 858 | 134 | 63 | 63 | 43,381 | 4,815 |
| 31 December 2011             | 48,090 | 8,586 | 998   | 163 | 819 | 176 | -  | -  | 49,907 | 8,925 |

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## Risk and balance sheet management (continued)

## Risk management: Country risk: Ireland

|                                    | Lending | REIL   | Provisions | AFS and<br>LAR debt<br>securities | AFS<br>reserves | HFT<br>debt<br>securities |       | Total debt<br>securities | Derivatives<br>(gross of<br>collateral)<br>and repos | Balance<br>sheet<br>exposures | CDS by r |       |
|------------------------------------|---------|--------|------------|-----------------------------------|-----------------|---------------------------|-------|--------------------------|--|-------------------------------|----------|-------|
|                                    |         |        |            |                                   |                 | Long                      | Short |                          |  |                               | Bought   | Sold  |
| 31 March<br>2012                   | £m      | £m     | £m         | £m                                | £m              | £m                        | £m    | £m                       | £m   | £m                            | £m       | £m    |
| Central and<br>local<br>government | 45      | -      | -          | 115                               | (34)            | 7                         | 13    | 109                      | 11   | 165                           | 2,276    | 2,276 |
| Central<br>banks                   | 1,068   | -      | -          | -                                 | -               | -                         | -     | -                        | 101  | 1,169                         | -        | -     |
| Other banks                        | 41      | -      | -          | 183                               | (24)            | 156                       | -     | 339                      | 1,220  | 1,600                         | 128      | 128   |
| Other<br>financial<br>institutions | 435     | -      | -          | 54                                | -               | 142                       | 63    | 133                      | 809  | 1,377                         | 742      | 635   |
| Corporate                          | 18,690  | 10,624 | 5,784      | 60                                | -               | 133                       | 1     | 192                      | 436  | 19,318                        | 369      | 230   |
| Personal                           | 18,631  | 2,522  | 1,247      | -                                 | -               | -                         | -     | -                        | -  | 18,631                        | -        | -     |
|                                    | 38,910  | 13,146 | 7,031      | 412                               | (58)            | 438                       | 77    | 773                      | 2,577  | 42,260                        | 3,515    | 3,300 |
| 31 December<br>2011                |         |        |            |                                   |                 |                           |       |                          |  |                               |          |       |
| Central and<br>local<br>government | 45      | -      | -          | 102                               | (46)            | 20                        | 19    | 103                      | 92   | 240                           | 2,145    | 2,276 |
| Central<br>banks                   | 1,467   | -      | -          | -                                 | -               | -                         | -     | -                        | -  | 1,467                         | -        | -     |
| Other banks                        | 136     | -      | -          | 177                               | (39)            | 195                       | 14    | 358                      | 1,459  | 1,953                         | 110      | 100   |
| Other<br>financial<br>institutions | 336     | -      | -          | 61                                | -               | 116                       | 35    | 142                      | 855  | 1,333                         | 523      | 635   |
| Corporate                          | 18,994  | 10,269 | 5,689      | 148                               | 3               | 135                       | -     | 283                      | 417  | 19,694                        | 425      | 320   |
| Personal                           | 18,858  | 2,258  | 1,048      | -                                 | -               | -                         | -     | -                        | 1  | 18,859                        | -        | -     |
|                                    | 39,836  | 12,527 | 6,737      | 488                               | (82)            | 466                       | 68    | 886                      | 2,824  | 43,546                        | 3,203    | 3,220 |

## CDS bought protection: counterparty analysis by internal asset quality band

|               | AQ1      |            | AQ2-AQ3  |            | AQ4-AQ9  |            | AQ10     |            | Total    |            |
|---------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
|               | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
|               | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         |
| 31 March 2012 |          |            |          |            |          |            |          |            |          |            |
| Banks         | 1,692    | 233        | 9        | 1          | -        | -          | -        | -          | 1,701    | 234        |

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|                              |       |     |     |   |     |   |   |   |       |     |
|------------------------------|-------|-----|-----|---|-----|---|---|---|-------|-----|
| Other financial Institutions | 1,443 | 165 | 161 | - | 210 | 9 | - | - | 1,814 | 174 |
| Total                        | 3,135 | 398 | 170 | 1 | 210 | 9 | - | - | 3,515 | 408 |
| 31 December 2011             | 2,911 | 532 | 163 | 1 | 129 | 7 | - | - | 3,203 | 540 |

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Risk and balance sheet management (continued)

Risk management: Country risk: Spain

|                              | Lending |       | REIL | Provisions | AFS and LAR debt securities |     | AFS reserves |       | HFT debt securities |        | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by Notional |    |        |
|------------------------------|---------|-------|------|------------|-----------------------------|-----|--------------|-------|---------------------|--------|-----------------------|---|-------------------------|-----------------|----|--------|
|                              | £m      | £m    |      |            | £m                          | £m  | £m           | £m    | Long                | Short  |                       |   |                         | £m              | £m | Bought |
| 31 March 2012                |         |       |      |            |                             |     |              |       |                     |        |                       |   |                         |                 |    |        |
| Central and local government | 9       | -     | -    | 35         | (13)                        | 677 | 899          | (187) | 29                  | (149)  | 5,839                 | 5,839                                       |                         |                 |    |        |
| Central banks                | -       | -     | -    | -          | -                           | -   | -            | -     | -                   | -      | -                     | -   | -                       | -               | -  | -      |
| Other banks                  | 277     | -     | -    | 4,860      | (698)                       | 104 | 156          | 4,808 | 1,317               | 6,402  | 1,974                 | 1,974                                       |                         |                 |    |        |
| Other financial institutions | 122     | -     | -    | 1,632      | (583)                       | 112 | 45           | 1,699 | 366                 | 2,187  | 1,427                 | 1,427                                       |                         |                 |    |        |
| Corporate                    | 5,340   | 1,040 | 357  | -          | -                           | 59  | 16           | 43    | 436                 | 5,819  | 3,886                 | 3,886                                       |                         |                 |    |        |
| Personal                     | 353     | -     | -    | -          | -                           | -   | -            | -     | -                   | 353    | -                     | -   |                         |                 |    |        |
|                              | 6,101   | 1,040 | 357  | 6,527      | (1,294)                     | 952 | 1,116        | 6,363 | 2,148               | 14,612 | 13,126                | 12,126                                      |                         |                 |    |        |
| 31 December 2011             |         |       |      |            |                             |     |              |       |                     |        |                       |   |                         |                 |    |        |
| Central and local government | 9       | -     | -    | 33         | (15)                        | 360 | 751          | (358) | 35                  | (314)  | 5,151                 | 5,151                                       |                         |                 |    |        |
| Central banks                | 3       | -     | -    | -          | -                           | -   | -            | -     | -                   | 3      | -                     | -   |                         |                 |    |        |
| Other banks                  | 206     | -     | -    | 4,892      | (867)                       | 162 | 214          | 4,840 | 1,622               | 6,668  | 1,965                 | 1,965                                       |                         |                 |    |        |
| Other financial institutions | 154     | -     | -    | 1,580      | (639)                       | 65  | 8            | 1,637 | 282                 | 2,073  | 2,417                 | 2,417                                       |                         |                 |    |        |
| Corporate                    | 5,775   | 1,190 | 442  | 9          | -                           | 27  | -            | 36    | 454                 | 6,265  | 4,831                 | 3,931                                       |                         |                 |    |        |
| Personal                     | 362     | -     | -    | -          | -                           | -   | -            | -     | -                   | 362    | -                     | -   |                         |                 |    |        |
|                              | 6,509   | 1,190 | 442  | 6,514      | (1,521)                     | 614 | 973          | 6,155 | 2,393               | 15,057 | 14,364                | 13,264                                      |                         |                 |    |        |

CDS bought protection: counterparty analysis by internal asset quality band

|               | AQ1      |            | AQ2-AQ3  |            | AQ4-AQ9  |            | AQ10     |            | Total    |            |  |
|---------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|--|
|               | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |  |
|               | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         |  |
| 31 March 2012 |          |            |          |            |          |            |          |            |          |            |  |
| Banks         | 6,748    | 532        | 67       | 5          | 32       | 3          | -        | -          | 6,847    | 540        |  |

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|                              |        |       |     |   |     |    |   |   |        |       |
|------------------------------|--------|-------|-----|---|-----|----|---|---|--------|-------|
| Other financial Institutions | 6,045  | 510   | 21  | 3 | 213 | 53 | - | - | 6,279  | 566   |
| Total                        | 12,793 | 1,042 | 88  | 8 | 245 | 56 | - | - | 13,126 | 1,106 |
| 31 December 2011             | 13,833 | 1,235 | 230 | 8 | 301 | 54 | - | - | 14,364 | 1,297 |

## Risk and balance sheet management (continued)

## Risk management: Country risk: Italy

|                              | Lending | REIL | Provisions | AFS and LAR debt securities |          | HFT debt securities |       | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by Notional |        |
|------------------------------|---------|------|------------|-----------------------------|----------|---------------------|-------|-----------------------|---|-------------------------|-----------------|--------|
|                              |         |      |            | securities                  | reserves | Long                | Short |                       |   |                         | Bought          | Sold   |
| 31 March 2012                | £m      | £m   | £m         | £m                          | £m       | £m                  | £m    | £m                    | £m  | £m                      | £m              | £m     |
| Central and local government | -       | -    | -          | 348                         | (87)     | 4,247               | 4,341 | 254                   | 77  | 331                     | 12,341          | 12,341 |
| Central banks                | 40      | -    | -          | -                           | -        | -                   | -     | -                     | -   | 40                      | -               | -      |
| Other banks                  | 200     | -    | -          | 119                         | (14)     | 15                  | 69    | 65                    | 1,509                                       | 1,774                   | 4,357           | 4,357  |
| Other financial institutions | 344     | -    | -          | 585                         | (10)     | 39                  | 18    | 606                   | 133   | 1,083                   | 891             | 7,000  |
| Corporate                    | 1,709   | 281  | 98         | 74                          | -        | 80                  | 14    | 140                   | 455   | 2,304                   | 3,809           | 3,809  |
| Personal                     | 22      | -    | -          | -                           | -        | -                   | -     | -                     | -   | 22                      | -               | -      |
|                              | 2,315   | 281  | 98         | 1,126                       | (111)    | 4,381               | 4,442 | 1,065                 | 2,174                                       | 5,554                   | 21,398          | 20,700 |
| 31 December 2011             |         |      |            |                             |          |                     |       |                       |   |                         |                 |        |
| Central and local government | -       | -    | -          | 704                         | (220)    | 4,336               | 4,725 | 315                   | 90  | 405                     | 12,125          | 12,125 |
| Central banks                | 73      | -    | -          | -                           | -        | -                   | -     | -                     | -   | 73                      | -               | -      |
| Other banks                  | 233     | -    | -          | 119                         | (14)     | 67                  | 88    | 98                    | 1,064                                       | 1,395                   | 6,078           | 5,980  |
| Other financial institutions | 299     | -    | -          | 685                         | (15)     | 40                  | 13    | 712                   | 686   | 1,697                   | 872             | 7,000  |
| Corporate                    | 2,444   | 361  | 113        | 75                          | -        | 58                  | -     | 133                   | 474   | 3,051                   | 4,742           | 4,742  |
| Personal                     | 23      | -    | -          | -                           | -        | -                   | -     | -                     | -   | 23                      | -               | -      |
|                              | 3,072   | 361  | 113        | 1,583                       | (249)    | 4,501               | 4,826 | 1,258                 | 2,314                                       | 6,644                   | 23,817          | 23,200 |

## CDS bought protection: counterparty analysis by internal asset quality band

|               | AQ1      |            | AQ2-AQ3  |            | AQ4-AQ9  |            | AQ10     |            | Total    |            |
|---------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
|               | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 March 2012 | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         |
| Banks         | 12,448   | 1,096      | 857      | 97         | 61       | 8          | -        | -          | 13,366   | 1,201      |

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|                              |        |       |     |     |     |    |   |   |        |       |
|------------------------------|--------|-------|-----|-----|-----|----|---|---|--------|-------|
| Other financial Institutions | 7,703  | 658   | 54  | 47  | 275 | 42 | - | - | 8,032  | 747   |
| Total                        | 20,151 | 1,754 | 911 | 144 | 336 | 50 | - | - | 21,398 | 1,948 |
| 31 December 2011             | 23,042 | 3,226 | 495 | 96  | 280 | 53 | - | - | 23,817 | 3,375 |

## Risk and balance sheet management (continued)

## Risk management: Country risk: Portugal

|                              | Lending | REIL | Provisions | AFS and LAR debt securities |          | HFT debt securities |       | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS bought | Notional |
|------------------------------|---------|------|------------|-----------------------------|----------|---------------------|-------|-----------------------|---|-------------------------|------------|----------|
|                              |         |      |            | securities                  | reserves | Long                | Short |                       |   |                         |            |          |
| 31 March 2012                | £m      | £m   | £m         | £m                          | £m       | £m                  | £m    | £m                    | £m  | £m                      | £m         | £m       |
| Central and local government | -       | -    | -          | 51                          | (43)     | 21                  | 32    | 40                    | 18  | 58                      | 3,277      | 3,277    |
| Other banks                  | 1       | -    | -          | 108                         | (19)     | 1                   | 2     | 107                   | 402   | 510                     | 1,146      | 1,146    |
| Other financial institutions | -       | -    | -          | 5                           | -        | 19                  | 13    | 11                    | 44  | 55                      | 8          | 8        |
| Corporate                    | 422     | 42   | 34         | 42                          | -        | 4                   | -     | 46                    | 80  | 548                     | 350        | 350      |
| Personal                     | 4       | -    | -          | -                           | -        | -                   | -     | -                     | -   | 4                       | -          | -        |
|                              | 427     | 42   | 34         | 206                         | (62)     | 45                  | 47    | 204                   | 544   | 1,175                   | 4,781      | 4,781    |

31 December 2011

|                              | Lending | REIL | Provisions | AFS and LAR debt securities |      | HFT debt securities |     | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS bought | Notional |
|------------------------------|---------|------|------------|-----------------------------|------|---------------------|-----|-----------------------|---|-------------------------|------------|----------|
|                              | £m      | £m   | £m         | £m                          | £m   | £m                  | £m  |                       |   |                         |            |          |
| Central and local government | -       | -    | -          | 56                          | (58) | 36                  | 152 | (60)                  | 19  | (41)                    | 3,304      | 3,304    |
| Other banks                  | 10      | -    | -          | 91                          | (36) | 12                  | 2   | 101                   | 389   | 500                     | 1,197      | 1,197    |
| Other financial institutions | -       | -    | -          | 5                           | -    | 7                   | -   | 12                    | 30  | 42                      | 8          | 8        |
| Corporate                    | 495     | 27   | 27         | 42                          | -    | 18                  | -   | 60                    | 81  | 636                     | 366        | 366      |
| Personal                     | 5       | -    | -          | -                           | -    | -                   | -   | -                     | -   | 5                       | -          | -        |
|                              | 510     | 27   | 27         | 194                         | (94) | 73                  | 154 | 113                   | 519   | 1,142                   | 4,875      | 4,875    |

## CDS bought protection: counterparty analysis by internal asset quality band

|                              | AQ1      |            | AQ2-AQ3  |            | AQ4-AQ9  |            | AQ10     |            | Total    |            |
|------------------------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
|                              | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 March 2012                | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         |
| Banks                        | 2,747    | 644        | 45       | 8          | -        | -          | -        | -          | 2,792    | 652        |
| Other financial Institutions | 1,956    | 466        | -        | -          | 33       | 13         | -        | -          | 1,989    | 479        |
| Total                        | 4,703    | 1,110      | 45       | 8          | 33       | 13         | -        | -          | 4,781    | 1,131      |

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|                  |       |       |    |    |    |    |   |   |       |       |
|------------------|-------|-------|----|----|----|----|---|---|-------|-------|
| 31 December 2011 | 4,796 | 1,303 | 46 | 12 | 33 | 15 | - | - | 4,875 | 1,330 |
|------------------|-------|-------|----|----|----|----|---|---|-------|-------|

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Risk and balance sheet management (continued)

Risk management: Country risk: Greece

|                              | Lending | REIL | Provisions | AFS and LAR debt securities |          | HFT debt securities |       | Total debt securities | Derivatives (gross of collateral) and repos | Balance sheet exposures | CDS by Notional |      |
|------------------------------|---------|------|------------|-----------------------------|----------|---------------------|-------|-----------------------|---|-------------------------|-----------------|------|
|                              |         |      |            | securities                  | reserves | Long                | Short |                       |   |                         | Bought          | Sold |
| 31 March 2012                | £m      | £m   | £m         | £m                          | £m       | £m                  | £m    | £m                    | £m  | £m                      | £m              | £m   |
| Central and local government | 3       | -    | -          | 13                          | -        | 25                  | -     | 38                    | -   | 41                      | 125             | 6    |
| Central banks                | 5       | -    | -          | -                           | -        | -                   | -     | -                     | -   | 5                       | -               | -    |
| Other banks                  | 1       | -    | -          | -                           | -        | -                   | -     | -                     | 265   | 266                     | 5               | -    |
| Other financial institutions | 31      | -    | -          | -                           | -        | -                   | -     | -                     | 2   | 33                      | 34              | 3    |
| Corporate                    | 395     | 309  | 308        | -                           | -        | -                   | -     | -                     | 55  | 450                     | 397             | 39   |
| Personal                     | 14      | -    | -          | -                           | -        | -                   | -     | -                     | -   | 14                      | -               | -    |
|                              | 449     | 309  | 308        | 13                          | -        | 25                  | -     | 38                    | 322   | 809                     | 561             | 49   |
| 31 December 2011             |         |      |            |                             |          |                     |       |                       |   |                         |                 |      |
| Central and local government | 7       | -    | -          | 312                         | -        | 102                 | 5     | 409                   | -   | 416                     | 3,158           | 3,16 |
| Central banks                | 6       | -    | -          | -                           | -        | -                   | -     | -                     | -   | 6                       | -               | -    |
| Other banks                  | -       | -    | -          | -                           | -        | -                   | -     | -                     | 290   | 290                     | 22              | 2    |
| Other financial institutions | 31      | -    | -          | -                           | -        | -                   | -     | -                     | 2   | 33                      | 34              | 3    |
| Corporate                    | 427     | 256  | 256        | -                           | -        | -                   | -     | -                     | 63  | 490                     | 434             | 42   |
| Personal                     | 14      | -    | -          | -                           | -        | -                   | -     | -                     | -   | 14                      | -               | -    |
|                              | 485     | 256  | 256        | 312                         | -        | 102                 | 5     | 409                   | 355   | 1,249                   | 3,648           | 3,64 |

CDS bought protection: counterparty analysis by internal asset quality band

|               | AQ1      |            | AQ2-AQ3  |            | AQ4-AQ9  |            | AQ10     |            | Total    |            |
|---------------|----------|------------|----------|------------|----------|------------|----------|------------|----------|------------|
|               | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value | Notional | Fair value |
| 31 March 2012 | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         | £m       | £m         |
| Banks         | 188      | 93         | -        | -          | -        | -          | -        | -          | 188      | 93         |

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|                              |       |       |    |    |    |    |    |    |       |       |
|------------------------------|-------|-------|----|----|----|----|----|----|-------|-------|
| Other financial Institutions | 276   | 60    | -  | -  | 34 | 6  | 63 | 63 | 373   | 129   |
| Total                        | 464   | 153   | -  | -  | 34 | 6  | 63 | 63 | 561   | 222   |
| 31 December 2011             | 3,508 | 2,290 | 64 | 46 | 76 | 47 | -  | -  | 3,648 | 2,383 |

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## Risk and balance sheet management (continued)

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### Market risk

Market risk arises from changes in interest rates, foreign currency, credit spreads, equity prices and risk related factors such as market volatilities. The Group manages market risk centrally within its trading and non-trading portfolios through a comprehensive market risk management framework. This control framework includes qualitative guidance in the form of comprehensive policy statements, dealing authorities, limits based on, but not limited to, value-at-risk (VaR), stress testing, positions and sensitivity analyses.

For a description of the Group's basis of measurement and methodologies, refer to pages 229 to 231 of the Group's 2011 Annual Report and Accounts.

Following the implementation of CRD III at 31 December 2011, the Group is required to calculate: (i) an additional capital charge based on a stressed calibration of the VaR model - Stressed VaR; (ii) an Incremental Risk Charge to capture the default and migration risk for credit risk positions in the trading book; and (iii) an All Price Risk measure for correlation trading positions, subject to a capital floor that is based on standardised securitisation charges. The CRD III capital charges at 31 March 2012 are shown in the table below:

|                         | 31 March<br>2012<br>£m | 31 December<br>2011<br>£m |
|-------------------------|------------------------|---------------------------|
| Stressed VaR            | 1,793                  | 1,682                     |
| Incremental Risk Charge | 659                    | 469                       |
| All Price Risk          | 262                    | 297                       |

The Group's US trading subsidiary was included in the internal models in March 2012 resulting in an increase in Incremental Risk Charge and Stressed VaR.

### Daily distribution of Markets trading revenues

#### Note:

(1) The effect of any month end adjustments, not attributable to a specific daily market move, is spread evenly over the days in the month in question.

Risk and balance sheet management (continued)

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Market risk (continued)

Key points

- Markets delivered higher trading revenues in Q1 2012 than in Q4 2011. This reflected the temporary improvement in global markets sentiment following the approval of Greece's bailout and debt restructuring and increased liquidity in Europe as a result of the European Central Bank's Long-Term Refinancing Operation programme.
- A higher volume of client activity and normalised bid-offer spreads contributed to more stable and consistent revenues compared with Q4 2011, as seen by trends in average daily revenue and standard deviation. The average daily revenue in Q1 2012 was £27 million compared with £9 million in Q4 2011. The standard deviation of the daily revenues in Q1 2012 was £15 million, down from £18 million in Q4 2011.
- The number of days with negative revenue decreased from 18 in Q4 2011 to two in Q1 2012, primarily reflecting the factors discussed above.
- The two most frequent results were daily revenue of: (i) between £15 million and £20 million, and (ii) between £25 million and £30 million, each of which occurred 13 times in Q1 2012. In Q4 2011, the most frequent result was daily revenue of between zero and £5 million, which occurred 12 times.

VaR disclosures

Counterparty Exposure Management (CEM) manages the OTC derivative counterparty credit and funding risk on behalf of Markets, by actively controlling risk concentrations and reducing unwanted risk exposures. The hedging transactions CEM enters into are booked in the trading book, and therefore contribute to the market risk VaR exposure of the Group. The counterparty exposures themselves are not captured in VaR for regulatory capital. In the interest of transparency and to more properly represent the exposure, CEM exposure and total VaR excluding CEM are disclosed separately.

The table below details VaR for the Group's trading portfolios, analysed by type of market risk exposure, and between Core, Non-Core, CEM and the Group's total trading VaR excluding CEM.

## Risk and balance sheet management (continued)

## Market risk (continued)

| Trading VaR               | 31 March 2012 |        |         |         | Quarter ended<br>31 December 2011 |        |         |         | 31 March 2011 |        |         |         |
|---------------------------|---------------|--------|---------|---------|-----------------------------------|--------|---------|---------|---------------|--------|---------|---------|
|                           | Average       | end    | Maximum | Minimum | Average                           | end    | Maximum | Minimum | Average       | end    | Maximum | Minimum |
|                           | £m            | £m     | £m      | £m      | £m                                | £m     | £m      | £m      | £m            | £m     | £m      | £m      |
| Interest rate             | 73.8          | 68.3   | 95.7    | 51.2    | 62.5                              | 68.1   | 72.3    | 50.8    | 60.4          | 60.2   | 79.2    | 49.2    |
| Credit spread             | 84.2          | 88.5   | 94.9    | 72.6    | 68.4                              | 74.3   | 78.5    | 57.4    | 134.1         | 97.7   | 151.1   | 99.2    |
| Currency                  | 12.5          | 11.1   | 21.3    | 8.2     | 10.9                              | 16.2   | 19.2    | 5.7     | 12.2          | 10.5   | 18.0    | 8.0     |
| Equity                    | 7.5           | 6.3    | 12.5    | 4.7     | 8.3                               | 8.0    | 12.5    | 5.0     | 11.1          | 10.7   | 14.5    | 8.0     |
| Commodity                 | 2.5           | 1.3    | 6.0     | 1.0     | 4.3                               | 2.3    | 7.0     | 2.0     | 0.2           | 0.1    | 0.7     | 0.1     |
| Diversification (1)       |               | (69.0) |         |         |                                   | (52.3) |         |         |               | (71.1) |         |         |
| Total                     | 116.6         | 106.5  | 137.0   | 97.2    | 109.7                             | 116.6  | 132.2   | 83.5    | 156.4         | 108.1  | 181.3   | 100.0   |
| Core                      | 82.8          | 74.5   | 118.0   | 63.6    | 77.3                              | 89.1   | 95.6    | 57.7    | 108.2         | 72.2   | 133.9   | 77.0    |
| Non-Core                  | 38.7          | 39.3   | 41.9    | 34.2    | 35.2                              | 34.6   | 40.7    | 30.0    | 113.9         | 109.4  | 128.6   | 100.0   |
| CEM (2)                   | 79.1          | 78.5   | 84.2    | 73.3    |                                   | 75.8   |         |         |               | 43.9   |         |         |
| Total (excluding CEM) (2) | 53.5          | 56.6   | 76.4    | 41.0    |                                   | 49.7   |         |         |               | 110.8  |         |         |

## Notes:

- (1) The Group benefits from diversification, which reflects the risk reduction achieved by allocating investments across various financial instrument types, industry counterparties, currencies and regions. The extent of diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. Diversification has an inverse relationship with correlation. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.
- (2) CEM and total trading VaR excluding CEM for Q1 2012 have been presented on a minimum, maximum, average and period end basis. For comparative purposes, the period end VaR figures have been shown for Q4 2011 and Q1 2011.

## Key points

- The Group's average and maximum total trading VaR and interest rate trading VaR were slightly higher during Q1 2012 than Q4 2011. This was largely driven by pre-hedging activity ahead of UK Gilt and Japanese Government bond auctions in which RBS participated.
- The eurozone sovereign crisis caused unrest in the credit markets over the quarter as France was downgraded and Greece's debt refinancing raised concerns over Italy and Spain's ability to refinance their debt. This caused credit spreads to widen over the majority of the quarter and impacted the Group's credit spread exposure, resulting in a higher average and maximum credit spread VaR in Q1 2012 than in Q4 2011.

Non-Core trading VaR showed a slight increase over Q1 2012 due to increased hedging activities in CEM as counterparty credit risks deteriorated.

## Risk and balance sheet management (continued)

## Market risk (continued)

The table below details VaR for the Group's non-trading portfolio, excluding the structured credit portfolio (SCP) and loans and receivables (LAR), analysed by type of market risk exposure and between Core, Non-Core CEM, and the Group's total non-trading VaR excluding CEM.

|                               | 31 March 2012 |               |         |         | Quarter ended<br>31 December 2011 |               |         |         | 31 March 2011 |               |         |         |
|-------------------------------|---------------|---------------|---------|---------|-----------------------------------|---------------|---------|---------|---------------|---------------|---------|---------|
|                               | Average       | Period<br>end | Maximum | Minimum | Average                           | Period<br>end | Maximum | Minimum | Average       | Period<br>end | Maximum | Minimum |
| Non-trading<br>VaR            | £m            | £m            | £m      | £m      | £m                                | £m            | £m      | £m      | £m            | £m            | £m      | £m      |
| Interest rate                 | 9.6           | 8.7           | 10.7    | 8.7     | 9.7                               | 9.9           | 10.9    | 8.8     | 7.8           | 7.0           | 10.8    | 0       |
| Credit spread                 | 13.9          | 15.2          | 15.4    | 12.9    | 13.9                              | 13.6          | 15.7    | 12.1    | 23.8          | 22.5          | 39.3    | 14      |
| Currency                      | 3.7           | 3.3           | 4.5     | 3.2     | 3.5                               | 4.0           | 5.1     | 2.4     | 0.6           | 0.6           | 1.8     | 0       |
| Equity                        | 1.9           | 1.8           | 1.9     | 1.8     | 1.9                               | 1.9           | 2.0     | 1.8     | 2.5           | 2.3           | 3.1     | 1       |
| Diversification<br>(1)        |               | (10.8)        |         |         |                                   | (13.6)        |         |         |               | (5.4)         |         |         |
| Total                         | 15.7          | 18.2          | 18.3    | 13.6    | 16.3                              | 15.8          | 20.0    | 14.2    | 26.5          | 27.0          | 41.6    | 14      |
| Core                          | 15.7          | 18.8          | 19.0    | 13.5    | 16.0                              | 15.1          | 18.9    | 14.1    | 25.5          | 26.1          | 38.9    | 14      |
| Non-Core                      | 2.5           | 2.4           | 2.6     | 2.4     | 3.4                               | 2.5           | 3.9     | 2.5     | 2.6           | 2.4           | 3.4     | 1       |
| CEM (2)                       | 1.0           | 0.9           | 1.0     | 0.9     |                                   | 0.9           |         |         |               | 0.3           |         |         |
| Total<br>excluding<br>CEM (2) | 15.7          | 17.4          | 17.8    | 13.5    |                                   | 15.5          |         |         |               | 27.0          |         |         |

## Notes:

- (1) The Group benefits from diversification, which reflects the risk reduction achieved by allocating investments across various financial instrument types, industry counterparties, currencies and regions. The extent of diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. Diversification has an inverse relationship with correlation. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.
- (2) CEM and total non-trading VaR excluding CEM for Q1 2012 have been presented on a minimum, maximum, average and period end basis. For comparative purposes, the period end VaR figures have been shown for Q4 2011 and Q1 2011.

## Risk and balance sheet management (continued)

## Market risk (continued)

## Structured Credit Portfolio (SCP)

|                  | Drawn notional |            |               |                    |             | Fair value |            |               |                    |             |
|------------------|----------------|------------|---------------|--------------------|-------------|------------|------------|---------------|--------------------|-------------|
|                  | CDOs<br>£m     | CLOs<br>£m | MBS (1)<br>£m | Other<br>ABS<br>£m | Total<br>£m | CDOs<br>£m | CLOs<br>£m | MBS (1)<br>£m | Other<br>ABS<br>£m | Total<br>£m |
| 31 March 2012    |                |            |               |                    |             |            |            |               |                    |             |
| 1-2 years        | -              | -          | -             | 54                 | 54          | -          | -          | -             | 48                 | 48          |
| 2-3 years        | -              | -          | 9             | 153                | 162         | -          | -          | 9             | 143                | 152         |
| 4-5 years        | -              | 18         | 30            | 93                 | 141         | -          | 17         | 23            | 86                 | 126         |
| 5-10 years       | -              | 368        | 254           | 248                | 870         | -          | 334        | 167           | 210                | 711         |
| >10 years        | 1,115          | 432        | 833           | 557                | 2,937       | 202        | 368        | 569           | 319                | 1,458       |
|                  | 1,115          | 818        | 1,126         | 1,105              | 4,164       | 202        | 719        | 768           | 806                | 2,495       |
| 31 December 2011 |                |            |               |                    |             |            |            |               |                    |             |
| 1-2 years        | -              | -          | -             | 27                 | 27          | -          | -          | -             | 22                 | 22          |
| 2-3 years        | -              | -          | 10            | 196                | 206         | -          | -          | 9             | 182                | 191         |
| 4-5 years        | -              | 37         | 37            | 95                 | 169         | -          | 34         | 30            | 88                 | 152         |
| 5-10 years       | 32             | 503        | 270           | 268                | 1,073       | 30         | 455        | 184           | 229                | 898         |
| >10 years        | 2,180          | 442        | 464           | 593                | 3,679       | 766        | 371        | 291           | 347                | 1,775       |
|                  | 2,212          | 982        | 781           | 1,179              | 5,154       | 796        | 860        | 514           | 868                | 3,038       |
| 31 March 2011    |                |            |               |                    |             |            |            |               |                    |             |
| 1-2 years        | -              | 19         | -             | 38                 | 57          | -          | 18         | -             | 34                 | 52          |
| 2-3 years        | 12             | 19         | 43            | 70                 | 144         | 12         | 17         | 42            | 64                 | 135         |
| 3-4 years        | -              | 5          | 11            | 206                | 222         | -          | 5          | 10            | 194                | 209         |
| 4-5 years        | 15             | 15         | -             | 36                 | 66          | 15         | 14         | -             | 33                 | 62          |
| 5-10 years       | 96             | 467        | 313           | 385                | 1,261       | 85         | 435        | 232           | 342                | 1,094       |
| >10 years        | 397            | 624        | 561           | 530                | 2,112       | 154        | 500        | 400           | 369                | 1,423       |
|                  | 520            | 1,149      | 928           | 1,265              | 3,862       | 266        | 989        | 684           | 1,036              | 2,975       |

## Note:

(1) MBS include sub-prime RMBS with a notional amount of £396 million (31 December 2011 - £401 million; 31 March 2011 - £455 million) and a fair value of £258 million (31 December 2011 - £252 million; 31 March 2011 - £330 million), all with residual maturities of greater than ten years.

The Structured Credit Portfolio is within Non-Core. The risk in this portfolio is not measured or disclosed using VaR, as the Group believes this is not an appropriate tool for the banking book portfolio, which comprises illiquid debt securities. These assets are reported on a drawn notional and fair value basis, and managed on a third party asset and RWA basis.

## Key point

The CDO drawn notional was lower at 31 March 2012 than at 31 December 2011 due to the liquidation of legacy commercial real estate CDOs. Following the liquidation, the majority of the underlying assets were sold and the

retained MBS assets were added to the MBS portfolio, increasing the drawn notional at 31 March 2012.

## Additional information

|                                    | 31 March<br>2012 | 31 December<br>2011 |
|------------------------------------|------------------|---------------------|
| Ordinary share price               | £0.276           | £0.202              |
| Number of ordinary shares in issue | 59,546m          | 59,228m             |

## Capitalisation of the Group

The following table shows the Group's issued and fully paid share capital, owners' equity and indebtedness on an unaudited consolidated basis in accordance with IFRS as at 31 March 2012

|  | As at<br>31 March<br>2012<br>£m |
|--|---------------------------------|
| Share capital - allotted, called up and fully paid |                                 |
| Ordinary shares of 25p                             | 14,886                          |
| B shares of £0.01                                  | 510                             |
| Dividend access share of £0.01                     | -                               |
| Non-cumulative preference shares of US\$0.01       | 1                               |
| Non-cumulative preference shares of €0.01          | -                               |
| Non-cumulative preference shares of £1.00          | -                               |
|  | 15,397                          |
| Retained income and other reserves                 | 58,019                          |
| Owners' equity                                     | 73,416                          |
| Group indebtedness                                 |                                 |
| Subordinated liabilities                           | 25,513                          |
| Debt securities in issue                           | 142,943                         |
| Total indebtedness                                 | 168,456                         |
| Total capitalisation and indebtedness              | 241,872                         |

Under IFRS, certain preference shares are classified as debt and are included in subordinated liabilities in the table above.

Since 31 March 2012 issuances of debt securities net of buybacks totalled £433 million.

Other than as disclosed above, the information contained in the tables above has not changed materially since 31 March 2012.



## Additional information (continued)

| Ratio of earnings to fixed charges   | Quarter ended       | Year ended 31 December |      |         |         |      |
|--|---------------------|------------------------|------|---------|---------|------|
|  | 31 March<br>2012(3) | 2011                   | 2010 | 2009(3) | 2008(3) | 2007 |
| Ratio of earnings to combined fixed charges and preference share dividends (1,2) |                     |                        |      |         |         |      |
| - including interest on deposits   | 0.33                | 0.91                   | 0.94 | 0.75    | -0.05   | 1.45 |
| - excluding interest on deposits   |                     | 0.25                   | 0.38 | -       | -       | 5.73 |
| Ratio of earnings to fixed charges only (1,2)                                    |                     |                        |      |         |         |      |
| - including interest on deposits   | 0.33                | 0.91                   | 0.95 | 0.80    | -0.05   | 1.47 |
| - excluding interest on deposits   |                     | 0.25                   | 0.44 | -       | -       | 6.53 |

## Notes:

- (1) For this purpose, earnings consist of income before tax and non-controlling interests, plus fixed charges less the unremitted income of associated undertakings (share of profits less dividends received). Fixed charges consist of total interest expense, including or excluding interest on deposits and debt securities in issue, as appropriate, and the proportion of rental expense deemed representative of the interest factor (one third of total rental expenses).
- (2) The earnings for the quarter ended 31 March 2012 and for years ended 31 December 2011, 2010, 2009 and 2008, were inadequate to cover total fixed charges and preference share dividends. The coverage deficiency for total fixed charges and preference share dividends for the quarter ended 31 March 2012 was £1,404 million and for the years ended 31 December 2011, 2010, 2009 and 2008 were £766 million, £523 million, £3,582 million and £26,287 million, respectively. The coverage deficiency for fixed charges only for quarter ended 31 March 2012 was £1,404 million and for the years ended 31 December 2011, 2010, 2009 and 2008 were £766 million, £399 million, £2,647 million and £25,691 million, respectively.
- (3) Negative ratios have been excluded.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorised.

The Royal Bank of Scotland Group plc  
Registrant

/s/ Rajan Kapoor  
Rajan Kapoor  
Group Chief Accountant  
11 May 2012

Appendix 1

Businesses outlined for  
disposal

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## Appendix 1 Businesses outlined for disposal

To comply with EC State Aid requirements the Group agreed to make a series of divestments by the end of 2013: the disposal of Direct Line Group, Global Merchant Services and its interest in RBS Sempra Commodities JV. The Group also agreed to dispose of its RBS England and Wales and NatWest Scotland branch-based businesses, along with certain SME and corporate activities across the UK ('UK branch-based businesses'). The disposals of Global Merchant Services and RBS Sempra Commodities JV businesses have now effectively been completed.

The sale of the Group's UK branch-based businesses to Santander UK plc continues to make good progress.

The disposal of Direct Line Group, the base case plan for which is by way of a public flotation, is targeted to commence in the second half of 2012, subject to market conditions. External advisors have been appointed to assist the Group with the disposal and the process of separation is proceeding to plan. In the meantime, the business continues to be managed and reported as a separate core division.

The table below shows total income and operating profit of Direct Line Group and the UK branch-based businesses.

|                                | Total income |         | Operating profit |         |
|--------------------------------|--------------|---------|------------------|---------|
|                                | Q1 2012      | FY 2011 | Q1 2012          | FY 2011 |
|                                | £m           | £m      | £m               | £m      |
| Direct Line Group (1)          | 966          | 4,286   | 84               | 407     |
| UK branch-based businesses (2) | 226          | 959     | 79               | 319     |
| Total                          | 1,192        | 5,245   | 163              | 726     |

The table below shows the estimated risk-weighted assets, total assets and capital of the businesses identified for disposal.

|                                | RWAs     |             | Total assets |             | Capital  |             |
|--------------------------------|----------|-------------|--------------|-------------|----------|-------------|
|                                | 31 March | 31 December | 31 March     | 31 December | 31 March | 31 December |
|                                | 2012     | 2011        | 2012         | 2011        | 2012     | 2011        |
|                                | £bn      | £bn         | £bn          | £bn         | £bn      | £bn         |
| Direct Line Group (1)          | n/m      | n/m         | 13.3         | 13.9        | 4.1      | 4.4         |
| UK branch-based businesses (2) | 10.5     | 11.1        | 19.1         | 19.3        | 1.0      | 1.0         |
| Total                          | 10.5     | 11.1        | 32.4         | 33.2        | 5.1      | 5.4         |

## Notes:

(1) Total income includes investment income of £90 million (FY 2011 - £302 million). Total assets and estimated capital include approximately £0.9 billion of goodwill, of which £0.7 billion is attributed to Direct Line Group by RBS Group.

(2) Estimated notional equity based on 10% (2011 - 9%) of RWAs.

## Appendix 1 Businesses outlined for disposal (continued)

Further information on the UK branch-based businesses by division is shown in the tables below:

|   | Division |           | Total   |         |
|---|----------|-----------|---------|---------|
|   | UK       | UK        | Q1 2012 | FY 2011 |
|   | Retail   | Corporate |         |         |
|   | £m       | £m        | £m      | £m      |
| Income statement  |          |           |         |         |
| Net interest income   | 79       | 82        | 161     | 689     |
| Non-interest income   | 24       | 41        | 65      | 270     |
| Total income  | 103      | 123       | 226     | 959     |
| Direct expenses   |          |           |         |         |
| - staff   | (18)     | (20)      | (38)    | (158)   |
| - other   | (26)     | (14)      | (40)    | (166)   |
| Indirect expenses   | (17)     | (13)      | (30)    | (117)   |
|   | (61)     | (47)      | (108)   | (441)   |
| Impairment losses   | (14)     | (25)      | (39)    | (199)   |
| Operating profit  | 28       | 51        | 79      | 319     |
| Analysis of income by product   |          |           |         |         |
| Loans and advances  | 28       | 71        | 99      | 436     |
| Deposits  | 22       | 33        | 55      | 245     |
| Mortgages   | 33       | -         | 33      | 134     |
| Other   | 20       | 19        | 39      | 144     |
| Total income  | 103      | 123       | 226     | 959     |
| Net interest margin   | 4.66%    | 2.88%     | 3.55%   | 3.57%   |
| Employee numbers (full time equivalents rounded to the nearest hundred) | 2,800    | 1,600     | 4,400   | 4,400   |

|   | Division |           |         | Total         |                  |
|---|----------|-----------|---------|---------------|------------------|
|   | UK       | UK        | Markets | 31 March 2012 | 31 December 2011 |
|   | Retail   | Corporate |         | £bn           | £bn              |
|   | £bn      | £bn       | £bn     | £bn           | £bn              |
| Capital and balance sheet                                       |          |           |         |               |                  |
| Total third party assets (excluding mark-to-market derivatives) | 7.1      | 11.6      | -       | 18.7          | 18.9             |
| Loans and advances to customers (gross)                         | 7.3      | 12.0      | -       | 19.3          | 19.5             |
| Customer deposits   | 8.7      | 12.7      | -       | 21.4          | 21.8             |
| Derivative assets   | -        | -         | 0.4     | 0.4           | 0.4              |
| Derivative liabilities  | -        | -         | -       | -             | 0.1              |
| Risk elements in lending  | 0.5      | 1.0       | -       | 1.5           | 1.5              |
| Loan:deposit ratio  | 80%      | 91%       | -       | 86%           | 86%              |
| Risk-weighted assets  | 3.6      | 6.9       | -       | 10.5          | 11.1             |

