

ROYAL BANK OF SCOTLAND GROUP PLC

Form 6-K

November 07, 2013

Report of Foreign Private Issuer

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

7 November 2013

The Royal Bank of Scotland Group plc

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(Address of principal executive offices)

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

Form 20-F X

Form 40-F __

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

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

Yes __

No X

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

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(File Nos. 333-184147 and 333-184147-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

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Forward-looking statements

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

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

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the ability to implement strategic plans on a timely basis, or at all, including the disposal of assets to be included in the internal "bad bank" and the disposal of certain other assets and businesses as stated in the new strategic plan or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to capital adequacy or liquidity requirements; organisational restructuring in response to legislative and regulatory proposals in the United Kingdom (UK), European Union (EU) and United States (US); the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; litigation, government and regulatory investigations including investigations relating to the setting of LIBOR and other interest rates and foreign exchange trading activities; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the US; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group's operations) in the UK, the US and other countries in which the Group operates or a change in UK Government policy; changes to regulatory

requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the implementation of recommendations made by the Independent Commission on Banking and their potential implications and equivalent EU legislation; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; reputational risk; the ability to access the contingent capital arrangements with HM Treasury; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

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

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

Presentation of information

Non-GAAP financial information

The directors manage the Group's performance by class of business, before certain reconciling items, as is presented in the segmental analysis in Appendix 2 (the "managed basis"). Discussion of the Group's performance focuses on the managed basis as the Group believes that such measures allow a more meaningful analysis of the Group's financial condition and the results of its operations. These measures are non-GAAP financial measures. A body of generally accepted accounting principles such as IFRS is commonly referred to as 'GAAP'. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Reconciliations of these non-GAAP measures are presented throughout this document or in the segmental analysis in Appendix 2. These non-GAAP financial measures are not a substitute for GAAP measures. Furthermore, RBS has divided its operations into "Core" and "Non-Core". Certain measures disclosed in this document for Core operations and used by RBS management are non-GAAP financial measures as they represent a combination of all reportable segments with the exception of Non-Core. In addition, RBS has further divided parts of the Core business into "Retail & Commercial" consisting of the UK Retail, UK Corporate, Wealth, International Banking, Ulster Bank and US Retail & Commercial divisions. This is a non-GAAP financial measure. Lastly, the Basel III net stable funding ratio, fully loaded Basel III ratio, liquidity coverage ratio, stressed outflow coverage and further metrics included in the Risk and balance sheet management section and Appendix 1 of this document represent non-GAAP financial measures given they are metrics that are not yet required to be disclosed by a government, governmental authority or self-regulatory organisation.

Revisions

Direct Line Group

The Group sold the first tranche of ordinary shares representing 34.7% of the share capital of DLG in October 2012 via an Initial Public Offering. On 13 March 2013, the Group sold a further 16.8% of ordinary shares in DLG and ceded control. This fulfilled the Group's plan to cede control of DLG by the end of 2013. On 20 September 2013, the Group sold a further 20% of the ordinary shares in DLG which is a further step towards complete disposal by the end of 2014, as required by the European Commission.

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

Revised allocation of Business Services costs

In the first quarter of 2013, the Group reclassified certain costs between direct and indirect expenses for all divisions. Comparatives have been restated accordingly; the revision did not affect total expenses or operating profit.

Implementation of IAS 19 'Employee Benefits' (revised)

The Group implemented IAS 19 with effect from 1 January 2013. IAS 19 requires: the immediate recognition of all actuarial gains and losses; interest cost to be calculated on the net pension liability or asset at the long-term bond rate, such that an expected rate of return will no longer be applied to assets; and all past service costs to be recognised immediately when a scheme is curtailed or amended. Implementation of IAS 19 resulted in an increase in the loss after tax of £21 million for the quarter ended 30 September 2012 and £63 million for the nine months ended 30 September 2012. Prior periods have been restated accordingly.

Presentation of information

Revisions (continued)

Implementation of IFRS 10 'Consolidated Financial Statements'

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

Condensed consolidated income statement

for the period ended 30 September 2013

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

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

* Restated - see page 76.

Core summary consolidated income statement

for the quarter ended 30 September 2013

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

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

Chief Executive's message

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

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

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

Recent performance

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

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

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

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

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

Chief Executive's message

Improving our customer performance - February 2014

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

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

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

Good Bank/Bad Bank Review

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

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

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

Chief Executive's message

Good Bank/Bad Bank Review (continued)

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

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

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

Actions to improve our capital

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

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

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

Chief Executive's message

Actions to improve our capital (continued)

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

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

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

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

Ulster Bank

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

Dividend Access Share

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

Lending

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

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

Chief Executive's message

Conclusion

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

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

Ross McEwan

1 November 2013

Relationship with HM Treasury

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

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

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

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

Internal Bad Bank

Background

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

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

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

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

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

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

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

Non-Core assets were selected in 2009 on the basis of five strategic tests and comprised non-strategic businesses and countries; the lift and drop of entire activities; creditworthy assets and activities with low returns or low growth potential; high or volatile wholesale funding requirements; and assets with credit losses or capital intensity;
whereas

The IBB will comprise assets with potentially volatile outcomes in stressed environments or with long-term capital intensity.

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

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

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

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

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

Internal Bad Bank

Impact of the revised strategy

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

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

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

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

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

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

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

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

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

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

Other aspects

All numbers are indicative only at this stage.

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

Internal Bad Bank

Estimated funded assets and RWAE of the IBB

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

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

Notes:

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

Highlights

RBS announces actions to accelerate capital strengthening and enhance strategic focus

Full review of bank to improve customer service reporting February 2014

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

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

Highlights

Restoring financial strength

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

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

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

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

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

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

Sharpening our customer focus

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

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

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

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Highlights

Q3 2013 operating results

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

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

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

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

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

Serving our customers

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

- RBS and NatWest were first to make mortgages available to customers with smaller deposits under the second phase of the UK Government's Help To Buy mortgage guarantee scheme, with strong demand evident in the early days of the scheme's operation.
- During Q3 2013 UK Retail has simplified pricing on its savings accounts and launched Cashback Plus, which rewards current account holders for using their debit cards in selected retailers.
- The detailed recommendations of Sir Andrew Large's independent review of RBS's lending to SMEs will be addressed in the Group's comprehensive business review, due in February 2014.

- UK Business & Commercial has received a positive response to 10,000 letters sent to advise customers of its appetite to lend to them if they should wish to increase their borrowing or take out new credit. Over £3.8 billion of funding had been offered through these statements of appetite by the end of Q3 2013.
- In Q3 2013 RBS offered more than £15.0 billion of loans and facilities to UK businesses, of which £7.7 billion was to SMEs. In addition, the Group renewed £7.3 billion of UK business overdrafts, including £1.5 billion to SMEs.
- There have been continuing signs of improving credit demand, with Q3 2013 SME loan and overdraft applications up 6% from Q2 2013.

Highlights

Serving our customers (continued)

- RBS continues to support the Bank of England's Funding for Lending Scheme (FLS). Net lending within the scope of the extended FLS was £273 million in Q3 2013, despite £1,240 million of run-off in Non-Core and commercial real estate portfolios. This compares with a reduction in net lending of £2,793 million in Q2 2013.
- In Q3 2013 Markets helped UK corporates raise £2.4 billion, by acting as bookrunner for debt capital market issues, including £1.0 billion sterling bonds, meeting UK customers' needs in both domestic and international markets.

Outlook

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

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

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

Analysis of results

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

Notes:

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

Key points

Q3 2013 compared with Q2 2013

- Retail & Commercial net interest income increased by £52 million, 2%. Net interest margin rose by 3 basis points as deposit repricing took effect, with asset spreads broadly stable in most R&C businesses.
- Non-Core net interest income decreased by £63 million compared with Q2 2013, which included a one-off interest in suspense recovery of £54 million.
- Group net interest margin (NIM) increased by 4 basis point in Q3 2013. Reduced funding costs in Markets, margin improvement in R&C and a non-recurring one-off adjustment, of £38 million, were partially offset by the non-repeat of the Non-Core recovery in Q2 2013.

Q3 2013 compared with Q3 2012

- Group net interest income decreased by £29 million, 1%, largely due to a decline in interest earning assets, down 6%, partially offset by deposit repricing.
- Group NIM increased by 11 basis points to 2.05%, driven by deposit repricing partially offset by a reduction in higher yielding securities and a non-recurring one-off adjustment, of £38 million.
- The reduction in rates on rolling current account hedges continued to have a negative impact, though the drag on net interest income has started to diminish.

Analysis of results

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

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

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

Key points

Q3 2013 compared with Q2 2013

- Income from trading activities decreased by £505 million which included a charge for own credit (OCA) of £155 million compared with a credit of £76 million in Q2 2013. On a managed basis income from trading activities was £275 million lower. While Markets income remained steady, with improved results from flow rates trading, Non-Core was a loss of £109 million in Q3 2013 compared with a £134 million gain in Q2 2013 reflecting the exit and restructuring costs on a number of transactions.
- Disposal gains on available-for-sale securities, primarily in Group Treasury, were £251 million lower at £168 million.
- OCA represented a charge of £496 million as the Group's credit spreads tightened, reversing the OCA credits booked in the first half of the year.

Analysis of results

Key points (continued)

Q3 2013 compared with Q3 2012

- Non-interest income increased by £486 million primarily due to a reduction in the charge for OCA, down £959 million. On a managed basis lower non-interest income primarily reflects the targeted reduction in Markets balance sheet and risk-weighted assets.
- The increase in other operating income principally reflected a smaller charge for OCA. On a managed basis the decrease in other operating income reflects lower disposal gains on available-for-sale securities as noted above and lower operating lease income, together with higher Non-Core disposal losses in Q3 2013.

Analysis of results

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

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

Key points

Q3 2013 compared with Q2 2013

- Operating expenses decreased by £275 million to £3,880 million primarily driven by a reduction in regulatory and legal actions partially offset by an increase in Payment Protection Insurance costs (PPI) and integration and restructuring costs. These principally related to the strategic reshaping of the Markets division and streamlining of UK Retail operations.
- Staff expenses were £55 million lower. Staff expenses on a managed basis were £6 million lower, with headcount down by 1,400, principally in UK Retail, Markets and Non-Core. Premises and equipment costs, however, were £14 million higher, as the Group stepped up investment to improve its IT delivery capability.
- Conduct-related costs were £83 million lower, including reduced legal costs in Centre and customer remediation charges in UK Corporate.

Analysis of results

Key points (continued)

Q3 2013 compared with Q3 2012

- The reduction in operating expenses primarily relates to a reduction in PPI costs partially offset by an increase in regulatory and legal action costs.
- Staff costs were £92 million lower. Staff costs on a managed basis were 7% lower, driven by the Markets headcount reductions implemented since Q3 2012. Markets' compensation ratio in the first nine months of the year was 37%, an increase of 1% compared with the same period of 2012.

Analysis of results

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

Note:

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

Key points

Q3 2013 compared with Q2 2013

- Core Retail & Commercial loan impairments fell by £158 million, or 23%, with charges relating to a small number of large single name cases in International Banking and UK Corporate in Q2 not being repeated. Core Ulster Bank also showed improvements, with a reduction in losses on the mortgage portfolio as arrears formation continued to fall and residential property prices stabilised.
- Non-Core loan impairments were up £70 million to £536 million. The increase primarily related to Ulster Bank's CRE development portfolio. This was partially offset by reduced losses on the UK Corporate portfolio.

Q3 2013 compared with Q3 2012

- Core Retail & Commercial loan impairments fell by £238 million or 31%, including a £125 million reduction in Core Ulster Bank, accompanied by significant improvements in UK Retail and UK Corporate.
- Non-Core loan impairments increased by £104 million due to higher impairment charges on commercial real estate loans in the Ulster Bank-originated book, partly offset by continued portfolio run-off.

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

Analysis of results

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

Key points

30 September 2013 compared with 30 June 2013

- The Group's Core Tier 1 ratio strengthened further to 11.6%, driven by a substantial reduction in risk-weighted assets, principally reflecting the strategic reshaping of the Markets division.
- Group RWAs fell by £26 billion to £410 billion. Markets was £14 billion lower, with a reduced balance sheet and declining market risk while Non-Core fell £5 billion. Retail & Commercial RWAs were down £6 billion, largely driven by foreign exchange movements.
- On a fully loaded Basel III basis, the Core Tier 1 ratio strengthened by 40 basis points to 9.1%, above the Group's year end capital target of over 9%.

30 September 2013 compared with 31 December 2012

- The Group's Core Tier 1 ratio was 130 basis points higher at 11.6%. On a fully loaded Basel III basis, the Core Tier 1 ratio was 140 basis points higher.
- Since 31 December 2012, Group RWAs have fallen by £50 billion, with Markets declining by £28 billion and Non-Core £19 billion lower.
- The total capital ratio increased by 170 basis points to 16.2%.

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

Analysis of results

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

Notes:

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

Key points

30 September 2013 compared with 30 June 2013

- The Group's funding position remained strong, reflecting continuing Non-Core run-off and reduced Markets collateral requirements. Total customer deposits declined by only 1% despite tighter pricing.
- Retail & Commercial loans and advances were down £2 billion, as the strength of sterling reduced dollar and euro-denominated balances. UK Corporate property balances declined, offset by growth in International Banking trade finance balances.

30 September 2013 compared with 31 December 2012

- The Group loan:deposit ratio was 94% compared with 100% at the end of 2012. The Group has continued to attract deposits despite tightening its pricing, leaving a significant customer funding surplus as Non-Core loans and advances continue to run off.
- Funded assets fell to £806 billion, a reduction of £64 billion since 31 December 2012, principally reflecting strategic reshaping of Markets and Non-Core run-off.
- The Group's funded balance sheet has been reduced by £757 billion from its worst point, with only £37 billion of Non-Core assets remaining.

Analysis of results

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

Notes:

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

Key points

30 September 2013 compared with 30 June 2013

- Short-term wholesale funding fell in the quarter to £35 billion, just 4% of the funded balance sheet.
- The Group's liquidity portfolio was reduced to £151 billion compared with £158 billion at 30 June 2013, but remained flat as a proportion of the total funded balance sheet at 19%.

30 September 2013 compared with 31 December 2012

- Short-term wholesale funding fell by £7 billion in the year-to-date to £35 billion, 4% of the funded balance sheet and 31% of total wholesale funding.
- Liquidity metrics improved during the year-to-date reflecting continuing balance sheet improvements.

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

Divisional performance

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

	Quarter ended			Nine months ended	
	30 September 2013 £m	30 June 2013 £m	30 September 2012 £m	30 September 2013 £m	30 September 2012 £m
Operating profit/(loss) by division					
UK Retail	517	477	464	1,471	1,378
UK Corporate	422	395	368	1,175	1,372
Wealth	60	56	63	172	167
International Banking	83	42	175	219	439
Ulster Bank	(132)	(165)	(242)	(461)	(797)
US Retail & Commercial	142	174	223	505	554
Retail & Commercial	1,092	979	1,051	3,081	3,113
Markets	210	93	295	581	1,370
Central items	(19)	140	149	85	(34)
Core	1,283	1,212	1,495	3,747	4,449
Non-Core	(845)	(281)	(586)	(1,631)	(1,937)
Managed basis					