ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
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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

4 March 2011

The Royal Bank of Scotland Group plc

Gogarburn
PO Box 1000
Edinburgh EH12 1HQ
Scotland
United Kingdom

(Address of principal executive offices)

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

Form 20-F X Form 40-F

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

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

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

Yes No X

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

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(File Nos. 333-162219 and 333-162219-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Contents

Contents (continued)

Forward-looking statements

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

In particular, this document includes forward-looking statements relating, but not limited to: the Group’s restructuring plans, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk weighted assets, return on equity (ROE), cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; the Group’s future financial performance; the level and extent of future impairments and write-downs; 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 of the market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: the full nationalisation of the Group or other resolution procedures under the Banking Act 2009; the global economy and instability in the global financial markets, and their impact on the financial industry in general and on the Group in particular; the financial stability of other financial institutions, and the Group’s counterparties and borrowers; the ability to complete restructurings on a timely basis, or at all, including the disposal of certain Non-Core assets and assets and businesses required as part of the EC State Aid restructuring plan; organisational restructuring; the ability to access sufficient funding to meet liquidity needs; the extent of future write-downs and impairment charges caused by depressed asset valuations; the inability to hedge certain risks economically; 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 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; HM Treasury exercising influence over the operations of the Group; 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 the Bank of England, the Board of Governors of the Federal Reserve System and other G7 central banks; impairments of goodwill; pension fund shortfalls; litigation and regulatory investigations; general operational risks; insurance claims; reputational risk; general geopolitical and economic conditions in the UK and in other countries in which the Group has significant business activities or investments, including the United States; the ability to achieve revenue benefits and cost savings from the integration of certain of RBS Holdings N.V.’s (formerly ABN AMRO Holding N.V.) businesses and assets; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the participation of the Group in the APS and the effect of the APS on the Group’s financial and capital position; 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

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

Non-GAAP financial information
IFRS requires the Group to consolidate those entities that it controls, including RFS Holdings as described above. However, discussion of the Group's performance focuses on performance measures that exclude the RFS Holdings minority interest 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. These non-GAAP financial measures are not a substitute for GAAP measures, for which management has responsibility. RBS has divided its operations into "Core" and "Non-Core" for internal reporting purposes. Certain measures disclosed in this document for Core operations and used by RBS management are non-GAAP financial measures as they represent a combination of all reportable segments with the exception of Non-Core. In addition, RBS has further divided parts of the Core business into "Retail & Commercial" consisting of UK Retail, UK Corporate, Wealth, Global Transaction Services, Ulster Bank and US Retail & Commercial divisions. This is a non-GAAP financial measure.

Recent Developments

Gender equality in insurance contracts
On 1 March 2011, the European Court of Justice (ECJ) upheld a ruling that insurers are no longer allowed to use gender as a rating factor across the Insurance industry. This will have a significant impact on the insurance industry in calculating premiums and determining benefits. The Group is currently working through the findings, and any changes arising will be implemented by December 2012 in line with the ruling from the ECJ. At this stage, it is not possible to estimate the impact which the ECJ's ruling may have on the Group's businesses, financial position or profitability.

Condensed consolidated income statement
for the year ended 31 December 2010

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
	£m	£m	£m	£m	£m
Interest receivable	5,612	5,584	5,977	22,776	26,311
Interest payable	(2,032)	(2,173)	(2,558)	(8,567)	(12,923)
Net interest income	3,580	3,411	3,419	14,209	13,388
Fees and commissions receivable	2,052	2,037	2,353	8,193	8,738
Fees and commissions payable	(449)	(611)	(894)	(2,211)	(2,790)
Income from trading activities	364	277	709	4,517	3,761
Gain on redemption of own debt	-	-	-	553	3,790
Other operating income (excluding insurance premium income)	1,003	(317)	304	1,479	873
Insurance net premium income	1,272	1,289	1,308	5,128	5,266
Non-interest income	4,242	2,675	3,780	17,659	19,638
Total income	7,822	6,086	7,199	31,868	33,026
Staff costs					
- excluding curtailment gains	(2,194)	(2,423)	(2,494)	(9,671)	(9,993)
- pension schemes curtailment gains	-	-	2,148	-	2,148
Premises and equipment	(709)	(611)	(685)	(2,402)	(2,594)
Other administrative expenses	(1,048)	(914)	(1,184)	(3,995)	(4,449)
Depreciation and amortisation	(546)	(603)	(600)	(2,150)	(2,166)
Write-down of goodwill and other intangible assets	(10)	-	(52)	(10)	(363)
Operating expenses	(4,507)	(4,551)	(2,867)	(18,228)	(17,417)
Profit before other operating charges and impairment losses	3,315	1,535	4,332	13,640	15,609
Insurance net claims	(1,182)	(1,142)	(1,321)	(4,783)	(4,357)
Impairment losses	(2,141)	(1,953)	(3,099)	(9,256)	(13,899)
Operating loss before tax	(8)	(1,560)	(88)	(399)	(2,647)
Tax credit/(charge)	3	295	(644)	(634)	429
Loss from continuing operations	(5)	(1,265)	(732)	(1,033)	(2,218)

Profit/(loss) on distribution of ABN AMRO Bank NV to the State of the Netherlands and Santander	56	-	-	(963)	-
Other (losses)/profits from discontinued operations, net of tax	(1)	18	(135)	330	(105)
Profit/(loss) from discontinued operations, net of tax	55	18	(135)	(633)	(105)
Profit/(loss) for the period	50	(1,247)	(867)	(1,666)	(2,323)
Non-controlling interests	(38)	101	246	665	(349)
Preference share and other dividends	-	-	(144)	(124)	(935)
Profit/(loss) attributable to ordinary and B shareholders	12	(1,146)	(765)	(1,125)	(3,607)

2010 results summary

The Royal Bank of Scotland Group plc has achieved good momentum in its recovery in 2010, with measurable progress towards its strategic goals. The Group's balance sheet has been strengthened, with a £63 billion reduction in Non-Core funded assets and a £14 billion increase in customer deposits, excluding £131 billion attributable to the transfer of assets to other Consortium Members following the legal separation of ABN AMRO. Margins have been steadily rebuilt, with net interest margin up 26 basis points over the course of 2010, and stable in Q4. Impairments, though volatile from quarter to quarter, have declined by a third from their peak in 2009.

Group operating loss before tax in 2010 was £399 million, compared with a £2,647 million operating loss for 2009. On the same basis, Q4 2010 Group operating loss before tax was £8 million compared with an operating loss of £1,560 million for Q3 2010 and an operating loss of £88 million in Q4 2009.

Operating profit in the Core bank was £7,418 million in 2010, 12% lower than the 2009 operating profit of £8,467 million. Retail & Commercial performance showed strong improvement in 2010, with a 6% increase in income and 10% decrease in impairments resulting in operating profit growth of 66%. This partially offset a return to more normalised results for Global Banking & Markets (GBM) relative to its exceptional performance in 2009. Core operating profit was £1,671 million in Q4 2010 compared with £1,732 million in Q3 2010 and £913 million in Q4 2009.

Non-Core operating results for the year also improved, with impairments decreasing by 41% and an overall operating loss of £5,505 million compared with a loss of £14,557 million in 2009. Non-Core operating loss was £1,616 million in the fourth quarter, compared with £1,006 million in Q3 2010, primarily due to a change in assumption relating to the expected life of several trades, fair value write-downs on property exposures and higher impairments on the Ulster Bank corporate real estate book.

A credit of £582 million was booked in Q4 2010 in relation to the movement in fair value of own debt (FVOD) as credit spreads widened. The full year impact was a £174 million credit for 2010 compared with a charge of £142 million in 2009.

The net loss attributable to shareholders was £1,125 million for 2010 compared with a loss of £3,607 million in 2009.

After integration and restructuring costs, amortisation of intangibles, the impact of strategic disposals, the UK bonus tax and a charge of £1,550 million relating to the Asset Protection Scheme (APS) the Group recorded a pre-tax loss of £399 million for 2010, compared with a loss of £2,647 million for 2009. RBS is required to account for the APS as a credit derivative, and movements in the fair value of the contract are taken as a non-operating item. The charge reflects improving credit spreads on the portfolio of covered assets, particularly in the second half of the year, as well as reductions in the assets covered by the programme. The pre-tax result on the same basis in Q4 2010 was a loss of £8 million, compared with £1,560 million in Q3 2010.

2010 results summary (continued)

The net loss attributable to shareholders was £1,125 million for 2010 compared with a loss of £3,607 million in 2009. Excluding the after-tax cost of APS in 2010 of £1,116 million, the Group delivered a slight attributable loss of £9 million. The Q4 2010 attributable profit was £12 million, compared with a £1,146 million loss in Q3 2010. Excluding the after-tax APS cost in Q4 of £522 million, the Group delivered an attributable profit of £534 million for Q4 2010.

Operating performance

Core operating results for 2010 were down on 2009, with a strong performance from the Retail & Commercial businesses offset by a decline in GBM revenues from 2009's unusually strong levels.

Retail & Commercial income grew by 6%, to £16,923 million, driven by steady improvement in net interest margin over the course of the year, while expenses decreased by 2%, resulting in an 18% increase in profit before impairment losses. Impairments were 10% lower at £3,626 million for the year, with improved credit performances in all Retail & Commercial businesses except Ulster Bank, which has faced an economic environment that remains challenging.

GBM revenues were 28% down relative to 2009, which had seen unusually favourable market conditions as rapidly falling interest rates generated significant revenue opportunities. Q3 and Q4 2010 income was also impacted by risk aversion and lower volumes in the market as a whole. However, 2010 expenses were 6% lower while impairments improved significantly from £640 million in 2009 to £151 million in 2010.

RBS Insurance continued to improve quarter-on-quarter, broadly achieving a breakeven position for Q4 (£9 million loss). Overall, the 2010 performance deteriorated from 2009 levels driven by an increase in claims and fall in income. However, management actions during the year are beginning to turn the business around and underlying profitability is trending back towards acceptable levels.

Operating losses in the Non-Core division fell sharply during 2010, with improved trading results and impairment losses falling by 41%. However, Q4 2010 generated the first loss before impairments in four quarters at £405 million, driven by a change in assumption relating to the expected life of several trades and some deterioration in underlying assets, and impairments increased quarter-on-quarter by £40 million, largely driven by an increase in respect of Irish commercial real estate assets.

Overall Group impairments fell 33% to £9,256 million for 2010. Q4 2010 impairments of £2,141 million included a charge of £1,165 million relating to Ulster Bank's Core and Non-Core portfolios. Provision coverage of REILs in these portfolios at end 2010 was 44%, compared with 29% at end 2009.

Highlights (continued)

2010 results summary (continued)

Efficiency
Group expenses increased by 5% to £18,228 million in 2010, principally due to the gain on pension curtailment of £2,148 million in 2009, and were marginally down from Q3 to Q4 2010. Core expenses were also down 4% year-on-year, driven primarily by cost savings in Ulster Bank, UK Retail and GBM. In Ulster Bank the culmination of its business restructuring and cost reduction programme achieved a 24% decrease in total expenses from 2009 levels.

Overall, the Group's cost reduction programme continues to deliver material savings which have been funding investments to strengthen our Core franchises. Annualised savings are now just ahead of the £2.5 billion target for 2011.

Non-Core expenses decreased by 5% in 2010, to £2,325 million, reflecting a number of significant business disposals during the year.

Costs within Business Services, which provides technology, property and operational services to the Group's customer facing divisions, fell 7% from 2009. The decrease was driven by the good progress made on the Group's cost saving initiatives and country exits in Non-Core.

The Group's cost:income ratio in 2010, net of insurance claims, was 67% compared with 61% for 2009. The Core cost:income ratio, on the same basis, was 56% for 2010 compared with 53% for 2009 with improvement in Retail and Commercial offset by GBM decline as revenues normalised.

Balance sheet management
The Group's funded balance sheet decreased by £55 billion during Q4 2010, with Non-Core funded assets shrinking to £138 billion as the disposal programme made significant progress, while portfolio run-off continued.

Q4 2010 saw a particularly strong deposit-gathering performance, with customer balances increasing by £8 billion, driven by strong inflows in UK Retail as well as in Global Transaction Services. Customer deposits have decreased by £117 billion in 2010; of which £131 billion was attributable to the transfer of assets to other Consortium Members following the legal separation of ABN AMRO Excluding this transfer, customer deposits totalled £429 billion, up £14 billion from the end of 2009.

As a result, the loan to deposit ratio has continued to improve from 135% in December 2009 to 117% for the Group and from 104% to 96% for Core. The customer funding gap has also decreased from £142 billion in December 2009 to £74 billion in December 2010.

Short-term wholesale borrowing decreased from £250 billion at 31 December 2009 to £157 billion at 31 December 2010. The Group exceeded its 2010 term funding targets by issuing £38 billion of term debt during the year and extended the average maturity of debt securities in issue to increase the proportion of debt instruments with a remaining maturity of greater than one year from 50% at 31 December 2009 to 61% at 31 December 2010. Utilisation of total central bank funding was reduced from £48 billion to £26 billion through the course of the year. The liquidity portfolio was slightly above target at £155 billion as at 31 December 2010.

Highlights (continued)

2010 results summary (continued)

Capital

The Group's Core Tier 1 ratio at 31 December 2010 was 10.7%, up 50 basis points on the end of Q3 2010 and 30 basis points lower than at end 2009. Gross risk-weighted assets (RWAs), excluding the relief provided by the Asset Protection Scheme, fell by £24 billion during Q4 to £571 billion, with reductions in nominal assets partially offset by more conservative weightings on large corporate exposures. Over the course of 2010, excluding the reduction attributable to the disposal of RFS Holdings minority interest of £100 billion, RWAs increased by £2 billion, reflecting disposals in Non-Core, partially offset by changes in regulatory requirements.

Customer franchises

Serving our customers better remains a cornerstone of the Group's strategy. In 2010 RBS has invested in improvements to customer service and has set out an approach to putting customers first and giving them clear reasons to choose the Group for their banking needs.

2010 saw the launch of a number of customer initiatives, including the UK Customer Charter and SME Support Charter. These initiatives recognise the importance of our customer franchises and the need to attract and retain loyal customers by listening to them and improving the way we do business.

UK Customer Charter

The RBS and NatWest customer charters were developed on the basis of the views of 30,000 customers and represent specific commitments on ways in which the Group aims to deliver 'Helpful Banking' to its customers.

Commitments include:

- extending the opening hours in our busiest branches;
- keeping customers secure when banking online through the provision of free market-leading enhanced security software; and
- actively supporting our local communities.

Progress towards the achievement of the 14 individual commitments will be independently reviewed and reported every six months.

SME Customer Charter

The Group is committed to supporting SME customers, and the SME Customer Charter underpinned this commitment in 2010.

The Charter includes a commitment to helping new SMEs with cash flow management by offering free transactional banking for their first two years in business. A dedicated Business Hotline has been set up to provide advice and support when required, and over 2,300 customers took advantage of this during 2010.

RBS helped 103,329 new businesses to enter the market in 2010, a 1.9% increase on the 101,407 in 2009, thus remaining in line with the SME Charter commitment. Over 90% of SME customers who renewed their overdraft facilities in 2010 did so at the same or lower margin as before.

9

2010 results summary (continued)

In Ireland, Ulster Bank launched its own versions of both the Customer and SME Charters as part of its "Help for what matters" programme. In the US, Citizens launched a new brand platform of "Good Banking is Good Citizenship" to highlight the bank's responsibility to its customers and the wider communities in which it operates.

Customer franchises (continued)

2010 saw Global Transaction Services partner with UK Trade & Investment to help UK businesses take advantage of export opportunities in Asia by supporting a number of "Meet the Expert" roadshows hosted around the country.

RBS Insurance was rated best for customer service by Consumer Intelligence during the first half of 2010 and GBM was also recognised for service quality as most innovative in asset & liability management and inflation products.

RBS customer franchises have demonstrated the strength of their foundations through the turbulence of the last three years. However, the Group recognises that it has much further to travel to achieve the levels of customer service to which it aspires.

UK Lending

RBS's business lending activity increased in Q4 2010, with £15.6 billion of gross new facilities extended to UK businesses, compared with £13.9 billion in Q3. This brought gross new lending for the full year 2010 to £55.3 billion. Companies have, however, continued to concentrate on deleveraging with net repayments totalling £4.6 billion compared with £3.7 billion in Q3 2010. Demand for new credit facilities has been driven principally by good volumes in the medium and large segments, where many corporates have brought forward refinancings to take advantage of the low interest rates and longer tenures available.

By contrast, activity levels in the SME segment remain more subdued. Gross new facilities extended to SMEs totalled £7.3 billion in Q4 2010, down 4% from Q3, bringing lending for the calendar year to £30.3 billion. SME loan applications in Q4 were 8% down on Q3, and applications in the full year 2010 were 9% lower than in 2009. Acceptance rates remain above 85%. The average interest rate on new loans to SMEs in 2010 was 3.36%.

Although many SME customers continue to deleverage, RBS's Core Business & Commercial operation achieved positive net lending to SMEs in 2010, with industrial and commercial balances up £0.8 billion compared with 31 December 2009, partially offset by a further net reduction of £0.5 billion in the real estate and construction sectors. Non-Core portfolios have continued to run off, as planned leaving aggregate Group SME loan balances down £3.5 billion in 2010, with more than three quarters of the reduction accounted for by the real estate and construction sectors.

Overdraft drawings by SMEs have declined by 9% over the course of 2010 and overdraft utilisation rates have fallen back to 45% at end 2010, compared with 47% a year earlier, demonstrating that credit demand among SMEs remains muted.

2010 results summary (continued)

UK Lending (continued)
The Group remains on target to achieve its gross business lending target of £50 billion, including £30 billion to SMEs, in the March 2010 to February 2011 period. Patterns of customer demand remain muted pending stronger evidence of increased sales demand. However, RBS is maintaining its efforts to support its UK customers, in particular SMEs, and was pleased to take part in the recent agreement with the UK Government known as Project Merlin. The Group's target is to provide at least as much credit support to SMEs in 2011 as in 2010, and has further set aside additional lending capacity to support significant further growth if demand materialises above current expected credit demand.

In mortgages, gross lending totalled £18.7 billion in 2010, down 3% from 2009's very strong performance, with market activity weakening in the fourth quarter. Market share of new mortgage lending remained at 11% in the quarter, well above the Group's 8% share of stock. RBS gross lending volumes in Q4 remained strong at £4.4 billion, although down 17% from Q3. The Group's share of lending to first time buyers remained particularly strong at 16%. With good retention rates among existing customers, net lending increased by £1.8 billion during Q4, taking total net lending for the full year 2010 to £8.8 billion which is in excess of the Group's net mortgage lending target of £8 billion in the March 2010 to February 2011 period.

Disposals
RBS has made substantial progress in its disposal programme over the course of 2010, from both the sale of Non-Core businesses and the divestments mandated by the European Commission. During Q4 2010 the Group announced the exit of businesses in China and Uzbekistan. It also completed the disposal of an 80.01% interest in Global Merchant Services, one of the principal businesses earmarked for divestment under the agreement with the EC, to Advent International and Bain Capital.

A total of 20 business disposals have been signed or completed in 2010, with sales spanning 18 countries. The disposal programme reduced Non-Core funded assets by £33 billion over the course of 2010, with a further £12 billion of Non-Core disposals signed and due to complete in the course of 2011.

In addition, the sale of the Group's RBS England and Wales and NatWest Scotland branch business to Santander is progressing well, with merger approval received from the European Commission during Q4. The sale is still subject to regulatory approval by the Financial Services Authority and the High Court, and is expected to complete by 31 March 2012.

Advisers have been appointed to assist in preparing RBS Insurance for eventual sale or flotation, with a current target date of 2012.

Condensed consolidated balance sheet
at 31 December 2010

	31 December 2010 £m	30 September 2010 £m	31 December 2009 £m
Assets			
Cash and balances at central banks	57,014	61,416	52,261
Net loans and advances to banks	57,911	60,334	56,656
Reverse repurchase agreements and stock borrowing	42,607	48,407	35,097
Loans and advances to banks	100,518	108,741	91,753
Net loans and advances to customers	502,748	528,049	687,353
Reverse repurchase agreements and stock borrowing	52,512	44,503	41,040
Loans and advances to customers	555,260	572,552	728,393
Debt securities	217,480	226,410	267,254
Equity shares	22,198	21,755	19,528
Settlement balances	11,605	22,874	12,033
Derivatives	427,077	548,805	441,454
Intangible assets	14,448	14,369	17,847
Property, plant and equipment	16,543	17,398	19,397
Deferred tax	6,373	5,909	7,039
Prepayments, accrued income and other assets	12,576	11,908	20,985
Assets of disposal groups	12,484	17,450	18,542
Total assets	1,453,576	1,629,587	1,696,486
Liabilities			
Bank deposits	66,051	80,304	104,138
Repurchase agreements and stock lending	32,739	41,465	38,006
Deposits by banks	98,790	121,769	142,144
Customer deposits	428,599	420,639	545,849
Repurchase agreements and stock lending	82,094	87,287	68,353
Customer accounts	510,693	507,926	614,202
Debt securities in issue	218,372	235,083	267,568
Settlement balances	10,991	20,628	10,413
Short positions	43,118	44,004	40,463
Derivatives	423,967	543,397	424,141
Accruals, deferred income and other liabilities	23,089	23,667	30,327
Retirement benefit liabilities	2,288	2,637	2,963
Deferred tax	2,142	2,270	2,811
Insurance liabilities	6,794	6,782	10,281
Subordinated liabilities	27,053	27,890	37,652
Liabilities of disposal groups	9,428	16,154	18,890
Total liabilities	1,376,725	1,552,207	1,601,855
Equity			

Non-controlling interests	1,719	1,780	16,895
Owners’ equity*			
Called up share capital	15,125	15,030	14,630
Reserves	60,007	60,570	63,106
Total equity	76,851	77,380	94,631
Total liabilities and equity	1,453,576	1,629,587	1,696,486
* Owners’ equity attributable to:			
Ordinary and B shareholders	70,388	70,856	69,890
Other equity owners	4,744	4,744	7,846
	75,132	75,600	77,736

12

Commentary on condensed consolidated balance sheet

Total assets of £1,453.6 billion at 31 December 2010 were down £242.9 billion, 14%, compared with 31 December 2009. This principally reflects the disposal of the RFS minority interest, the continuing planned disposal of Non-Core assets, together with a reduction in the level of debt securities and the mark-to-market value of derivatives.

Cash and balances at central banks were up £4.8 billion, 9%, to £57.0 billion principally due to an improvement in the Group's structural liquidity position during 2010.

Loans and advances to banks increased by £8.8 billion, 10%, to £100.5 billion. Adjusting for the disposal of the RFS minority interest, the increase was £16.6 billion, 20%. Reverse repurchase agreements and stock borrowing (‘reverse repos’) were up £7.5 billion, 21% to £42.6 billion and bank placings rose £9.1 billion, 19%, to £57.9 billion, primarily as a result of the investment of surplus liquidity in short-term assets.

Loans and advances to customers decreased £173.1 billion, 24%, to £555.3 billion. Excluding the disposal of the RFS minority interest, lending to customers was down £40.4 billion, 7%. Within this, reverse repurchase agreements were up £11.5 billion, 28%, to £52.5 billion. Customer lending decreased by £51.9 billion to £502.7 billion or £48.9 billion before impairment provisions. This reflected planned reductions in Non-Core of £39.7 billion along with declines in Global Banking & Markets, £16.7 billion, US Retail & Commercial, £2.6 billion and Ulster Bank, £2.0 billion. These were partially offset by growth in UK Retail, £5.4 billion, Wealth, £2.4 billion and Global Transaction Services, £1.7 billion, together with the effect of exchange rate and other movements, £2.6 billion.

Debt securities were down £49.8 billion, 19%, to £217.5 billion, or £31.6 billion, 13%, adjusting for the disposal of the RFS minority interest, driven mainly by reductions in Global Banking & Markets.

The value of derivative assets were down £14.4 billion, 3%, to £427.1 billion, primarily reflecting a decrease in interest contracts, movements in five to ten year interest yields, and the combined effect of currency movements, with Sterling weakening against the dollar but strengthening against the Euro.

The reduction in assets and liabilities of disposal groups resulted from the completion of disposals of certain of the Group’s Asian and Latin American businesses, and substantially all of the RBS Sempra Commodities JV business.

Deposits by banks declined £43.4 billion, 31%, to £98.8 billion or £55.0 billion, 36% following the disposal of the RFS minority interest, with reduced inter-bank deposits, down £49.7 billion, 43%, to £65.9 billion and lower repurchase agreements and stock lending (‘repos’), down £5.3 billion, 14%, to £32.7 billion.

Commentary on condensed consolidated balance sheet (continued)

Customer accounts decreased £103.5 billion, 17%, to £510.7 billion but were up £28.1 billion, 6%, excluding the disposal of the RFS minority interest. Within this, repos increased £13.7 billion, 20%, to £82.1 billion. Excluding repos, customer deposits were up £14.3 billion, 3%, to £428.6 billion, reflecting growth in UK Corporate, £12.2 billion, Global Transaction Services, £7.8 billion, UK Retail, £7.0 billion, Ulster Bank, £1.7 billion and Wealth, £0.8 billion, together with exchange rate and other movements of £3.0 billion. This was partially offset by decreases in Global Banking & Markets, £8.3 billion, US Retail & Commercial, £4.0 billion and Non-Core, £5.9 billion.

Debt securities in issue were down £49.2 billion, 18%, to £218.4 billion. Excluding the RFS minority interest disposal, they declined £28.0 billion, 11%, to £218.4 billion. Reductions in the level of certificates of deposit and commercial paper in Global Banking & Markets were partially offset by a programme of new term issuances totalling £38.4 billion.

Subordinated liabilities decreased by £10.6 billion, 28% to £27.1 billion or £4.5 billion, 14% excluding the disposal of the RFS minority interest. This reflected the redemption of £2.6 billion undated loan capital, debt preference shares and trust preferred securities under the liability management exercise completed in May, together with the conversion of £0.8 billion US dollar and Sterling preference shares and the redemption of £1.6 billion of other dated and undated loan capital, which were partially offset by the effect of exchange rate movements and other adjustments of £0.5 billion.

The Group's non-controlling interests decreased by £15.2 billion, primarily reflecting the disposal of the RFS minority interest, £14.4 billion, the majority of the RBS Sempra Commodities JV business, £0.6 billion, and the life assurance business, £0.2 billion.

Owner's equity decreased by £2.6 billion, 3%, to £75.1 billion. This was driven by the partial redemption of preference shares and paid in equity, £3.1 billion less related gains of £0.6 billion, the attributable loss for the period, £1.1 billion, together with an increase in own shares held of £0.7 billion and higher losses in available-for-sale reserves, £0.3 billion. Offsetting these reductions were the issue of £0.8 billion ordinary shares on conversion of the US dollar and Sterling non-cumulative preference shares classified as debt and exchange rate and other movements, £1.2 billion.

Results summary

	Year ended	
	31 December 2010	31 December 2009
Net interest income	£m	£m
Net interest income (1)	13,847	13,104
Average interest-earning assets	967,313	1,043,587
Net interest margin		
- Group	2.00%	1.74%
- Core		
- Retail & Commercial (2)	3.14%	2.89%
- Global Banking & Markets	1.05%	1.38%
- Non-Core	1.16%	0.69%

Notes:
(1) Refer to further analysis on page 122.
(2) Retail & Commercial comprises the UK Retail, UK Corporate, Wealth, Global Transaction Services, Ulster Bank and US Retail & Commercial divisions.

Key points

2010 compared with 2009

· An improvement of 26 basis points in Group NIM reflects expanding asset margins in Core UK Retail and Corporate divisions as well as in the US.

· The run-off of low-yielding Non-Core assets contributed 7 basis points to the increase in Group NIM.

· The Group NIM is affected by increased funding costs, with deposit margins still low, and negatively affected by the expansion of the liquidity portfolio, and higher costs arising from the successful execution of the term funding programme.

Results summary (continued)

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Non-interest income	£m	£m	£m	£m	£m
Net fees and commissions	1,603	1,426	1,459	5,982	5,768
Income from trading activities					
- Asset Protect Scheme credit default swap					
– fair value changes	(725)	(825)	-	(1,550)	-
- fair value of own debt	110	(330)	(79)	(75)	(193)
- other	979	1,432	788	6,142	3,954
Gain on redemption of own debt	-	-	-	553	3,790
Other operating income					
- strategic disposals	502	27	(166)	171	132
- fair value of own debt	472	(528)	349	249	51
- other	29	184	121	1,059	690
Non-interest income (excluding insurance net premium income)*	2,970	1,386	2,472	12,531	14,372
Insurance net premium income	1,272	1,289	1,308	5,128	5,266
Total non-interest income	4,242	2,675	3,780	17,659	19,638
* Includes fair value of own debt impact					
Income/(loss) from trading activities	110	(330)	(79)	(75)	(193)
Other operating income	472	(528)	349	249	51
Fair value of own debt	582	(858)	270	174	(142)

Key points

Q4 2010 compared with Q3 2010

· The increase in net fees and commissions principally reflected an increase in Non-Core general insurance underwriting income received in respect of legacy policies during Q4 2010. This increase in net fees and commissions is offset by an increase in insurance claims.

· Income from trading activities increased by £87 million principally due to movements in the fair value of own debt, partially offset by a change in assumption relating to the expected life of several trades and fair value write-downs on property exposures.

· APS is accounted for as a credit derivative, and movements in the fair value of the contract are recorded as income from trading activities. The charge of £725 million in Q4 2010 reflects improving credit spreads on the portfolio of covered assets, as well as a decrease in covered assets from £205.4 to £194.7 billion.

- Movements in fair value of own debt (FVOD) increased revenue by £582 million in the quarter. This reflected a widening of the Group's credit spreads driven by the European sovereign debt crisis and reversed the loss of the previous quarter.

- Other operating income increased by £1,320 million, principally due to movements in the fair value of own debt, offset by declines in the fair value of certain Non-Core property exposures.

- Net gains of £502 million were booked on strategic disposals in Q4 2010, with a gain of £837 million on the sale of GMS partially offset by losses on the sale of certain project finance assets.

Results summary (continued)

Q4 2010 compared with Q4 2009

- Gains of £502 million were booked on strategic disposals in Q4 2010 compared with a loss on disposal of £166 million in Q4 2009. The loss in 2009 primarily related to the sale of part of the Latin American businesses.

2010 compared with 2009

- Trading revenues in GBM were lower than in 2009, which saw unusually buoyant market conditions as rapidly falling interest rates generated significant revenue opportunities. This was more than offset by the improvement in Non-Core trading losses from £5,161 million for 2009 to £31 million for 2010 as underlying asset prices recovered, monoline spreads tightened and exposures were actively managed. The unwinding of some banking book hedges also helped to reduce trading losses.

- Movements in FVOD have been volatile from quarter to quarter, but the full year impact was more limited, with FVOD generating a credit of £174 million for 2010 compared with a charge of £142 million in 2009.

- A gain of £553 million was booked associated with the liability management exercise undertaken in May 2010, through which the Group strengthened its Core Tier 1 capital base by repurchasing existing Tier 1 securities and exchanging selected existing Upper Tier 2 securities for new senior debt securities. A similar series of exchange and tender offers concluded in April 2009 resulted in a gain of £3,790 million.

- Strategic disposal gains of £171 million primarily reflected the gain on the sale of GMS offset by losses booked in Q2 2010 on the restructuring of the life assurance business and on the sale of a number of Latin American businesses.

Results summary (continued)

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Operating expenses	£m	£m	£m	£m	£m
Staff costs					
- excluding pension schemes curtailment gains	2,194	2,423	2,494	9,671	9,993
- pension schemes curtailment gains	-	-	(2,148)	-	(2,148)
Premises and equipment	709	611	685	2,402	2,594
Other	1,048	914	1,184	3,995	4,449
Administrative expenses	3,951	3,948	2,215	16,068	14,888
Depreciation and amortisation					
- amortisation of purchased intangible assets	96	123	59	369	272
- other	450	480	541	1,781	1,894
Write down of goodwill and other intangible assets	10	-	52	10	363
Operating expenses	4,507	4,551	2,867	18,228	17,417
General insurance	1,151	1,092	1,304	4,698	4,223
Bancassurance	31	50	17	85	134
Insurance net claims	1,182	1,142	1,321	4,783	4,357

Key points

Q4 2010 compared with Q3 2010

· Expenses were broadly flat at £4,507 million driven by the benefits of the Group's efficiency programme offset by higher premises and equipment costs.

· Insurance net claims were 4% higher, driven by an increase in Non-Core claims related to legacy business. RBS Insurance claims fell 5%, as bodily injury reserving has stabilised, providing a partial offset.

Q4 2010 compared with Q4 2009

· Operating expenses increased by £1,640 million to £4,507 million. Excluding the gains on pensions curtailment of £2,148 million in 2009, operating expenses fell by 10% compared with Q4 2009 reflecting the realisation of cost saving initiatives, including a fall of 35% in Ulster Bank costs driven by the culmination of its business restructuring and restructuring programme.

· Insurance claims decreased to £1,182 million driven by the £272 million strengthening of bodily injury reserves in Q4 2009, not repeated in 2010. This was partially offset by the impact of the unusually cold December in 2010.

Results summary (continued)

2010 compared with 2009

· The main driver of a 5% increase in operating expenses was the impact of a £2,148 million gains on pension curtailment in 2009. This was partially offset by gains on the recognition of benefits from the Group-wide efficiency programme. The programme continues to deliver material savings which have been funding investments to strengthen our Core franchises. Annualised savings are now just ahead of the £2.5 billion target for 2011 and are forecast to exceed £3 billion by 2013.

  Integration and restructuring costs were £1,032 million, compared with £1,286 million in 2009. Costs relating to the ABN AMRO integration have significantly declined although costs relating to country and business exits remain high.

  The charge for the amortisation of purchased intangible assets increased to £369 million for 2010, reflecting the write down of brands and other intangibles following Non-Core disposals.

· Premises and equipment costs fell by 7% in the year largely driven by efficiency cost savings, significant one-off property impairments recognised in 2009 and country exits following Non-Core disposals.

· Insurance claims increased 10%, driven by an overall increase in bodily injury reserves, reflecting prior year claims and more claims being settled as periodic payment orders. Severe weather experienced during Q1 and Q4 2010 also drove up claims in the year.

Results summary (continued)

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Impairment losses	£m	£m	£m	£m	£m
Loan impairment losses	2,155	1,908	3,032	9,144	13,090
Securities impairment losses	(14)	45	67	112	809
Group impairment losses	2,141	1,953	3,099	9,256	13,899
Loan impairment losses					
- latent	(116)	40	224	(121)	1,184
- collectively assessed	729	748	956	3,070	3,994
- individual assessed customers	1,555	1,120	1,842	6,208	7,878
Customer loans	2,168	1,908	3,022	9,157	13,056
Bank loans	(13)	-	10	(13)	34
Loan impairment losses	2,155	1,908	3,032	9,144	13,090
Customer loan impairment charge as % of gross loans and advances (1)	1.6%	1.4%	2.1%	1.7%	2.3%
- Core	0.9%	0.7%	1.2%	0.9%	1.1%
- Non-Core	4.4%	3.9%	4.6%	4.9%	5.7%

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

Key points

Q4 2010 compared with Q3 2010

· Total impairments increased by 10% in Q4 2010. The increase was driven by higher specific impairments in Ulster Bank (Core and Non-Core) and UK Corporate. There was a reduction in collective impairments (UK Retail) and a net release of latent provisions overall reflecting a gradual improvement in the underlying credit environment.

· The increase in Ulster Bank Group's (Core and Non-Core) quarter-on-quarter impairments of £190 million to £1,165 million reflects higher latent provisions recorded on the mortgage and property portfolios. UK Corporate impairments increased by £61 million, largely driven by a small number of specific impairment cases as well as increases in its collectively assessed portfolios.

Q4 2010 compared with Q4 2009

- Group impairments fell 31%, driven by the overall improvement in the economic environment.

- In the Core businesses the largest decreases were in collective impairments (UK Retail), largely driven by lower arrears volumes on the unsecured portfolio, and in GBM, reflecting a general improvement in credit conditions and a release of latent loss provisions.

- Non-Core specific impairments fell significantly from Q4 2009 levels, in line with the overall improvement in the economic environment.

Results summary (continued)

Key points (continued)

2010 compared with 2009

- Impairment losses were £9,256 million, compared with £13,899 million in 2009. The 33% decrease reflects an overall improvement in the economic environments in which the Group operates.

- Impairments fell in all Core businesses, except Ulster Bank Group, which faced an economic environment that remains challenging, with rising default levels across both personal and corporate portfolios.

- Impairments for Ulster Bank Group (Core and Non-Core) increased to £3,843 million compared with £1,927 million in 2009.

- A significant proportion of the reduction in Core impairments relates to lower specific and latent provisions in UK Corporate, US Retail & Commercial and GBM.

- Non-Core impairments fell by 41% in 2010 reflecting the gradual improvement in the economic environment through 2010 and lower specific provisions, alongside a non-repeat of a large single name loss seen in 2009.

Results summary (continued)

Credit market exposures

The table below details the Group's net credit and other market (losses)/gains for the period.

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Credit and other market (losses)/gains (1)	£m	£m	£m	£m	£m
Monoline exposures	(57)	191	(734)	(5)	(2,387)
CDPCs (2)	(38)	(15)	(111)	(141)	(957)
Asset-backed products	33	160	102	235	(288)
Other credit exotics	21	(2)	30	77	(558)
Equities	11	(15)	(13)	(17)	(47)
Banking book hedges	(70)	(123)	(262)	(82)	(1,727)
Other	(78)	(54)	(91)	(455)	(188)
Net credit and other market (losses)/gains	(178)	142	(1,079)	(388)	(6,152)

Notes:
(1) Included in 'Income from trading activities', significantly all in Non-Core.
(2) Credit derivative product companies.

Key points

Q4 2010 compared with Q3 2010
- A change in assumptions relating to the expected life of several trades in the structured credit portfolio resulted in a charge of £160 million in respect of monoline exposures in Q4 2010. In addition, gains on disposals and net fair value gains on asset-backed products were smaller in Q4 2010 than in Q3 2010.

Q4 2010 compared with Q4 2009
- Losses in Q4 2010 were significantly lower than in Q4 2009 as a number of banking book hedges were unwound in 2010 and the restructuring of certain monoline exposures resulted in sizable losses in Q4 2009.

2010 compared with 2009
- Tightening credit spreads, a recovery in underlying asset prices and gains on sales of asset-backed products during 2010 contributed to significantly lower losses in 2010. Unwinding of some banking book hedges in 2010 also resulted in lower losses. Monoline losses of £2.4 billion in 2009 reflected widening credit spreads and lower recovery rates. CDPC losses were higher in 2009 due to losses on market risk hedges.

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Other losses include credit valuation and other reserves against derivative counterparties other than monolines and CDPCs. Losses increased due to rating downgrades as well as other losses on specific deals.

Results summary (continued)

Capital resources and ratios	31 December 2010	30 September 2010	31 December 2009
Core Tier 1 capital	£50bn	£48bn	£60bn
Tier 1 capital	£60bn	£59bn	£76bn
Total capital	£65bn	£65bn	£87bn
Risk-weighted assets			
- gross	£571bn	£595bn	£669bn
- impact of the Asset Protection Scheme	(£106bn)	(£117bn)	(£128bn)
Risk-weighted assets	£466bn	£478bn	£541bn
Core Tier 1 ratio	10.7%	10.2%	11.0%
Tier 1 ratio	12.9%	12.5%	14.1%
Total capital ratio	14.0%	13.5%	16.1%

Key points

Q4 2010 compared with Q3 2010

- Core Tier 1 ratio improved in Q4 by 50 basis points to 10.7% principally reflecting the capital benefit from disposals coupled with reductions in RWAs due to Non-Core disposals.

- Capital relief arising from APS continued to decline as the run-off of covered assets proceeds.

2010 compared with 2009

- Over the full year 2010 Core Tier 1 ratio declined by 30 basis points. Core Tier 1 capital fell by £10 billion, principally reflecting the impact of the disposal of the non-controlling interests of the Consortium Members. Excluding this impact, Core Tier 1 capital increased by £1 billion, reflecting the capital benefits from disposals, the conversion of preference shares and the debt buy back coupled with reductions in expected loss and APS first loss deductions. Excluding the reduction of £103 billion attributable to the non-controlling interests of the Consortium Members, RWAs rose by 5%, with significant changes to regulatory requirements and associated modelling changes offsetting the reduction in assets resulting from the Non-Core disposal and run-off programme.

Results summary (continued)

Balance sheet	31 December 2010	30 September 2010	31 December 2009
Total assets	£1,454bn	£1,630bn	£1,696bn
Funded balance sheet (1)	£1,026bn	£1,081bn	£1,255bn
Loans and advances to customers (2)	£503bn	£528bn	£687bn
Customer deposits (3)	£429bn	£421bn	£546bn

Notes:
(1) Total assets excluding derivatives
(2) Excluding reverse repurchase agreements and stock borrowing.
(3) Excluding repurchase agreements and stock lending.

Key points

- Total funded assets reduced by £229 billion over the course of 2010, of which £171 billion was attributable to the transfer of assets to other Consortium Members following the legal separation of ABN AMRO. Non-Core's funded assets fell by £16 billion in Q4 2010, of which £13 billion reflected disposals completed during the quarter. GBM assets fell by £24 billion in Q4, with low trading volumes in Q4 2010 resulting in a reduction in balances pending settlement.

- Total loans and advances to customers fell by £25 billion in Q4 2010 principally reflecting reductions in GBM and Non-Core. Core Retail & Commercial loans and advances to customers remained stable in Q4 2010 but have risen by £6 billion over the course of 2010, driven by growth in UK mortgages.

- Customer deposits have decreased by £117 billion, of which £131 billion was attributable to the transfer of assets to other Consortium Members following the legal separation of ABN AMRO. Excluding this transfer, the Group has been particularly successful in attracting and retaining deposits, with customer deposits growing by £8 billion in Q4 2010 and by £14 billion for the full year. Combined with the loan reduction, the result has been that the Group's loan to deposit ratio, has improved markedly from 135% in December 2009 to 117% at the end of 2010. The Core loan to deposit ratio improved to 96%, from 104% at the end of 2009.

Further discussion of the Group's funding and liquidity position is included on pages 132 to 138.

Divisional performance

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
	£m	£m	£m	£m	£m
Operating profit/(loss) by division					
UK Retail	558	398	128	1,372	229
UK Corporate	333	422	340	1,463	1,125
Wealth	87	74	89	304	420
Global Transaction Services	267	309	224	1,088	973
Ulster Bank	(271)	(176)	(275)	(761)	(368)
US Retail & Commercial	64	73	(19)	306	(113)
Retail & Commercial	1,038	1,100	487	3,772	2,266
Global Banking & Markets	527	589	765	3,364	5,758
RBS Insurance	(9)	(33)	(170)	(295)	58
Central items	115	76	(169)	577	385
Core	1,671	1,732	913	7,418	8,467
Non-Core	(1,616)	(1,006)	(2,536)	(5,505)	(14,557)
	55	726	(1,623)	1,913	(6,090)
Reconciling items:					
Fair value of own debt	582	(858)	270	174	(142)
RFS Holdings minority interest	(2)	(181)	(170)	(150)	(356)
Amortisation of purchased intangible assets	(96)	(123)	(59)	(369)	(272)
Integration and restructuring costs	(299)	(311)	(228)	(1,032)	(1,286)
Gain on redemption of own debt	-	-	-	553	3,790
Strategic disposals	502	27	(166)	171	132
Bonus tax	(15)	(15)	(208)	(99)	(208)
Asset Protection Scheme credit default swap - fair value changes	(725)	(825)	-	(1,550)	-
Gains on pensions curtailment	-	-	2,148	-	2,148
Write down of goodwill and other intangible assets	(10)	-	(52)	(10)	(363)
Group operating loss	(8)	(1,560)	(88)	(399)	(2,647)

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
	£m	£m	£m	£m	£m
Impairment losses by division					

UK Retail	222	251	451	1,160	1,679
UK Corporate	219	158	190	761	927
Wealth	6	1	10	18	33
Global Transaction Services	3	3	4	9	39
Ulster Bank	376	286	348	1,161	649
US Retail & Commercial	105	125	153	517	702
Retail & Commercial	931	824	1,156	3,626	4,029
Global Banking & Markets	(5)	(40)	130	151	640
RBS Insurance	-	-	-	-	8
Central items	4	(2)	2	3	1
Core	930	782	1,288	3,780	4,678
Non-Core	1,211	1,171	1,811	5,476	9,221
Group impairment losses	2,141	1,953	3,099	9,256	13,899

Divisional performance (continued)

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
	%	%	%	%	%
Net interest margin by division					
UK Retail	4.08	4.02	3.74	3.91	3.59
UK Corporate	2.57	2.58	2.47	2.51	2.22
Wealth	3.32	3.44	3.94	3.37	4.38
Global Transaction Services	6.19	6.72	9.81	6.73	9.22
Ulster Bank	1.78	1.90	1.83	1.84	1.87
US Retail & Commercial	3.02	2.92	2.45	2.85	2.37
Retail & Commercial	3.24	3.23	3.04	3.14	2.89
Global Banking & Markets	0.94	1.14	0.89	1.05	1.38
Non-Core	1.10	1.05	1.17	1.16	0.69

	31 December 2010	30 September 2010		31 December 2009	
	£bn	£bn	Change	£bn	Change
Risk-weighted assets by division					
UK Retail	48.8	49.3	(1%)	51.3	(5%)
UK Corporate	81.4	84.7	(4%)	90.2	(10%)
Wealth	12.5	12.1	3%	11.2	12%
Global Transaction Services	18.3	18.6	(2%)	19.1	(4%)
Ulster Bank	31.6	32.6	(3%)	29.9	6%
US Retail & Commercial	57.0	64.1	(11%)	59.7	(5%)
Retail & Commercial	249.6	261.4	(5%)	261.4	(5%)
Global Banking & Markets	146.9	143.7	2%	123.7	19%
Other	18.0	19.9	(10%)	9.4	91%
Core	414.5	425.0	(2%)	394.5	5%
Non-Core	153.7	166.9	(8%)	171.3	(10%)
	568.2	591.9	(4%)	565.8	-
Benefit of Asset Protection Scheme	(105.6)	(116.9)	(10%)	(127.6)	(17%)
	462.6	475.0	(3%)	438.2	6%
RFS Holdings minority interest	2.9	3.0	(3%)	102.8	(97%)
Total	465.5	478.0	(3%)	541.0	(14%)

Divisional performance (continued)

Employee numbers (full time equivalents in continuing operations rounded to the nearest hundred)	31 December 2010	30 September 2010	31 December 2009
UK Retail	23,800	24,400	25,500
UK Corporate	13,100	13,000	12,300
Wealth	5,200	5,100	4,600
Global Transaction Services	2,600	3,700	3,500
Ulster Bank	4,200	4,500	4,500
US Retail & Commercial	15,700	15,700	15,500
Retail & Commercial	64,600	66,400	65,900
Global Banking & Markets	18,700	19,500	17,900
RBS Insurance	14,500	14,400	13,900
Group Centre	4,700	4,600	4,200
Core	102,500	104,900	101,900
Non-Core	6,900	10,000	15,100
	109,400	114,900	117,000
Business Services	38,800	41,300	43,100
Integration	300	300	500
RFS Holdings minority interest	-	-	300
Group total	148,500	156,500	160,900

UK Retail

	Quarter ended			Year ended	
	31 December 2010 £m	30 September 2010 £m	31 December 2009 £m	31 December 2010 £m	31 December 2009 £m
Income statement					
Net interest income	1,088	1,056	939	4,078	3,452
Net fees and commissions	328	279	299	1,160	1,320
Other non-interest income	70	97	61	252	309
Non-interest income	398	376	360	1,412	1,629
Total income	1,486	1,432	1,299	5,490	5,081
Direct expenses					
- staff	(180)	(197)	(211)	(778)	(845)
- other	(68)	(134)	(46)	(474)	(453)
Indirect expenses	(427)	(402)	(446)	(1,621)	(1,741)
	(675)	(733)	(703)	(2,873)	(3,039)
Insurance net claims	(31)	(50)	(17)	(85)	(134)
Impairment losses	(222)	(251)	(451)	(1,160)	(1,679)
Operating profit	558	398	128	1,372	229
Analysis of income by product					
Personal advances	275	248	273	993	1,192
Personal deposits	271	277	279	1,102	1,349
Mortgages	557	527	415	1,984	1,214
Bancassurance and insurance net claims	83	110	73	314	380
Cards	251	243	228	962	869
Other	49	27	31	135	77
Total income	1,486	1,432	1,299	5,490	5,081
Analysis of impairments by sector					
Mortgages	30	55	35	177	124
Personal	131	150	282	682	1,023
Cards	61	46	134	301	532

Total impairment losses	222	251	451	1,160	1,679
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	0.1%	0.2%	0.2%	0.2%	0.1%
Personal	4.5%	4.8%	8.3%	5.8%	7.5%
Cards	4.0%	3.0%	8.6%	4.9%	8.6%
	0.8%	0.9%	1.8%	1.1%	1.6%

UK Retail (continued)

Key metrics

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Performance ratios					
Return on equity (1)	25.2%	21.2%	6.5%	18.0%	3.0%
Net interest margin	4.08%	4.02%	3.74%	3.91%	3.59%
Cost:income ratio	45%	51%	54%	52%	60%
Adjusted cost:income ratio (2)	46%	53%	55%	53%	61%

	31 December 2010 £bn	30 September 2010 £bn	Change	31 December 2009 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	90.6	89.1	2%	83.2	9%
- personal	11.7	12.4	(6%)	13.6	(14%)
- cards	6.1	6.1	-	6.2	(2%)
	108.4	107.6	1%	103.0	5%
Customer deposits (excluding bancassurance)	96.1	91.4	5%	87.2	10%
Assets under management (excluding deposits)	5.7	5.4	6%	5.3	8%
Risk elements in lending	4.6	5.0	(8%)	4.6	-
Loan:deposit ratio (excluding repos)	110%	115%	(500 bp)	115%	(500 bp)
Risk-weighted assets	48.8	49.3	(1%)	51.3	(5%)

Notes:

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

(2) Adjusted cost:income ratio is based on total income after netting insurance claims, and operating expenses.

Key points

· The development of the RBS and NatWest Customer Charters aims to deliver those elements that customers have said are most important to them, and has been well received by both customers and staff. The division is reaping continuing benefits from investment in process improvements and automation, resulting in gains in both service quality and cost efficiency.

Serving our customers better is a key priority for RBS. While our customer satisfaction compares well with our competitors we know we can do more. In June 2010 we launched a Customer Charter setting out 14 commitments to delivering helpful banking.

The Customer Charter reflects the views and expectations of more than 30,000 customers. We are working hard to deliver on the commitments we have made. This won't happen overnight but the Customer Charter is our pledge that we will be regularly held to account against the progress we make. As part of this we will publish an independently-assured report on our performance every six months.

Q4 2010 compared with Q3 2010

- UK Retail delivered a strong operating performance in Q4 2010, with income up, costs down and impairments continuing to improve. Operating profit was 40% up from the previous quarter at £558 million.

UK Retail (continued)

Key points (continued)

Q4 2010 compared with Q3 2010 (continued)

UK Retail continued to drive strong growth in customer deposits and secured lending.

o Total deposits grew by £4.7 billion or 5% in Q4 2010, with two particularly strong campaigns in the quarter on fixed rate bonds and the e-savings account.

o Mortgage balances increased 2% on Q3 2010. Although market activity has weakened, RBS mortgage application volumes increased in the quarter, with good retention rates among existing customers. Market share of new mortgage lending remained broadly stable at 11% in the quarter, well above the Group's 8% share of stock.

o Unsecured lending fell 4% in the quarter, in line with the Group's continued focus on lower risk secured lending.

o The loan to deposit ratio at 31 December 2010 was 110%, an improvement on the prior quarter's ratio of 115%.

· Net interest income increased by 3%, with net interest margin at 4.08%, a 6 basis point improvement on Q3 2010. Asset margins widened, with customers continuing to roll on to standard variable rate mortgages, although the overall proportion of customers on standard variable rate mortgages decreased marginally. Liability margins fell further compared with Q3 2010, with highly competitive positioning in fixed term bonds and bonus savings accounts putting continued pressure on margins, compounded by a continuing reduction in yield on longer term current account hedges.

· Non-interest income increased by 6% principally reflecting a profit share payment from RBS Insurance.

· Expenses fell by 8% in the quarter, largely due to lower Financial Services Compensation Scheme Levy cost. Excluding the levy, costs declined by 2% on Q3 2010 with continued management focus on process re-engineering and technology investment. The cost:income ratio (net of insurance claims) improved from 53% to 46%, although excluding the profit share and FSCS levy benefits mentioned above, the cost:income ratio was broadly flat quarter-on-quarter.

· Impairment losses improved by 12% in Q4 2010. Impairments are expected to stabilise subject to normal seasonal fluctuations and economic conditions remaining broadly stable.

o Mortgage impairment losses were £30 million on a total book of £91 billion. The quarter on quarter decrease of £25 million primarily results from more conservative assumptions on recoveries implemented in Q3 2010.

o The unsecured portfolio charge fell 2% to £192 million, on a book of £18 billion, with lower default volumes and improved collections performance.

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Risk-weighted assets decreased in the quarter, with lower unsecured lending balances and improving portfolio credit metrics partly offset by growth in mortgages.

Q4 2010 compared with Q4 2009

- Operating profit increased by £430 million, with income up 14%, costs down 4% and impairments 51% lower than in Q4 2009.

- Net interest income was 16% higher than Q4 2009, with strong mortgage balance growth and recovering asset margins across all products, which together more than offset the decline in liability margins.

UK Retail (continued)

Key points (continued)

Q4 2010 compared with Q4 2009 (continued)

- Costs were 4% lower than in Q4 2009, driven by process re-engineering efficiencies within the branch network and operational centres. The cost:income ratio (net of insurance claims) improved from 55% to 46%.

- Impairment losses decreased by 51% on Q4 2009 primarily reflecting lower arrears volumes on the unsecured portfolio.

2010 compared with 2009

- Operating profit recovered strongly from the low levels recorded in 2008 and 2009 to £1,372 million. Profit before impairments was up £624 million or 33% and impairments fell by £519 million as the economic environment continued to recover.

- The division has continued to focus in 2010 on growing secured lending while at the same time building customer deposits, thereby reducing the Group's reliance on wholesale funding. Loans and advances to customers grew 5%, with a change in mix from unsecured to secured as the Group actively sought to improve its risk profile. Mortgage balances grew by 9% while unsecured lending contracted by 10%.
  - Mortgage growth was due to good retention of existing customers and new business, the majority of which comes from the existing customer base. Gross mortgage lending market share remained broadly in line with 2009 at 12%, with the Group on track to meet its Government target on net mortgage lending.
  - Customer deposits grew 10% on 2009, reflecting the strength of the UK Retail customer franchise, which outperformed the market in an increasingly competitive environment. Savings balances grew by £8 billion or 13% with 1.8 million accounts opened, outperforming the market total deposit growth of 3%. Personal current account balances increased by 3% on 2009.

- Net interest income increased significantly by 18% to £4,078 million, driven by strong balance sheet growth and repricing. Net interest margin improved by 32 basis points to 3.91%, with widening asset margins partially offset by contracting liability margins in the face of a competitive deposit market.

- Non-interest income declined 13% to £1,412 million, principally reflecting the restructuring of current account overdraft fees in the final quarter of 2009.

- Expenses decreased by 5%, with the cost:income ratio (net of insurance claims) improving from 61% to 53%.
  - Direct staff costs declined by 8%, largely driven by a clear management focus on process re-engineering enabling a 7% reduction in headcount.
  - RBS continues to progress towards a more convenient, lower cost operating model, with over 4.8 million active users of online banking and a record share of

new sales achieved through direct channels. More than 7.8 million accounts have switched to paperless statements and 276 branches now utilise automated cash deposit machines.

UK Retail (continued)

Key points (continued)

2010 compared with 2009 (continued)

- Impairment losses decreased 31% to £1,160 million primarily reflecting the recovery in the economic environment.
  - o The mortgage impairment charge was £177 million (2009 - £124 million) on a total book of £91 billion. Mortgage arrears rates marginally increased in 2010 but remain below the industry average, as reported by the Council of Mortgage Lenders. Repossessions showed only a small increase on 2009, as the Group continues to support customers facing financial difficulties.
  - o The unsecured lending impairment charge was £983 million (2009 - £1,555 million) on a total book of £18 billion.

- Risk-weighted assets decreased by 5% to £48.8 billion, with lower unsecured lending, improving portfolio credit metrics and small procyclicality benefits more than offsetting growth in mortgages.

UK Corporate

	Quarter ended			Year ended	
	31 December 2010 £m	30 September 2010 £m	31 December 2009 £m	31 December 2010 £m	31 December 2009 £m
Income statement					
Net interest income	653	662	626	2,572	2,292
Net fees and commissions	251	244	222	952	858
Other non-interest income	79	80	100	371	432
Non-interest income	330	324	322	1,323	1,290
Total income	983	986	948	3,895	3,582
Direct expenses					
- staff	(198)	(186)	(212)	(778)	(753)
- other	(93)	(81)	(69)	(359)	(260)
Indirect expenses	(140)	(139)	(137)	(534)	(517)
	(431)	(406)	(418)	(1,671)	(1,530)
Impairment losses	(219)	(158)	(190)	(761)	(927)
Operating profit	333	422	340	1,463	1,125
Analysis of income by business					
Corporate and commercial lending	657	651	589	2,598	2,131
Asset and invoice finance	166	163	140	617	501
Corporate deposits	184	183	191	728	986
Other	(24)	(11)	28	(48)	(36)
Total income	983	986	948	3,895	3,582
Analysis of impairments by sector					
Banks and financial institutions	12	15	6	20	15
Hotels and restaurants	18	6	40	52	98
Housebuilding and construction	47	62	(13)	131	106
Manufacturing	(9)	2	28	1	51
Other	(12)	19	12	127	150
Private sector education, health, social work, recreational and community services	21	1	23	30	59
Property	84	34	30	245	259

Wholesale and retail trade, repairs	31	14	23	91	76
Asset and invoice finance	27	5	41	64	113
Total impairment losses	219	158	190	761	927

33

UK Corporate (continued)

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Banks and financial institutions	0.8%	1.0%	0.4%	0.3%	0.2%
Hotels and restaurants	1.1%	0.3%	2.4%	0.8%	1.5%
Housebuilding and construction	4.2%	5.5%	(1.2%)	2.9%	2.5%
Manufacturing	(0.7%)	0.2%	1.9%	-	0.9%
Other	(0.2%)	0.2%	0.2%	0.4%	0.5%
Private sector education, health, social work, recreational and community services	0.9%	-	1.4%	0.3%	0.9%
Property	1.1%	0.5%	0.4%	0.8%	0.8%
Wholesale and retail trade, repairs	1.3%	0.5%	0.9%	0.9%	0.7%
Asset and invoice finance	1.1%	0.2%	1.9%	0.6%	1.3%
	0.8%	0.6%	0.7%	0.7%	0.8%

Key metrics

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Performance ratios					
Return on equity (1)	11.8%	14.1%	10.7%	12.1%	9.4%
Net interest margin	2.57%	2.58%	2.47%	2.51%	2.22%
Cost:income ratio	44%	41%	44%	43%	43%

	31 December 2010 £bn	30 September 2010 £bn	Change	31 December 2009 £bn	Change
Capital and balance sheet					
Total third party assets	114.6	116.6	(2%)	114.9	-
Loans and advances to customers (gross)	6.1	6.0	2%	6.3	(3%)

- banks and financial institutions					
- hotels and restaurants	6.8	6.9	(1%)	6.7	1%
- housebuilding and construction	4.5	4.5	-	4.3	5%
- manufacturing	5.3	5.3	-	5.9	(10%)
- other	31.0	31.9	(3%)	29.9	4%
- private sector education, health, social work, recreational and community services	9.0	9.0	-	6.5	38%
- property	29.5	30.0	(2%)	33.0	(11%)
- wholesale and retail trade, repairs	9.6	10.2	(6%)	10.2	(6%)
- asset and invoice finance	9.9	9.7	2%	8.8	13%
	111.7	113.5	(2%)	111.6	-
Customer deposits	100.0	98.1	2%	87.8	14%
Risk elements in lending	4.0	3.3	21%	2.3	74%
Loan:deposit ratio (excluding repos)	110%	114%	(400bp)	126%	(1,600bp)
Risk-weighted assets	81.4	84.7	(4%)	90.2	(10%)

Note:

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

34

UK Corporate (continued)

Key points

Q4 2010 compared with Q3 2010

· Operating profit of £333 million was 21% lower, with income stable but impairments up by £61 million as a result of a small number of individual exposures.

· Net interest income fell by 1% due to reduced lending income. Net loans and advances to customers were marginally down from the previous quarter, with above target levels of gross new lending offset by customer deleveraging. Customer deposits grew by £2 billion with deposit gathering initiatives continuing to deliver, albeit at fine margins, reflecting an intensely competitive market.

· Non-interest income increased by 2%, supported by financial markets transaction income.

· Total costs rose 6%, reflecting further investment in strategic initiatives and an increase in costs relating to higher value of financial market transactions in the quarter.

· Impairments of £219 million were £61 million higher than Q3 2010 and slightly above recent quarterly trends, mainly due to a small number of specific impairment cases.

Q4 2010 compared with Q4 2009

· Operating profit decreased 2% to £333 million, with strong income growth offset by higher costs and specific impairments.

· Net interest income rose by 4%, driven primarily by the lending book. Net interest margin improved by 10 basis points, reflecting the progress made in repricing the loan portfolio and a more favourable funding environment.

· Non-interest income was 2% higher (£8 million), as a result of increased sales of financial market products and services and operating lease activity.

· Total costs increased 3%, driven by investment in strategic initiatives, operating lease depreciation and costs related to financial markets income.

· Impairments increased £29 million reflecting a small number of specific impairments in Q4 2010, partly offset by a reduction in latent loss provisions booked on the portfolio.

2010 compared with 2009

· Operating profit grew by £338 million, 30%, compared with 2009, driven by strong income growth and significantly lower impairments, partially offset by higher costs.

- UK Corporate performed strongly in the deposit market, with customer deposit balance growth of £12 billion contributing to a 16 percentage point improvement in the loan to deposit ratio in 2010. While customer lending increased only marginally (with gross lending largely offset by customer deleveraging) net interest income rose by £280 million, 12%, and net interest margin rose by 29 basis points driven primarily by the good progress made on loan repricing.

- Non-interest income increased 3% reflecting strong refinancing levels and increased operating lease activity, partially offset by lower sales of financial market products.

- Total costs increased 9% (£141 million) or 5% excluding the OFT penalty in Q1 2010, legal recovery in 2009 and the normalisation of staff compensation phasing.

- Impairments were 18% lower, primarily as a result of higher charges taken during the first half of 2009 to reflect potential losses in the portfolio not yet specifically identified.

- Return on equity increased from 9.4% to 12.1%, reflecting higher operating profit and lower RWAs as a result of improved risk metrics.

Wealth

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
	£m	£m	£m	£m	£m
Income statement					
Net interest income	160	156	161	609	663
Net fees and commissions	94	90	91	376	363
Other non-interest income	17	18	22	71	83
Non-interest income	111	108	113	447	446
Total income	271	264	274	1,056	1,109
Direct expenses					
- staff	(96)	(95)	(107)	(382)	(357)
- other	(29)	(39)	(25)	(142)	(144)
Indirect expenses	(53)	(55)	(43)	(210)	(155)
	(178)	(189)	(175)	(734)	(656)
Impairment losses	(6)	(1)	(10)	(18)	(33)
Operating profit	87	74	89	304	420
Analysis of income					
Private banking	220	217	223	857	916
Investments	51	47	51	199	193
Total income	271	264	274	1,056	1,109

Key metrics

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Performance ratios					
Return on equity (1)	21.0%	18.2%	24.0%	18.9%	30.3%
Net interest margin	3.32%	3.44%	3.94%	3.37%	4.38%
Cost:income ratio	66%	72%	64%	70%	59%

	31 December	30 September	31 December

	2010 £bn	2010 £bn	Change	2009 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	7.8	7.5	4%	6.5	20%
- personal	6.7	6.5	3%	4.9	37%
- other	1.6	1.5	7%	2.3	(30%)
	16.1	15.5	4%	13.7	18%
Customer deposits	36.4	34.8	5%	35.7	2%
Assets under management (excluding deposits)	32.1	31.1	3%	30.7	5%
Risk elements in lending	0.2	0.2	-	0.2	-
Loan:deposit ratio (excluding repos)	44%	44%	-	38%	600bp
Risk-weighted assets	12.5	12.1	3%	11.2	12%

Note:

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

Wealth (continued)

Key points

Q4 2010 compared with Q3 2010

- Operating profit increased 18% to £87 million in the fourth quarter, with stronger investment fee income and a reduction in expenses.

- Total income increased 3% in Q4 2010 with net interest income also up 3%, primarily driven by growth in UK lending. Non-interest income rose 3% reflecting growth in assets under management and improved investment margins.

- Deposits saw strong growth of 5%, reflecting the impact of new product launches within the UK and offshore markets. Pricing competition on new products has further compressed net interest margin, which narrowed by 12 basis points.

- Loans and advances continued to grow strongly, increasing 4% in the quarter, primarily driven by UK mortgage lending, which rose by £300 million.

Q4 2010 compared with Q4 2009

- Q4 2010 operating profit was 2% lower than Q4 2009. Marginally lower income and an increase in expenses were partially offset by a fall in impairments.

- Deposits grew 2%, with growth most evident in the UK, where a number of new products were successfully launched in the quarter. These included notice accounts and fixed term products.

- Lending performance was particularly strong, with strong client demand (especially in the UK) driving an 18% growth in balances and average lending margins improving by 29 basis points.

2010 compared with 2009

- 2010 operating profit fell by 28% driven by lower net interest income and higher expenses, partly offset by a 45% decline in impairments in the year.

- Income declined by 5% primarily due to lower net interest income. Strong lending and investment income was offset by the impact of a competitive deposit market.

- Expenses grew by 12% to £734 million. Direct expenses were up 5%, £23 million reflecting additional strategic investment. Indirect expenses increased by £55 million reflecting a change in allocation of Business Services costs.

- Assets under management grew by 5% largely through improving market conditions. On a constant currency basis, assets fell 2% with valuation gains being offset by client losses in the international businesses, resulting from the private banker attrition previously experienced.

Global Transaction Services

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
	£m	£m	£m	£m	£m
Income statement					
Net interest income	263	257	233	974	912
Non-interest income	375	411	404	1,587	1,575
Total income	638	668	637	2,561	2,487
Direct expenses					
- staff	(105)	(100)	(102)	(411)	(371)
- other	(51)	(38)	(51)	(159)	(161)
Indirect expenses	(212)	(218)	(256)	(894)	(943)
	(368)	(356)	(409)	(1,464)	(1,475)
Impairment losses	(3)	(3)	(4)	(9)	(39)
Operating profit	267	309	224	1,088	973
Analysis of income by product					
Domestic cash management	207	216	197	818	805
International cash management	223	200	203	801	734
Trade finance	81	81	67	309	290
Merchant acquiring	80	123	128	451	505
Commercial cards	47	48	42	182	153
Total income	638	668	637	2,561	2,487

Key metrics

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Performance ratios					
Return on equity (1)	42.7%	47.8%	36.7%	42.8%	42.2%
Net interest margin	6.19%	6.72%	9.81%	6.73%	9.22%
Cost:income ratio	58%	53%	64%	57%	59%

	31 December 2010 £bn	30 September 2010 £bn	Change	31 December 2009 £bn	Change
Capital and balance sheet					
Total third party assets	25.2	24.2	4%	18.4	37%
Loans and advances	14.4	14.4	-	12.7	13%
Customer deposits	69.9	65.4	7%	61.8	13%
Risk elements in lending	0.1	0.2	(50%)	0.2	(50%)
Loan:deposit ratio (excluding repos)	21%	22%	(100bp)	21%	-
Risk-weighted assets	18.3	18.6	(2%)	19.1	(4%)

Note:

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

Key points

Q4 2010 compared with Q3 2010

- Operating profit decreased 14%, or 13% at constant exchange rates, reflecting the sale of GMS, which completed on 30 November 2010. Adjusting for the disposal, operating profit decreased 6%.

- For the two months in Q4 before completion of the disposal, GMS recorded income of £80 million, total expenses of £50 million and an operating profit of £30 million compared with £123 million income, total expenses of £67 million and an operating profit of £56 million for Q3.

- For the remainder of the business, overall income was marginally higher, with a strong increase in revenues from International Cash Management products.

- Expenses increased by 3% or 2% on a constant foreign exchange basis and 8% excluding GMS, driven by higher marketing costs and investment in front office and support infrastructure.

- Customer deposits increased by 7% to £69.9 billion as a result of higher international cash management balances. The loan to deposit ratio has fallen 100 basis points to 21%.

- Third party assets increased by £1 billion, or £2 billion excluding GMS, due to an increase in Trade Finance loans and advances, partly offset by a decrease in loans and advances to banks.

Q4 2010 compared with Q4 2009

- Operating profit increased 19%, or 14% on a constant foreign exchange basis, with income broadly flat but a 10% decrease in costs. Adjusting for the disposal, operating profit increased 38%.

- Total income remained broadly flat. Excluding GMS, income rose by 10% reflecting higher deposit balances, a strong performance in both Trade Finance and International Cash Management with improved Commercial Card transaction volumes partially offset by tighter deposit margins.

- Expenses decreased by 10%, or 8% on a constant foreign exchange basis and 5% excluding GMS, driven largely by the realisation of cost saving initiatives and the timing of investment spend.

- Customer deposits increased by £8.1 billion, or 13%, to £69.9 billion, driven by growth in interest-bearing balances in the International Cash Management business. Loans and advances increased by £1.7 billion, 13% to £14.4 billion mainly driven by growth in the Trade Finance business.

2010 compared with 2009

- Operating profit increased 12%, or 10% on a constant foreign exchange basis, driven by a robust income performance (which has more than compensated for the loss of GMS income), good cost control and lower impairments. Adjusting for the disposal operating profit increased 21%.

- For the eleven months before disposal, GTS booked income of £451 million and total expenses of £244 million for GMS, generating an operating profit of £207 million.

Global Transaction Services (continued)

Key points

2010 compared with 2009 (continued)

- Income was up 3%, or 6% excluding GMS, reflecting higher deposit volumes in the International Cash Management business, growth in the Trade Finance business and improved Commercial Card transaction volumes.

- Expenses were broadly in line with 2009, at £1,464 million, as increased investment in front office and support infrastructure was mitigated by tight management of business costs.

- Third party assets increased by £6.8 billion, or £7.6 billion excluding GMS, as Yen clearing activities were brought in-house and loans and advances increased.

See Appendix 1 for impacts of GMS disposal.

Ulster Bank

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
	£m	£m	£m	£m	£m
Income statement					
Net interest income	187	192	194	761	780
Net fees and commissions	40	38	98	156	228
Other non-interest income	16	14	(7)	58	26
Non-interest income	56	52	91	214	254
Total income	243	244	285	975	1,034
Direct expenses					
- staff	(57)	(54)	(76)	(237)	(325)
- other	(17)	(18)	(13)	(74)	(86)
Indirect expenses	(64)	(62)	(123)	(264)	(342)
	(138)	(134)	(212)	(575)	(753)
Impairment losses	(376)	(286)	(348)	(1,161)	(649)
Operating loss	(271)	(176)	(275)	(761)	(368)
Analysis of income by business					
Corporate	122	120	146	521	580
Retail	124	124	114	465	412
Other	(3)	-	25	(11)	42
Total income	243	244	285	975	1,034
Analysis of impairments by sector					
Mortgages	159	69	20	294	74
Corporate					
- property	69	107	233	375	306
- other corporate	135	100	83	444	203
Other lending	13	10	12	48	66
Total impairment losses	376	286	348	1,161	649

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	3.0%	1.3%	0.5%	1.4%	0.5%
Corporate					
- property	5.1%	8.15	9.2%	6.9%	3.0%
- other corporate	6.0%	4.3%	3.0%	4.9%	1.8%
Other lending	4.0%	2.4%	2.0%	3.7%	2.7%
	4.1%	3.0%	3.5%	3.1%	1.6%

41

Ulster Bank (continued)

Key metrics

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Performance ratios					
Return on equity (1)	(29.8%)	(20.2%)	(32.4%)	(21.0%)	(11.7%)
Net interest margin	1.78%	1.90%	1.83%	1.84%	1.87%
Cost:income ratio	57%	55%	74%	59%	73%

	31 December 2010 £bn	30 September 2010 £bn	Change	31 December 2009 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	21.2	21.4	(1%)	16.2	31%
- corporate					
- property	5.4	5.3	2%	10.1	(47%)
- other corporate	9.0	9.4	(4%)	11.0	(18%)
- other lending	1.3	1.7	(24%)	2.4	(46%)
	36.9	37.8	(2%)	39.7	(7%)
Customer deposits	23.1	23.4	(1%)	21.9	5%
Risk elements in lending					
- mortgages	1.5	1.4	7%	0.6	150%
- corporate					
- property	0.7	0.6	17%	0.7	-
- other corporate	1.2	1.0	20%	0.8	50%
- other lending	0.2	0.2	-	0.2	-
	3.6	3.2	13%	2.3	57%
Loan:deposit ratio (excluding repos)	152%	156%	(400bp)	177%	(2,500bp)
Risk-weighted assets	31.6	32.6	(3%)	29.9	6%

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

Key points

Q4 2010 compared with Q3 2010

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An operating loss of £271 million for the quarter was £95 million higher than Q3 2010, reflecting an increase in impairment losses.

- Net interest income decreased by 6%, at constant exchange rates largely driven by higher wholesale market funding costs, resulting in a 12 basis points reduction in net interest margin to 1.78% for the quarter.

- Loans to customers decreased by 2% in constant currency terms reflecting further maturing of the loan book and muted new business levels. Customer deposits have remained stable despite challenging market conditions, with strong growth in both current and savings accounts offset by lower wholesale balances, primarily driven by deterioration in the Republic of Ireland's sovereign debt ratings during the period.

Ulster Bank (continued)

Key points (continued)

Q4 2010 compared with Q3 2010 (continued)

- Non-interest income increased by 7% in constant currency terms, reflecting a strong performance in fees across the corporate and retail businesses.

- Expenses decreased by 4% on a constant currency basis, mainly driven by savings on business support services during the period.

- Impairment losses increased to £376 million, up £90 million from Q3 2010, reflecting emerging losses on a deteriorating loan book where, in line with market trends, customer credit quality has worsened and has been impacted by further decline in Irish house prices.

Q4 2010 compared with Q4 2009

- Net interest income was 1% higher on a constant currency basis, with loan pricing actions partly offset by higher funding costs. Net interest margin has reduced by 5 basis points over the period, reflecting increased liquidity reserves.

- Non-interest income decreased by 36% on a constant currency basis, reflecting a non-recurring gain of £38 million in Q4 2009. Excluding this gain, non-interest income was broadly flat.

- Expenses fell by 35% in constant currency terms reflecting continued management focus on cost control coupled with a decrease in property charges.

- Impairment charges increased by 13% on a constant currency basis, largely driven by higher losses on the mortgage portfolio.

2010 compared with 2009

- Overall performance deteriorated in 2010, largely as a result of an increase in impairment losses of £512 million. Operating profit before impairment increased to £400 million, up 50% in constant currency terms, driven by the culmination of a bank-wide cost saving programme during 2010.

- Net interest income increased by 1% on a constant currency basis as actions to increase asset margins were largely eroded by tightening deposit margins due to intensive market competition.

- Non-interest income was 14% lower on a constant currency basis reflecting a non-recurring gain in Q4 2009.

- Loans to customers fell by 5% in constant currency terms. As previously disclosed, on 1 July 2010 the division transferred a portfolio of development property assets to the Non-Core division, partially offset by a simultaneous transfer of a portfolio of retail mortgage assets to the core business.

- Despite intense competition, customer deposit balances increased by 8% in constant currency terms over the year with strong growth across all deposit categories, driven by a focus on improving the bank's funding profile.

- Expenses at constant exchange rates were 22% lower. The strong year-on-year performance in expenses was primarily driven by an increased focus on active management of the cost base, and the benefits derived from the business restructuring and cost-saving programme which commenced in 2009.

Ulster Bank (continued)

Key points (continued)

2010 compared with 2009 (continued)

- Impairment losses increased by £512 million to £1,161 million reflecting the deteriorating economic environment in Ireland and rising default levels across both personal and corporate portfolios. Lower asset values, particularly in property-related lending together with pressure on borrowers with a dependence on consumer spending have resulted in higher corporate loan losses, while higher unemployment, lower incomes and increased taxation have driven mortgage impairment increases.

- Risk-weighted assets have increased due to deteriorating credit risk metrics.

- Customer numbers increased by 3% during 2010, with a strong performance in current and savings accounts switchers.

US Retail & Commercial (£ Sterling)

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
	£m	£m	£m	£m	£m
Income statement					
Net interest income	467	480	423	1,917	1,775
Net fees and commissions	169	180	148	729	714
Other non-interest income	62	91	73	300	235
Non-interest income	231	271	221	1,029	949
Total income	698	751	644	2,946	2,724
Direct expenses					
- staff	(204)	(214)	(200)	(784)	(776)
- other	(124)	(148)	(130)	(569)	(593)
Indirect expenses	(201)	(191)	(180)	(770)	(766)
	(529)	(553)	(510)	(2,123)	(2,135)
Impairment losses	(105)	(125)	(153)	(517)	(702)
Operating profit/(loss)	64	73	(19)	306	(113)
Average exchange rate - US$/£	1.581	1.551	1.633	1.546	1.566
Analysis of income by product					
Mortgages and home equity	128	142	115	509	499
Personal lending and cards	113	127	115	476	451
Retail deposits	206	223	195	903	828
Commercial lending	141	145	134	580	542
Commercial deposits	75	78	108	320	398
Other	35	36	(23)	158	6
Total income	698	751	644	2,946	2,724
Analysis of impairments by sector					
Residential mortgages	3	14	8	58	72
Home equity	26	56	13	126	167
Corporate and commercial	54	23	92	202	326
Other consumer	6	28	40	97	137

Securities	16	4	-	34	-
Total impairment losses	105	125	153	517	702
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.2%	0.9%	0.5%	1.0%	1.1%
Home equity	0.7%	1.5%	0.3%	0.8%	1.1%
Corporate and commercial	1.1%	0.5%	1.9%	1.0%	1.7%
Other consumer	0.3%	1.6%	2.1%	1.4%	1.8%
	0.7%	1.0%	1.3%	1.0%	1.4%

US Retail & Commercial (£ Sterling) (continued)

Key metrics

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Performance ratios					
Return on equity (1)	3.3%	3.3%	(0.9%)	3.6%	(1.3%)
Net interest margin	3.02%	2.92%	2.45%	2.85%	2.37%
Cost:income ratio	76%	74%	79%	72%	78%

	31 December 2010 £bn	30 September 2010 £bn	Change	31 December 2009 £bn	Change
Capital and balance sheet					
Total third party assets	71.2	72.4	(2%)	75.4	(6%)
Loans and advances to customers (gross)					
- residential mortgages	6.1	6.2	(2%)	6.5	(6%)
- home equity	15.2	15.3	(1%)	15.4	(1%)
- corporate and commercial	20.4	19.8	3%	19.5	5%
- other consumer	6.9	6.8	1%	7.5	(8%)
	48.6	48.1	1%	48.9	(1%)
Customer deposits (excluding repos)	58.7	60.5	(3%)	60.1	(2%)
Risk elements in lending					
- retail	0.4	0.4	-	0.4	-
- commercial	0.5	0.4	25%	0.2	150%
	0.9	0.8	13%	0.6	50%
Loan:deposit ratio (excluding repos)	81%	78%	300bp	80%	100bp
Risk-weighted assets	57.0	64.1	(11%)	59.7	(5%)
Spot exchange rate - US$/£	1.552	1.570		1.622	

Note:

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

Key points

· Sterling strengthened relative to the US dollar during the fourth quarter, with the average exchange rate increasing by 2% compared with Q3 2010.

- Performance is described in full in the US dollar-based financial statements set out on pages 47 and 48.

US Retail & Commercial (US Dollar)

	Quarter ended			Year ended	
	31 December 2010 $m	30 September 2010 $m	31 December 2009 $m	31 December 2010 $m	31 December 2009 $m
Income statement					
Net interest income	739	745	690	2,962	2,777
Net fees and commissions	267	280	245	1,126	1,119
Other non-interest income	100	139	120	465	368
Non-interest income	367	419	365	1,591	1,487
Total income	1,106	1,164	1,055	4,553	4,264
Direct expenses					
- staff	(322)	(332)	(325)	(1,212)	(1,214)
- other	(197)	(230)	(215)	(880)	(929)
Indirect expenses	(317)	(296)	(294)	(1,189)	(1,196)
	(836)	(858)	(834)	(3,281)	(3,339)
Impairment losses	(168)	(193)	(252)	(799)	(1,099)
Operating profit/(loss)	102	113	(31)	473	(174)
Analysis of income by product					
Mortgages and home equity	201	220	188	786	781
Personal lending and cards	179	196	188	735	706
Retail deposits	329	345	320	1,397	1,296
Commercial lending	223	225	219	896	848
Commercial deposits	119	122	176	495	624
Other	55	56	(36)	244	9
Total income	1,106	1,164	1,055	4,553	4,264
Analysis of impairments by sector					
Residential mortgages	5	22	14	90	113
Home equity	40	88	23	194	261
Corporate and commercial	87	35	150	312	510
Other consumer	11	42	65	150	215
Securities	25	6	-	53	-
Total impairment losses	168	193	252	799	1,099

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.2%	0.9%	0.5%	1.0%	1.1%
Home equity	0.7%	1.5%	0.4%	0.8%	1.0%
Corporate and commercial	1.1%	0.5%	1.9%	1.0%	1.6%
Other consumer	0.4%	1.6%	2.1%	1.4%	1.8%
	0.8%	1.0%	1.3%	1.0%	1.4%

47

US Retail & Commercial (US Dollar) (continued)

Key metrics

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
Performance ratios					
Return on equity (1)	3.3%	3.3%	(0.9%)	3.6%	(1.3%)
Net interest margin	3.02%	2.92%	2.45%	2.85%	2.37%
Cost:income ratio	76%	74%	79%	72%	78%

	31 December 2010 $bn	30 September 2010 $bn	Change	31 December 2009 $bn	Change
Capital and balance sheet					
Total third party assets	110.5	113.7	(3%)	122.3	(10%)
Loans and advances to customers (gross)					
- residential mortgages	9.4	9.7	(3%)	10.6	(11%)
- home equity	23.6	24.0	(2%)	25.0	(6%)
- corporate and commercial	31.7	31.1	2%	31.6	-
- other consumer	10.6	10.7	(1%)	12.1	(12%)
	75.3	75.5	-	79.3	(5%)
Customer deposits (excluding repos)	91.2	95.1	(4%)	97.4	(6%)
Risk elements in lending					
- retail	0.7	0.7	-	0.6	17%
- commercial	0.7	0.6	17%	0.4	75%
	1.4	1.3	8%	1.0	40%
Loan:deposit ratio (excluding repos)	81%	78%	300bp	80%	100bp
Risk-weighted assets	88.4	100.7	(12%)	96.9	(9%)

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

Key points

Q4 2010 compared with Q3 2010

· US Retail & Commercial returned a profit for the fourth consecutive quarter, posting an operating profit of £64 million ($102 million) compared with £73 million ($113 million) in the prior quarter. The decrease was substantially driven by the effects of legislative changes, principally related to the implementation of Regulation E, and lower mortgage banking income which decreased income by £13 million ($21 million). Economic conditions in the division's core regions remain difficult, with lingering high unemployment, a low interest rate environment, soft housing market and subdued consumer activity.

- Regulation E prohibits financial institutions from charging consumers fees for paying overdrafts on automated teller machine (ATM) and one-off debit card transactions, unless a consumer consents, or opts in, to the overdraft service for those types of transactions.

- Net interest income was down 1%. Loans and advances were in line with the previous quarter but net interest income continued to be negatively impacted by older, high-yielding housing related loans and securities running off and being replaced with lower yielding assets.

- Customer deposits decreased 4%, principally through balance loss from higher cost term and time products, reflecting the continued impact of a changed pricing strategy. However, consumer checking balances grew by 1% and small business checking balances grew by 4%.

US Retail & Commercial (US Dollar) (continued)

Key points (continued)

Q4 2010 compared with Q3 2010 (continued)

- Net interest margin improved by 10 basis points to 3.02% substantially driven by the full quarter impact from a balance sheet restructuring carried out during the previous quarter.

- Non-interest income was down 12%, reflecting a fall in mortgage banking income as rates rose from record low rates in the prior quarter, leading to a decrease in applications and lower gains on sales to the secondary market. Lower deposit fees of £9 million ($14 million) as a result of a full quarter impact of Regulation E legislative changes also impacted the quarterly movement, as did a gain on the sale of student loans of £9 million ($14 million) recognised in Q3 2010.

- Total expenses were down 3%, driven by the positive impact of higher mortgage banking rates in Q4 2010 on the valuation of mortgage servicing rights and lower Federal Deposit Insurance Corporation (FDIC) deposit insurance levies of £18 million ($28 million), partially offset by increased litigation costs.

- Impairment losses were down 13% reflecting a continued improvement in the underlying credit environment, offset by higher impairments related to securities.

Q4 2010 compared with Q4 2009

- Operating profit increased to £64 million ($102 million) from an operating loss of £19 million ($31 million) largely reflecting higher net interest margins and lower impairments.

- Net interest income was up 7% with net interest margin improving by 57 basis points to 3.02%. The margin improvement was primarily due to changes in deposit mix and new deposit pricing strategies, as well as a positive impact from a balance sheet restructuring carried out during Q3 2010.

- Customer deposits were down 6%, reflecting the impact of a changed pricing strategy on low margin term and time products partly offset by strong growth achieved in checking balances. Consumer checking balances grew by 6% while small business checking balances grew by 11%.

- Non-interest income was in line with Q4 2009 reflecting higher mortgage banking income, commercial banking fees and higher gains on the sale of securities offsetting lower fees impacted by Regulation E legislative changes in 2010.

- Total expenses were broadly in line with Q4 2009.

- Impairment losses declined 33%, following a gradual improvement in the underlying credit environment offset by higher impairments related to securities.

Key points (continued)

2010 compared with 2009

- Operating profit of £306 million ($473 million) represented a marked improvement from an operating loss of £113 million ($174 million) with income up 7%, expenses down 2% and impairment losses down 27%.

- Net interest income was up 7%, despite a smaller balance sheet, with net interest margin improving by 48 basis points to 2.85%.

- Non-interest income was up 7% reflecting higher mortgage banking and debit card income, commercial banking fees and higher gains on securities realisations. This was partially offset by lower deposit fees which were impacted by Regulation E legislative changes in 2010. In addition, gains of £213 million ($330 million) were recognised on the sale of available-for-sale securities as part of the balance sheet restructuring exercise, but these were almost wholly offset by losses crystallised on the termination of swaps hedging fixed-rate funding.

- Total expenses were down 2%, reflecting a £74 million ($113 million) credit related to changes to the defined benefit pension plan in Q2 2010, and lower FDIC deposit insurance levies, partially offset by the impact of changing rates on the valuation of mortgage servicing rights and litigation costs.

- Impairment losses declined 27%, following significant loan reserve building in 2009 and a gradual improvement in the underlying credit environment, offset by higher impairments related to securities. Loan impairments as a proportion of loans and advances decreased from 1.4% to 1.0%.

Global Banking & Markets

	Quarter ended			Year ended	
	31 December 2010	30 September 2010	31 December 2009	31 December 2010	31 December 2009
	£m	£m	£m	£m	£m
Income statement					
Net interest income from banking activities	245	317	416	1,276	2,424
Funding costs of rental assets	(31)	(8)	(10)	(61)	(49)
Net interest income	214	309	406	1,215	2,375
Net fees and commissions receivable	381	354	248	1,283	1,144
Income from trading activities	957	619	1,640	5,218	8,147
Other operating income	35	272	(331)	196	(608)
Non-interest income	1,373	1,245	1,557	6,697	8,683
Total income	1,587	1,554	1,963	7,912	11,058
Direct expenses					
- staff	(554)	(621)	(636)	(2,693)	(2,904)
- other	(292)	(166)	(190)	(842)	(777)
Indirect expenses	(219)	(218)	(242)	(862)	(979)
	(1,065)	(1,005)	(1,068)	(4,397)	(4,660)
Impairment losses	5	40	(130)	(151)	(640)
Operating profit	527	589	765	3,364	5,758
Analysis of income by product					
Rates - money markets	(65)	38	108	65	1,714
Rates - flow	413	402	615	1,985	3,142
Currencies & commodities					