

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
May 02, 2014

FORM 6-K
SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

Report of Foreign Private Issuer

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

For May 02, 2014

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(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-

The following information was issued as a Company announcement in London, England and is furnished pursuant to General Instruction B to the General Instructions to Form 6-K:

Interim Management Statement

Q1 2014

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Forward-looking statements

Certain sections in this document contain 'forward-looking statements' as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words 'expect', 'estimate', 'project', 'anticipate', 'believe', '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 and new strategic plans, divestments, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; discretionary coupon and dividend payments; implementation of legislation of ring-fencing and bail-in measures; sustainability targets; litigation, regulatory and governmental investigations; the Group’s future financial performance; the level and extent of future impairments and write-downs; and the Group’s exposure to political risks, including the referendum on Scottish independence, credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the ability to implement strategic plans on a timely basis, or at all, including the simplification of the Group’s structure, the divestment of Citizens Financial Group and the exiting of assets in RBS Capital Resolution as well as the disposal of certain other assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to capital adequacy or liquidity requirements; organisational restructuring in response to legislation and regulation in the United Kingdom (UK), the European Union (EU) and the United States (US); the implementation of key legislation and regulation including the UK Financial Services (Banking Reform Act) 2013 and the proposed EU Recovery and Resolution Directive; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; litigation, government and regulatory investigations including investigations relating to the setting of LIBOR and other interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the US; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group’s operations) in the UK, the US and other countries in which the Group operates or a change in UK Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; reputational risk; 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.

Highlights

RBS reports a pre-tax profit of £1,642 million for Q1 2014, up from £826 million in Q1 2013

Operating profit(1) for the quarter was £1,501 million, up from £747 million in Q1 2013:

Operating profit in the retail and commercial banking businesses(2) was up 36% to £1,373 million, driven by good cost control and improving impairment trends, particularly in UK Corporate and Ulster Bank.

Markets operating profit was up 14% to £318 million, with costs down 15%.

RBS Capital Resolution (RCR) reduced RWA equivalents(3) by £14 billion during Q1 2014 to £51 billion, with lower than expected operating losses of £114 million.

RBS has made good progress towards the implementation of its new three segment business structure and will be reporting on this basis from Q2 2014 onwards.

With a Common Equity Tier 1 ratio of 9.4%(4) at 31 March 2014, RBS remains on track to achieve its capital targets.

“Just over two months ago, I set out our plan for making RBS the most trusted bank in the UK. Today’s results show that in steady state, RBS will be a bank that does a great job for customers while delivering good returns for our shareholders. But we still have a lot of work to do and plenty of issues from the past to reckon with. Everyone at RBS is focused squarely on doing everything we can to earn the trust of our customers and in the process change the banking sector for the benefit of the UK.”

Ross McEwan, Chief Executive

Key points

Q1 2014 operating performance

Income was down 2% compared with Q1 2013 at £5,053 million, with deposit repricing and a modest revival in lending volumes during the quarter leading to improvements in UK Retail and UK Corporate. Markets income was seasonally stronger than in Q4 2013 but lower than in Q1 2013, reflecting its smaller balance sheet and reduced risk levels.

Expenses were 6% lower than in Q1 2013 at £3,190 million, with Markets down 15% and other banking businesses down 3%. Incremental cost savings have been delivered principally from tactical cost control initiatives. The benefits from strategic cost reduction initiatives will feed through in later quarters.

Impairments were down £671 million from Q1 2013, with significant improvements in Ulster Bank, down 80% and UK Corporate, down 66%. Impairments in RCR totalled £108 million in Q1 2014 whereas Non-Core totalled £433 million in Q1 2013. The quarter benefited from no meaningful single name impairments.

Risk elements in lending decreased by £2.0 billion to £37.4 billion, as a percentage of loans represented 9.0% (31 December 2013 - 9.4%).

Operating profit totalled £1,501 million, up from £747 million in Q1 2013, driven by stronger business performance in UK Retail and UK Corporate, together with the turnaround at Ulster Bank, which reported its first quarterly operating profit since 2009.

Q1 2014 benefited from c.£200 million of Treasury AFS gains and a £191 million profit on the sale of the remaining stake in DLG.

Profit attributable to shareholders was £1,195 million, compared with £393 million in Q1 2013 and a loss of £8,702 million in Q4 2013.

Tangible net asset value per ordinary and B share was 376p at 31 March 2014, compared with 363p at 31 December 2013.

Highlights

Balance sheet

Funded assets were £130 billion lower than in Q1 2013 at £746 billion, principally driven by the reshaping of the Markets balance sheet. Compared with Q4 2013, funded assets were up £7 billion, reflecting a limited pick-up in client driven trading activity in Markets and stronger lending volumes, particularly in UK mortgages.

Gross new mortgage lending in Q1 2014 was £4.4 billion in UK Retail, a market share of 9.5%, including more than 4,700 approvals assisting young people and families to buy their first home through the Government's Help to Buy scheme. Net new lending of £1.2 billion took the UK Retail mortgage portfolio to more than £100 billion for the first time.

Modest growth resumed in the UK Corporate loan book. SMEs drew down £2.4 billion of new term lending in Q1 2014, up 23% from Q1 2013, with net term lending to trading SMEs turning positive.

Total net lending flows reported within the scope of the Funding for Lending Scheme (FLS) were plus £63 million in Q1 2014. The FLS no longer includes household lending flows.

RWAs on an end-point CRR basis, were down £73 billion from Q1 2013, with approximately a third of the reduction in Markets, principally reflecting the strategic repositioning of this business.

The Common Equity Tier 1 (CET1) ratio was 9.4%(4) at 31 March 2014, compared with 8.6% at the end of 2013. RBS remains well on track to achieve its target CET1 ratio of 11% by the end of 2015 and 12% or above by the end of 2016.

RCR reduced RWA equivalents by £14 billion during Q1 2014 to £51 billion, with operating losses lower than expected at £114 million.

Building the number one bank for trust and service in the UK

RBS has made good progress towards developing detailed implementation plans for its new structure, built around three businesses: Personal & Business Banking, Commercial & Private Banking, and Corporate & Institutional Banking.

Each business is focused on delivering the customer commitments announced on 27 February 2014. In March, RBS stopped offering deals to new customers that are not available to existing customers, including 0% credit card balance transfers and teaser rates on savings accounts.

After placing 325 business specialists in branches in 2013, a further 40 experienced relationship managers have been allocated to serve our commercial customers, with a central focus on lending.

By the end of March 2014, pro-active 'Statements of Appetite' had been sent to more than 270,000 SME customers, offering in excess of £10 billion of new or additional funding.

Notes:

- (1) Operating profit before tax, own credit adjustments, Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs, regulatory and legal actions, integration and restructuring costs, gain/(loss) on redemption of own debt, write-down of goodwill and other intangible assets, amortisation of purchased intangible assets, strategic disposals, bank levy and RFS Holdings minority interest ('operating profit'). Statutory operating profit before tax was £1,642 million for the quarter ended 31 March 2014.
- (2) Retail and commercial banking businesses comprise the UK Retail, UK Corporate, Wealth, International Banking, Ulster Bank and US Retail & Commercial divisions.
- (3) RWA equivalent (RWAE) is an internal metric that measures the equity capital employed in divisions. RWAE converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RWAE by applying a multiplier. The Group applies a CET1 ratio of 10%, consistent with that used for divisional return on equity measure; this results in a CRR RWAE conversion multiplier of 10.
- (4) The disclosed Common Equity Tier 1 (CET1) ratio as at 31 March 2014 is calculated using capital which is not the actual regulatory capital, as it does not allow for the initial Dividend Access Share ('DAS') dividend which the PRA regards as foreseeable under Article 26 of the Capital Requirements Regulation. As set out on page 72, the Group will put a resolution to the independent shareholders at the Annual General Meeting on 25 June 2014 to approve the DAS Agreement; the initial dividend can only be paid if such approval is obtained. Adjusting for this contemplated dividend would reduce the disclosed CET1 ratio by 8 basis points; this remains at 9.4%.

Highlights

Building the number one bank for trust and service in the UK (continued)

Lending procedures have been changed to speed up the entire process and enable us to meet our commitment to make all but the most complex loan decisions within five days by the end of 2014. We also launched a new online loan application facility for smaller business customers in February 2014, which will be extended to larger SMEs over the course of 2014.

On 17 April 2014, Clifford Chance published its report into allegations concerning the Global Restructuring Group's treatment of SMEs. The report concluded that there was no evidence to support the principal allegation. Nevertheless, further steps have been taken to rebuild our customers' trust, including not charging default interest for the first 90 days when an SME customer defaults; improving transparency around fees charged to customers in our restructuring unit; and the wind-down of the West Register property unit.

Ulster Bank has maintained its investment in structures to support customers in financial difficulty, which has resulted in reductions in the number of mortgage customers more than 90 days in arrears in each of the last twelve months - a trend not seen elsewhere in the Irish market to date.

To improve the resilience of our IT systems, on 21 March 2014 we moved our existing single batch scheduler for NatWest, Ulster Bank Northern Ireland and Ulster Bank Republic of Ireland onto three dedicated and separate versions (RBS already runs in a separate scheduler environment). Separating the batch schedulers means that, if a problem occurs with transactions on one of these brands, it will not impact the activity taking

place to support the other two, avoiding a repeat of the 2012 system outage. This forms part of a wider programme that will help us become a simpler organisation, including investment of around £750 million over a three-year period to improve the safety, security and resilience of our IT systems.

Delivering our capital plan

Plans for the divestment of Citizens Financial Group and Williams & Glyn continue to make progress.

In February 2014 RBS completed the sale of its remaining interest in Direct Line Insurance Group, raising gross proceeds of £1,113 million. A gain of £191 million was booked in Q1 2014.

On 9 April 2014 RBS announced that it had reached agreement with HM Treasury (HMT) to provide for the future retirement of the Dividend Access Share (DAS). If the independent shareholders of RBS approve the DAS Retirement Agreement, RBS will pay HMT an initial dividend of £320 million in 2014, with a further £1.18 billion (subject to interest if not paid before 1 January 2016) payable at the Board's discretion, after which the DAS will lose its enhanced dividend rights and become a single B share.

Performance measures(1)

| | Measure | 2013 | Q1 2014 | Medium term | Long term |
|---------------------|------------------------------|----------|---------|-------------|-----------|
| Efficiency | Cost:income ratio(2) | 73% | 66% | ~55% | ~50% |
| Returns | Return on tangible equity(3) | Negative | 12.2% | ~9-11% | ~12%+ |
| Capital strength(4) | Common Equity Tier 1 ratio | 8.6% | 9.4%* | ≥12% | ≥12% |
| | Leverage ratio | 3.5% | 3.7% | 3.5-4% | ≥4% |

* Refer to footnote 4 on page 2 for further information.

Notes:

- (1) This table contains forecasts with significant contingencies. Please refer to 'Forward-looking Statements'.
- (2) Including bank levy, integration and restructuring charges and, from 2015, the EU resolution fund charge.
- (3) Calculated with tangible equity limited to a CET1 ratio of 12%.
- (4) End-point CRR basis.

Highlights

Outlook

The improvement in economic confidence has continued and modest asset growth is resuming in some segments. We expect a modest increase in the net interest margin for the remainder of the year. Markets income, in line with industry trends, is expected to be lower in the remaining quarters of the year than in Q1 2014.

RBS remains on track to deliver its target of £1 billion cost reductions in 2014. Incremental savings in the first quarter have been primarily tactical in nature, while the benefits of more strategic restructuring of the cost base will feed through later in the year. Restructuring costs are likely to be considerably higher for the remainder of the year than the rate implied by the first quarter.

While credit trends have been particularly favourable in the first quarter, for the remainder of the year impairment losses on UK and Irish portfolios, excluding RCR, are expected to continue to show some improvement over 2013.

RCR has made a good start benefiting from favourable market conditions in the first quarter. This is likely to result in RCR exceeding the 2014 target for reduction in funded assets and RWA equivalents; the overall operating loss for RCR, however, is expected to be in line with previous guidance.

The bank is making steady progress towards achieving its target CET1 ratio of 11% by the end of 2015 and 12% or above by the end of 2016. Subject to independent shareholder approval, the Group intends to pay the initial DAS dividend of £320 million to HMT in 2014; this payment was already included in the Group's capital plans.

The ongoing conduct and regulatory investigations and litigation continue to create challenges and uncertainties for RBS, as for other banks. The timing and amounts of any further settlements or redress remain uncertain.

Contacts

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Analysts and investors conference call

The Royal Bank of Scotland Group will be hosting a conference call for analysts and investors, also available via live webcast and audio call. The details are as follows:

Date: Friday 2 May 2014
Time: 9.00 am UK time
Webcast: www.rbs.com/results
Dial in details: International – +44 (0) 1452 568 172
 UK Free Call – 0800 694 8082
 US Toll Free – 1 866 966 8024

Slides

Background slides are available on www.rbs.com/results

Financial supplement

A financial supplement containing income statement and balance sheet information for the last nine quarters is available on www.rbs.com/results

Presentation of information

The financial information on pages 7 to 52 prepared using the Group's accounting policies, shows the underlying performance of the Group on a managed basis which excludes certain one-off and other items. Information is provided in this form to give a better understanding of the results of the Group's operations. Group operating profit/(loss) on this basis excludes:

- own credit adjustments;
- Payment Protection Insurance (PPI) costs;
- Interest Rate Hedging Products (IRHP) redress and related costs;
- regulatory and legal actions;
- integration and restructuring costs;
- gain/(loss) on redemption of own debt;
- write-down of goodwill and other intangible assets;
- amortisation of purchased intangible assets;
- strategic disposals;
- bank levy; and
- RFS Holdings minority interest (RFS MI).

Statutory results

The condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and related notes presented on pages 53 to 75 inclusive are on a statutory basis. Reconciliations between the managed basis and statutory basis are included in Appendix 1.

Revisions

Revised allocation of Business Services costs

In the first quarter of 2014, the Group reclassified certain costs between direct and indirect expenses for all divisions. Comparatives have been restated accordingly; the revision did not affect total expenses or operating profit.

Non-Core

Non-Core was dissolved on 31 December 2013.

RBS Capital Resolution

RBS Capital Resolution (RCR) was established on 1 January 2014 by the transfer of capital intensive and higher risk assets from existing divisions. No business lines moved to RCR and prior period segmental reporting has not been restated. The results of RCR have been reported separately for the first time in Q1 2014.

Summary consolidated income statement

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for the quarter ended 31 March 2014

| | Quarter ended | | |
|---|------------------------|------------------------------|------------------------|
| | 31 March 2014 £m | 31 December 2013 £m | 31 March 2013 £m |
| Net interest income | 2,698 | 2,767 | 2,672 |
| Non-interest income | 2,355 | 1,173 | 2,489 |
| Total income (1) | 5,053 | 3,940 | 5,161 |
| Operating expenses (2) | (3,190) | (3,247) | (3,381) |
| Operating profit before impairment losses (3) | 1,863 | 693 | 1,780 |
| Impairment losses | (362) | (5,112) | (1,033) |
| Operating profit/(loss) (3) | 1,501 | (4,419) | 747 |
| Own credit adjustments | 139 | - | 249 |
| Payment Protection Insurance costs | - | (465) | - |
| Interest Rate Hedging Products redress and related costs | - | (500) | (50) |
| Regulatory and legal actions | - | (1,910) | - |
| Integration and restructuring costs | (129) | (180) | (122) |
| Gain/(loss) on redemption of own debt | 20 | (29) | (51) |
| Write-down of goodwill | - | (1,059) | - |
| Other items | 111 | (421) | 53 |
| Operating profit/(loss) before tax | 1,642 | (8,983) | 826 |
| Tax (charge)/credit | (362) | 377 | (350) |
| Profit/(loss) from continuing operations | 1,280 | (8,606) | 476 |
| Profit from discontinued operations, net of tax | 9 | 15 | 129 |
| Profit/(loss) for the period | 1,289 | (8,591) | 605 |
| Non-controlling interests | (19) | 3 | (131) |
| Other owners' dividends | (75) | (114) | (81) |
| Profit/(loss) attributable to ordinary and B shareholders | 1,195 | (8,702) | 393 |

Notes:

- (1) Excluding own credit adjustments, gain/(loss) on redemption of own debt, strategic disposals and RFS Holdings minority interest.
- (2) Excluding PPI costs, IRHP redress and related costs, regulatory and legal actions, integration and restructuring costs, amortisation of purchased intangible assets, bank levy, write down of goodwill and other intangible assets and RFS Holdings minority interest.
- (3) Operating profit before tax, own credit adjustments, PPI costs, IRHP redress and related costs, regulatory and legal actions, integration and restructuring costs, gain/(loss) on redemption of own debt, write down of goodwill and other intangible assets, amortisation of purchased intangible assets, strategic disposals, bank levy and RFS

Holdings minority interest.

Analysis of results is set out on pages 9 to 16.

Summary consolidated balance sheet
at 31 March 2014

| | 31 March 2014 £m | December 2013 £m |
|---|---------------------------|------------------------|
| Cash and balances at central banks | 69,647 | 82,659 |
| Net loans and advances to banks (1,2) | 28,302 | 27,555 |
| Net loans and advances to customers (1,2) | 390,780 | 390,825 |
| Reverse repurchase agreements and stock borrowing | 78,213 | 76,413 |
| Debt securities and equity shares | 130,498 | 122,410 |
| Settlement balances | 16,900 | 5,591 |
| Intangible assets | 12,428 | 12,368 |
| Other assets (3) | 19,708 | 22,018 |
| Funded assets | 746,476 | 739,839 |
| Derivatives | 277,294 | 288,039 |
| Total assets | 1,023,770 | 1,027,878 |
| Bank deposits (2,4) | 35,371 | 35,329 |
| Customer deposits (2,4) | 401,276 | 414,396 |
| Repurchase agreements and stock lending | 88,776 | 85,134 |
| Debt securities in issue | 61,755 | 67,819 |
| Settlement balances | 17,175 | 5,313 |
| Short positions | 37,850 | 28,022 |
| Subordinated liabilities | 24,139 | 24,012 |
| Other liabilities (3) | 21,986 | 23,112 |
| Liabilities excluding derivatives | 688,328 | 683,137 |
| Derivatives | 274,506 | 285,526 |
| Total liabilities | 962,834 | 968,663 |
| Non-controlling interests | 612 | 473 |
| Owners' equity | 60,324 | 58,742 |
| Total liabilities and equity | 1,023,770 | 1,027,878 |
| Memo: Tangible equity (5) | 42,604 | 41,082 |

Notes:

- (1) Excludes reverse repurchase agreements and stock borrowing.
- (2) Excludes disposal groups.

- (3) Includes disposal groups.
- (4) Excludes repurchase agreements and stock lending.
- (5) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets.

Key points

31 March 2014 compared with 31 December 2013

- Funded assets increased by £6.6 billion to £746 billion as client driven trading activity returned from seasonal lows in Markets.
- Net loans and advances to customers remained stable at £391 billion, with underlying lending growth across the retail and commercial banking businesses offset primarily by disposals and run-off of RCR loans.
- Customer deposits decreased by £13 billion to £401 billion, mainly in International Banking and UK Corporate, driven by deposit repricing and changes in the Group's funding strategy.

Analysis of results

| | Quarter ended | | |
|-------------------------------------|------------------|------------------|------------------|
| | 31 March 2014 | December 2013 | 31 March 2013 |
| | £m | £m | £m |
| Net interest income | | | |
| Net interest income (1) | 2,684 | 2,745 | 2,687 |
| Average interest-earning assets (1) | 512,244 | 523,946 | 560,563 |
| Net interest margin | | | |
| - Group | 2.12% | 2.08% | 1.94% |
| - RCR | (0.08%) | n/a | n/a |
| - Non-Core | n/a | (0.36%) | (0.25%) |

Note:

- (1) For further analysis and details refer to pages 56 and 57.

Key points

Q1 2014 compared with Q4 2013

- Group net interest margin (NIM) increased by 4 basis points in the quarter to 2.12% due to repricing initiatives together with lower interest-earning assets.

Net interest income fell by £61 million reflecting the lower day count. Excluding this impact, performance was stable.

Q1 2014 compared with Q1 2013

- Group NIM increased by 18 basis points, driven by repricing initiatives across a number of divisions.
- Net interest income was flat with improved margins being offset by the reduced asset base.

Analysis of results

| | Quarter ended | | |
|--------------------------------|------------------|------------------------|------------------|
| | 31 March 2014 | 31 December 2013 | 31 March 2013 |
| | £m | £m | £m |
| Non-interest income | | | |
| Net fees and commissions | 1,055 | 1,126 | 1,106 |
| Income from trading activities | 856 | 162 | 1,016 |
| Other operating income | 444 | (115) | 367 |
| Total non-interest income | 2,355 | 1,173 | 2,489 |

Key points

Q1 2014 compared with Q4 2013

- Non-interest income increased by £1,182 million, or 101%, to £2,355 million. Income from trading activities increased by £694 million to £856 million driven by a limited pick-up in client driven trading activity in Rates and favourable market movements in Asset backed products within Markets.
- Other operating income increased to £444 million as a result of gains on sales of available-for-sale securities of £213 million compared with £108 million in Q4 2013, and the non-repeat of the fair value adjustments of £333 million in Q4 2013 recognised in connection with the creation of RCR.

Q1 2014 compared with Q1 2013

- Non-interest income declined by £134 million primarily driven by de-risking in Markets. In US Retail & Commercial, fee income was affected by slower mortgage refinancing activity and lower deposit fees. This was partly offset by increased non-interest income in UK Retail and UK Corporate.

Analysis of results

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| | Quarter ended | | |
|------------------------------------|---------------|----------|----------|
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| | £m | £m | £m |
| Operating expenses | | | |
| Staff expenses | 1,647 | 1,539 | 1,821 |
| Premises and equipment | 594 | 614 | 553 |
| Other | 687 | 785 | 678 |
| Administrative expenses | 2,928 | 2,938 | 3,052 |
| Depreciation and amortisation | 262 | 309 | 329 |
| Operating expenses | 3,190 | 3,247 | 3,381 |
| Staff costs as a % of total income | 33% | 39% | 35% |
| Cost:income ratio | 63% | 82% | 66% |

Key points

Q1 2014 compared with Q4 2013

- Operating expenses decreased by £57 million, 2%, to £3,190 million. The fall was consistent across most divisions, with notable declines in UK Retail (£74 million, 10%), UK Corporate (£36 million, 6%) and US Retail & Commercial (£31 million, 6%). The increase in Markets expenses (£84 million, 15%) was driven by higher staff costs, while Ulster Bank (£6 million, 4%) included the impact of the newly introduced Irish bank levy of £4 million.
- Staff expenses were up by 7%, at £1,647 million, principally reflecting seasonal phasing of variable compensation accruals in Markets.

Q1 2014 compared with Q1 2013

- Operating expenses were down by £191 million, or 6%, mostly reflecting tactical cost reduction initiatives in the retail & commercial banking businesses together with the re-sizing of Markets.
- Staff expenses declined by £174 million, or 10%, driven by headcount reductions and lower variable compensation. Headcount was reduced by 6,300, of which 38% was in UK Retail and 21% in Markets.

Analysis of results

| | Quarter ended | | |
|-------------------|---------------|----------|----------|
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| | £m | £m | £m |
| Impairment losses | | | |

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| | | | |
|--|------|-------|-------|
| Loans | 360 | 5,131 | 1,036 |
| Securities | 2 | (19) | (3) |
| Total impairment losses | 362 | 5,112 | 1,033 |
| Loan impairment losses | | | |
| - individually assessed | 155 | 4,867 | 646 |
| - collectively assessed | 127 | 443 | 441 |
| - latent | 78 | (173) | (51) |
| Customer loans | 360 | 5,137 | 1,036 |
| Bank loans | - | (6) | - |
| Loan impairment losses | 360 | 5,131 | 1,036 |
| Group excluding RCR/Non-Core | 254 | 1,924 | 599 |
| RCR | 106 | n/a | n/a |
| Non-Core | n/a | 3,207 | 437 |
| Group (1) | 360 | 5,131 | 1,036 |
| Customer loan impairment charge as a % of gross loans and advances (2) | | | |
| Group | 0.3% | 4.9% | 0.9% |
| RCR | 1.2% | n/a | n/a |
| Non-Core | n/a | 35.3% | 3.3% |

Notes:

- (1) Includes £4,290 million pertaining to the creation of RCR and related strategy in Q4 2013.
- (2) Customer loan impairment charge as a percentage of gross customer loans and advances excludes reverse repurchase agreements and includes disposals groups.

Key points

Q1 2014 compared with Q4 2013

- Loan impairment losses totalled £360 million. Excluding the increased provisions recognised in Q4 2013 in association with the creation of RCR, impairments declined by £481 million, or 57%, driven by significant improvements in UK Corporate and Ulster Bank.
- UK Corporate saw fewer significant individual cases, while Ulster Bank credit metrics continued to improve.
- Loan impairment losses in RCR totalled £106 million, due to favourable market conditions and no significant individual losses.

Q1 2014 compared with Q1 2013

- Loan impairment losses declined by £676 million, or 65%, reflecting improving trends across the whole book.

- Ulster Bank showed significant improvements in mortgage arrears while UK Corporate and International Banking saw a reduction in the number of large single name impairments.

Analysis of results

| | Quarter ended | | |
|---|------------------|------------------|------------------|
| | 31 March 2014 | December 2013 | 31 March 2013 |
| | £m | £m | £m |
| One-off and other items | | | |
| Payment Protection Insurance costs | - | (465) | - |
| Interest Rate Hedging Products redress and related costs | - | (500) | (50) |
| Regulatory and legal actions | - | (1,910) | - |
| Integration and restructuring costs | (129) | (180) | (122) |
| Gain/(loss) on redemption of own debt | 20 | (29) | (51) |
| Write-down of goodwill | - | (1,059) | - |
| Other items | | | |
| - Amortisation of purchased intangible assets | (7) | (35) | (41) |
| - Strategic disposals** | 191 | 168 | (6) |
| - Bank levy | - | (200) | - |
| - Write-down of other intangible assets | (82) | (344) | - |
| - RFS Holdings minority interest | 9 | (10) | 100 |
| | 2 | (4,564) | (170) |
| Own credit adjustments* | 139 | - | 249 |
| One-off and other items | 141 | (4,564) | 79 |
| * Own credit adjustments impact: | | | |
| Income from trading activities | 95 | 15 | 99 |
| Other operating income | 44 | (15) | 150 |
| Own credit adjustments | 139 | - | 249 |
| ** Strategic disposals | | | |
| Gain/(loss) on sale and provision for loss on disposal of investments in: | | | |
| - Direct Line Insurance Group | 191 | - | - |
| - WorldPay | - | 159 | - |
| - Other | - | 9 | (6) |
| | 191 | 168 | (6) |

Key points

Q1 2014 compared with Q4 2013

A gain of £191 million was recorded on the disposal of the Group's remaining interest in Direct Line Insurance Group. Q4 2013 included a gain of £159 million on the disposal of the Group's remaining interest in WorldPay.

- No significant additional provisions for conduct-related matters were recorded during the quarter. Q4 2013 included £2,875 million of additional provisions for such matters.
- Own credit adjustment represented a credit of £139 million as credit spreads widened modestly, compared with no movement in the prior quarter.
- Q4 2013 included the write-down of goodwill of £1,059 million related to International Banking following an impairment review.
- Lower integration and restructuring costs were driven by a reduction in Markets downsizing costs, offset by initial expenses related to the refreshed strategic plan.

Analysis of results

Capital and leverage ratios

| | 31 March 2014 | | 31 December 2013 | | Basel 2.5 basis £bn |
|----------------------------------|--|---|-------------------------------|---|------------------------|
| | Current basis (transitional PRA basis) £bn | Estimated end-point (CRR basis) £bn | Transitional PRA basis £bn | Estimated end-point (CRR basis) £bn | |
| Capital (1) | | | | | |
| Common Equity Tier 1 capital (2) | 39.1 | 39.1 | 36.8 | 36.8 | 42.2 |
| Tier 1 | 46.4 | 39.1 | 44.3 | 36.8 | 50.6 |
| Total | 59.9 | 47.3 | 58.2 | 45.5 | 63.7 |

RWAs by risk

| | | | | | |
|--------------------|-------|-------|-------|-------|-------|
| Credit risk | | | | | |
| - non-counterparty | 295.2 | 295.2 | 317.9 | 317.9 | 291.1 |
| - counterparty | 41.3 | 41.3 | 39.1 | 39.1 | 22.3 |
| Market risk | 41.0 | 41.0 | 30.3 | 30.3 | 30.3 |
| Operational risk | 36.8 | 36.8 | 41.8 | 41.8 | 41.8 |
| | 414.3 | 414.3 | 429.1 | 429.1 | 385.5 |

| Risk asset ratios | % | % | % | % | % |
|-----------------------------------|------|------|------|------|------|
| Common Equity Tier 1 capital (2)* | 9.4 | 9.4 | 8.6 | 8.6 | 10.9 |
| Tier 1 | 11.2 | 9.4 | 10.3 | 8.6 | 13.1 |
| Total | 14.5 | 11.4 | 13.6 | 10.6 | 16.5 |

31
31 March December

| | 2014 | 2013 |
|---|------|------|
| | % | % |
| Leverage ratios (3) | | |
| CRR basis | 3.7 | 3.5 |
| Basel III basis | 3.6 | 3.4 |
| Basel Committee on Banking Supervision (BCBS) basis | 3.6 | 3.4 |

* Refer to footnote 4 on page 2 for further information.

Notes:

- (1) Capital based on Capital Requirements Directive extant at 31 March 2014 (transitional PRA basis), end-point Capital Requirements Regulation (CRR) basis and 31 December 2013 on Basel 2.5 basis.
- (2) Core Tier 1 before 1 January 2014.
- (3) Refer to pages 7 and 8 of Appendix 2 for basis of preparation.

Key points

31 March 2014 compared with 31 December 2013

- The Group's Common Equity Tier 1 ratio, on an end-point CRR basis improved to 9.4%* from 8.6%, principally driven by retained earnings and continuing reduction in RWAs.
- RWAs declined from £429 billion to £414 billion, primarily reflecting risk reduction in Markets, and disposal and run-off activity in RCR. The total reduction in RCR was £14 billion RWA equivalent, including the effects of capital deductions.

Analysis of results

| | 31 March 2014 | 31 December 2013 |
|---|---------------|------------------|
| Balance sheet | | |
| Funded balance sheet (1) | £746bn | £740bn |
| Total assets | £1,024bn | £1,028bn |
| Net loans and advances to customers (2) | £392bn | £393bn |
| Customer deposits (3) | £404bn | £418bn |
| Loan:deposit ratio - Group excluding RCR/Non-Core (4) | 93% | 89% |
| Loan:deposit ratio - Group (4) | 97% | 94% |
| Tangible net asset value per ordinary and B share (5) | 376p | 363p |
| Tier 1 leverage (6) | 15.8x | 16.4x |
| Tangible equity leverage ratio (7) | 5.8% | 5.6% |

Notes:

- (1) Funded balance sheet represents total assets less derivatives.
- (2) Excludes reverse repurchase agreements and stock borrowing, and includes disposal groups.

- (3) Excludes repurchase agreements and stock lending, and includes disposal groups.
- (4) Net of provisions, including disposal groups and excluding repurchase agreements. Excluding disposal groups, the loan:deposit ratios for Group at 31 March 2014 was 97% (31 December 2013 - 94% and 31 March 2013 - 99%).
- (5) Tangible net asset value per ordinary and B share represents total tangible equity divided by the number of ordinary shares in issue and the effect of convertible B shares.
- (6) Funded tangible assets divided by total Tier 1 capital.
- (7) Tangible equity leverage ratio represents tangible equity attributable to ordinary and B shareholders divided by funded tangible assets.

Key points

31 March 2014 compared with 31 December 2013

- Funded assets were up £6.6 billion, driven by a limited pick up in client driven trading activity in Markets and increased loan balances in the retail and commercial banking businesses.
- Net loans and advances to customers remained stable at £392 billion. Adjusting for transfers to RCR and from Non-Core, underlying loan growth improved, driven by strong mortgage lending in UK Retail and increased volumes in International Banking and US Retail & Commercial, with UK Corporate returning to modest net loan growth. This was offset primarily by disposals and run-off of RCR loans.
- Customer deposits fell by £14 billion, or 3%, to £404 billion, as the Group managed down its surplus liquidity. The customer funding surplus declined to £12 billion, while the loan:deposit ratio increased by 3 percentage points to 97%.
- Tangible net asset value per ordinary and B share increased from 363p to 376p, principally driven by retained earnings.

Analysis of results

| | 31 March 2014 | 31 December 2013 |
|---|------------------|------------------------|
| Funding and liquidity metrics | | |
| Deposits (1) | £440bn | £453bn |
| Deposits as a percentage of funded balance sheet | 59% | 61% |
| Short-term wholesale funding (2) | £31bn | £32bn |
| Wholesale funding (2) | £102bn | £108bn |
| Short-term wholesale funding as a percentage of funded balance sheet | 4% | 4% |
| Short-term wholesale funding as a percentage of total wholesale funding | 30% | 30% |
| Liquidity portfolio | £131bn | £146bn |
| Liquidity portfolio as a percentage of funded balance sheet | 18% | 20% |
| Liquidity portfolio as a percentage of short-term wholesale funding | 423% | 456% |

Notes:

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

Key points

31 March 2014 compared with 31 December 2013

- The bank remains highly liquid with short-term wholesale funding covered 4.2 times by its liquidity portfolio as at 31 March 2014 compared with 4.5 times as at 31 December 2013.
- The liquidity portfolio decreased by £15 billion, mainly driven by a targeted decrease in volatile financial institution deposits.

Divisional performance

The results of each division on a managed basis are set out below. The results are stated before movements in own credit adjustments, Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs, regulatory and legal actions, integration and restructuring costs, gain/(loss) on redemption of own debt, write-down of goodwill and other intangible assets, amortisation of purchased intangible assets, strategic disposals, bank levy and RFS Holdings minority interest.

| | Quarter ended | | |
|---|---------------|----------|----------|
| | 31 | | |
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| | £m | £m | £m |
| Operating profit before impairment losses by division | | | |
| UK Retail | 592 | 545 | 557 |
| UK Corporate | 554 | 544 | 543 |
| Wealth | 77 | 70 | 61 |
| International Banking | 120 | 107 | 149 |
| Ulster Bank | 64 | 71 | 76 |
| US Retail & Commercial | 217 | 188 | 208 |
| Markets | 320 | 73 | 294 |
| Central items | (75) | (173) | (36) |
| | 1,869 | 1,425 | 1,852 |
| RCR | (6) | n/a | n/a |
| Non-Core | n/a | (732) | (72) |
| Group operating profit before impairment losses | 1,863 | 693 | 1,780 |
| Impairment losses/(recoveries) by division | | | |
| UK Retail | 59 | 73 | 80 |
| UK Corporate | 63 | 659 | 185 |
| Wealth | (1) | 21 | 5 |
| International Banking | 10 | 47 | 55 |

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| | | | |
|-----------------------------|-----|-------|-------|
| Ulster Bank | 47 | 1,067 | 240 |
| US Retail & Commercial | 73 | 46 | 19 |
| Markets | 2 | 34 | 16 |
| Central items | 1 | 1 | - |
| | 254 | 1,948 | 600 |
| RCR | 108 | n/a | n/a |
| Non-Core | n/a | 3,164 | 433 |
| Group impairment losses (1) | 362 | 5,112 | 1,033 |

Note:

(1) Includes £4,290 million pertaining to the creation of RCR and related strategy in Q4 2013.

Divisional performance

| | Quarter ended | | |
|-------------------------------------|---------------|----------|----------|
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| | £m | £m | £m |
| Operating profit/(loss) by division | | | |
| UK Retail | 533 | 472 | 477 |
| UK Corporate | 491 | (115) | 358 |
| Wealth | 78 | 49 | 56 |
| International Banking | 110 | 60 | 94 |
| Ulster Bank | 17 | (996) | (164) |
| US Retail & Commercial | 144 | 142 | 189 |
| Markets | 318 | 39 | 278 |
| Central items | (76) | (174) | (36) |
| | 1,615 | (523) | 1,252 |
| RCR | (114) | n/a | n/a |
| Non-Core | n/a | (3,896) | (505) |
| Group operating profit/(loss) | 1,501 | (4,419) | 747 |

| | Quarter ended | | |
|---------------------------------|---------------|----------|----------|
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| | % | % | % |
| Net interest margin by division | | | |
| UK Retail | 3.59 | 3.60 | 3.49 |

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| | | | |
|---------------------------|--------|--------|--------|
| UK Corporate | 3.13 | 3.13 | 3.01 |
| Wealth | 3.72 | 3.70 | 3.55 |
| International Banking | 1.55 | 1.54 | 1.74 |
| Ulster Bank | 2.36 | 2.10 | 1.85 |
| US Retail & Commercial | 2.94 | 2.98 | 2.93 |
| RCR | (0.08) | n/a | n/a |
| Non-Core | n/a | (0.36) | (0.25) |
| Group net interest margin | 2.12 | 2.08 | 1.94 |

| | | | |
|---------------------------------|--|----------|----------|
| | | 31 | |
| | | 31 March | December |
| | | 2014 | 2013 |
| | | £bn | £bn |
| Total funded assets by division | | | |
| UK Retail | | 118.4 | 117.6 |
| UK Corporate | | 106.7 | 105.0 |
| Wealth | | 21.1 | 21.0 |
| International Banking | | 50.9 | 48.5 |
| Ulster Bank | | 26.0 | 28.0 |
| US Retail & Commercial | | 75.7 | 71.3 |
| Markets | | 228.2 | 212.8 |
| Central items | | 94.3 | 106.7 |
| | | 721.3 | 710.9 |
| RCR | | 24.3 | n/a |
| Non-Core | | n/a | 28.0 |
| | | 745.6 | 738.9 |
| RFS Holdings minority interest | | 0.9 | 0.9 |
| Group | | 746.5 | 739.8 |

Divisional performance

| | 31 March | 31 December 2013 | | 31 March |
|----------------------------------|----------|------------------|-----------|-----------|
| | 2014 | FLB3 | Basel 2.5 | 2013 |
| | FLB3 | FLB3 | Basel 2.5 | Basel 2.5 |
| | £bn | £bn | £bn | £bn |
| Risk-weighted assets by division | | | | |
| UK Retail | 43.9 | 43.9 | 43.9 | 44.5 |
| UK Corporate | 80.4 | 82.9 | 86.1 | 87.0 |
| Wealth | 12.0 | 12.0 | 12.0 | 12.5 |
| International Banking | 47.1 | 50.3 | 49.0 | 48.9 |
| Ulster Bank | 28.7 | 30.1 | 30.7 | 36.8 |
| US Retail & Commercial | 61.3 | 58.8 | 56.1 | 58.9 |

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| | | | | |
|---|-------|-------|-------|-------|
| Markets | 87.4 | 99.9 | 64.5 | 88.5 |
| Other (primarily Group Treasury) | 8.9 | 13.1 | 10.1 | 10.2 |
| | 369.7 | 391.0 | 352.4 | 387.3 |
| RCR | 40.5 | n/a | n/a | n/a |
| Non-Core | n/a | 34.2 | 29.2 | 54.6 |
| Group before RFS Holdings minority interest | 410.2 | 425.2 | 381.6 | 441.9 |
| RFS Holdings minority interest | 4.1 | 3.9 | 3.9 | 3.9 |
| Group | 414.3 | 429.1 | 385.5 | 445.8 |

| Employee numbers by division (full time equivalents rounded to the nearest hundred) | 31 | | |
|--|------------------|------------------|------------------|
| | 31 March 2014 | December 2013 | 31 March 2013 |
| UK Retail | 23,000 | 23,300 | 25,400 |
| UK Corporate | 12,800 | 13,000 | 12,900 |
| Wealth | 4,500 | 4,600 | 4,900 |
| International Banking | 4,300 | 4,400 | 4,500 |
| Ulster Bank | 4,600 | 4,700 | 5,000 |
| US Retail & Commercial | 18,500 | 18,800 | 18,800 |
| Markets | 9,100 | 9,400 | 10,400 |
| Group Centre | 10,100 | 9,800 | 9,400 |
| | 86,900 | 88,000 | 91,300 |
| RCR | 1,100 | n/a | n/a |
| Non-Core | n/a | 1,400 | 2,500 |
| | 88,000 | 89,400 | 93,800 |
| Business Services | 28,600 | 29,000 | 28,900 |
| Integration and restructuring | 100 | 200 | 300 |
| Group | 116,700 | 118,600 | 123,000 |

UK Retail

| | Quarter ended | | |
|--------------------------|------------------------|------------------------|------------------------|
| | 31 | | |
| | 31 March 2014 £m | December 2013 £m | 31 March 2013 £m |
| Income statement | | | |
| Net interest income | 994 | 1,014 | 965 |
| Net fees and commissions | 241 | 249 | 212 |

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| | | | |
|---|-------|--------|-------|
| Other non-interest income | 5 | 4 | 14 |
| Non-interest income | 246 | 253 | 226 |
| Total income | 1,240 | 1,267 | 1,191 |
| Direct expenses | | | |
| - staff | (165) | (166) | (172) |
| - other | (148) | (199) | (112) |
| Indirect expenses | (335) | (357) | (350) |
| | (648) | (722) | (634) |
| Profit before impairment losses | 592 | 545 | 557 |
| Impairment losses | (59) | (73) | (80) |
| Operating profit | 533 | 472 | 477 |
| Analysis of income by product | | | |
| Personal advances | 235 | 247 | 223 |
| Personal deposits | 142 | 116 | 103 |
| Mortgages | 638 | 665 | 628 |
| Cards | 198 | 206 | 209 |
| Other | 27 | 33 | 28 |
| Total income | 1,240 | 1,267 | 1,191 |
| Analysis of impairments by sector | | | |
| Mortgages | 1 | (13) | 10 |
| Personal | 38 | 61 | 35 |
| Cards | 20 | 25 | 35 |
| Total impairment losses | 59 | 73 | 80 |
| Loan impairment charge as % of gross customer loans and advances by sector | | | |
| Mortgages | - | (0.1%) | - |
| Personal | 1.9% | 3.0% | 1.6% |
| Cards | 1.5% | 1.7% | 2.5% |
| Total | 0.2% | 0.3% | 0.3% |

UK Retail

Key metrics

| Quarter ended | | |
|---------------|----------|----------|
| 31 | | |
| 31 March | December | 31 March |

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| | 2014 | 2013 | 2013 |
|----------------------|-------|-------|-------|
| Performance ratios | | | |
| Return on equity (1) | 26.2% | 25.5% | 25.5% |
| Net interest margin | 3.59% | 3.60% | 3.49% |
| Cost:income ratio | 52% | 57% | 53% |

| | 31 March 2014 £bn | 31 December 2013 £bn | Change | 31 March 2013 £bn | Change |
|--|-------------------------|-------------------------------|---------|-------------------------|---------|
| Capital and balance sheet | | | | | |
| Loans and advances to customers (gross) | | | | | |
| - mortgages | 100.5 | 99.3 | 1% | 99.1 | 1% |
| - personal | 7.8 | 8.1 | (4%) | 8.6 | (9%) |
| - cards | 5.5 | 5.8 | (5%) | 5.5 | - |
| | 113.8 | 113.2 | 1% | 113.2 | 1% |
| Loan impairment provisions | (1.9) | (2.1) | (10%) | (2.6) | (27%) |
| Net loans and advances to customers | 111.9 | 111.1 | 1% | 110.6 | 1% |
| Risk elements in lending | 3.3 | 3.6 | (8%) | 4.4 | (25%) |
| Provision coverage (2) | 58% | 59% | (100bp) | 58% | - |
| Customer deposits | | | | | |
| - Current accounts | 33.8 | 32.6 | 4% | 31.1 | 9% |
| - Savings | 81.0 | 82.3 | (2%) | 79.0 | 3% |
| Total customer deposits | 114.8 | 114.9 | - | 110.1 | 4% |
| Assets under management (excluding deposits) | 5.5 | 5.8 | (5%) | 6.2 | (11%) |
| Loan:deposit ratio | 98% | 97% | 100bp | 100% | (200bp) |
| Risk-weighted assets (3) | | | | | |
| - Credit risk (non-counterparty) | 36.2 | 36.1 | - | 36.7 | (1%) |
| - Operational risk | 7.7 | 7.8 | (1%) | 7.8 | (1%) |
| Total risk-weighted assets | 43.9 | 43.9 | - | 44.5 | (1%) |

Notes:

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

UK Retail

Key points

Q1 2014 compared with Q4 2013

- Operating profit increased by 13%, £61 million, driven by lower costs and impairments, with income trends remaining subdued.
- Loans and advances to customers increased due to a £1.2 billion rise in mortgage balances, partly offset by a seasonal decline in credit card balances and personal lending and the write-off of some older defaulted unsecured debt. This also reduced the level of loan impairment provisions required.
- Customer deposit balances were flat. However, the mix between fixed rate bonds and instant access accounts changed due to customers retaining cash in easy access accounts while market rates are low.
- Net interest income was 2% lower mainly due to fewer days in the quarter, an impact of £22 million. Net interest margin remained flat with improvement in savings margin in line with market pricing conditions offset by a small decline in mortgage margins as new business rates remain competitive and fixed rate funding costs increased.
- Non-interest income decreased by £7 million, or 3%, due to lower net packaged account income and seasonal impacts on transactional card income.
- Direct costs decreased by 14% due to:
 - Direct staff costs declined due to headcount reduction of 300.
 - Direct other costs decreased due to a lower FSCS levy charge of £19 million (Q4 2013 - £40 million) and a lower conduct related provision of £15 million (Q4 2013 - £50 million).
- Indirect costs decreased by 6% due to lower technology spend and corporate recharges from central efficiencies.
- Impairments were 19% lower, driven by a lower level of defaults and improvements in underlying asset quality.
- Risk elements in lending declined by £0.3 billion, 8%, as the quality of the book continued to improve and some older defaulted unsecured debt was written off. Provision coverage remains strong at 58%.

Q1 2014 compared with Q1 2013

- Operating profit increased by £56 million, 12%, reflecting higher income combined with lower impairment losses partially offset by a slight increase in costs.
- Net interest income increased by 3%, driven by improved savings margins due to pricing changes in line with the market and improved deposit mix towards instant access and away from fixed rate bonds. Income from higher mortgage balances was offset by lower income from unsecured lending.
- Non-interest income increased by 9% due to higher current account-related fee income.

- Costs were 2% higher. Staff costs were lower driven by a 9% reduction in headcount. Other costs increased due to a £23 million charge for conduct and compensation and increased marketing spend of £8 million. Indirect costs were lower with continued efficiency measures and lower corporate recharges.
- Impairments were £21 million lower due to improved asset quality and lower default volumes.

UK Corporate

| | Quarter ended | | |
|----------------------------------|------------------------|------------------------------|------------------------|
| | 31 March 2014 £m | 31 December 2013 £m | 31 March 2013 £m |
| Income statement | | | |
| Net interest income | 706 | 728 | 706 |
| Net fees and commissions | 312 | 326 | 321 |
| Other non-interest income | 85 | 75 | 57 |
| Non-interest income | 397 | 401 | 378 |
| Total income | 1,103 | 1,129 | 1,084 |
| Direct expenses | | | |
| - staff | (221) | (217) | (217) |
| - other | (93) | (134) | (103) |
| Indirect expenses | (235) | (234) | (221) |
| | (549) | (585) | (541) |
| Profit before impairment losses | 554 | 544 | 543 |
| Impairment losses | (63) | (659) | (185) |
| Operating profit | 491 | (115) | 358 |
| Analysis of income by business | | | |
| Corporate and commercial lending | 602 | 639 | 622 |
| Asset and invoice finance | 180 | 168 | 164 |
| Corporate deposits | 114 | 106 | 73 |
| Other | 207 | 216 | 225 |
| Total income | 1,103 | 1,129 | 1,084 |

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| | | | |
|--|-----------|------------|------------|
| Analysis of impairments by sector | | | |
| Financial institutions | 3 | 4 | 2 |
| Hotels and restaurants | 5 | 16 | 18 |
| Housebuilding and construction | 10 | 12 | 12 |
| Manufacturing | 10 | 20 | 8 |
| Private sector education, health, social work, recreational and community services | (3) | 33 | 25 |
| Property | 5 | 236 | 69 |
| Wholesale and retail trade, repairs | 20 | 15 | 32 |
| Asset and invoice finance | 2 | 21 | 1 |
| Shipping | (3) | 310 | 8 |
| Other | 14 | (8) | 10 |
| Total impairment losses | 63 | 659 | 185 |
| Of which RCR related (1) | - | 410 | - |

Note:

(1) Attributable to the creation of RCR and related strategy in Q4 2013.

UK Corporate

| | Quarter ended | | |
|--|------------------|------------------------|------------------|
| | 31 March 2014 | 31 December 2013 | 31 March 2013 |
| Loan impairment charge as % of gross customer loans and advances by sector | | | |
| Financial institutions | 0.2% | 0.3% | 0.2% |
| Hotels and restaurants | 0.4% | 1.4% | 1.3% |
| Housebuilding and construction | 1.2% | 1.7% | 1.5% |
| Manufacturing | 0.9% | 1.9% | 0.7% |
| Private sector education, health, social work, recreational and community services | (0.2%) | 1.6% | 1.1% |
| Property | 0.1% | 4.3% | 1.1% |
| Wholesale and retail trade, repairs | 1.0% | 0.7% | 1.5% |
| Asset and invoice finance | 0.1% | 0.7% | - |
| Shipping | (0.2%) | 19.1% | 0.4% |
| Other | 0.2% | (0.1%) | 0.1% |
| Total | 0.2% | 2.6% | 0.7% |

Key metrics

| | Quarter ended | | |
|--|---------------|----------------|----------|
| | 31 March | 31 December | 31 March |

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| | 2014 | 2013 | 2013 |
|----------------------|-------|--------|-------|
| Performance ratios | | | |
| Return on equity (1) | 14.9% | (3.4%) | 10.7% |
| Net interest margin | 3.13% | 3.13% | 3.01% |
| Cost:income ratio | 50% | 52% | 50% |

Note:

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

UK Corporate

| | 31 March 2014 £bn | 31 December 2013 £bn | Change | 31 March 2013 £bn | Change |
|---|-------------------------|-------------------------------|--------|-------------------------|---------|
| Capital and balance sheet | | | | | |
| Loans and advances to customers (gross) | | | | | |
| - financial institutions | 5.8 | 5.5 | 5% | 5.1 | 14% |
| - hotels and restaurants | 4.8 | 4.7 | 2% | 5.6 | (14%) |
| - housebuilding and construction | 3.3 | 2.9 | 14% | 3.1 | 6% |
| - manufacturing | 4.3 | 4.2 | 2% | 4.7 | (9%) |
| - private sector education, health, social work, recreational and community services | 7.9 | 8.5 | (7%) | 8.8 | (10%) |
| - property | 21.3 | 22.0 | (3%) | 24.4 | (13%) |
| - wholesale and retail trade, repairs | 8.0 | 8.2 | (2%) | 8.6 | (7%) |
| - asset and invoice finance | 13.6 | 11.7 | 16% | 11.4 | 19% |
| - shipping | 6.2 | 6.5 | (5%) | 7.7 | (19%) |
| - other | 28.0 | 28.3 | (1%) | 27.4 | 2% |
| | 103.2 | 102.5 | 1% | 106.8 | (3%) |
| Loan impairment provisions | (2.3) | (2.8) | (18%) | (2.4) | (4%) |
| Net loans and advances to customers | 100.9 | 99.7 | 1% | 104.4 | (3%) |
| Total third party assets | 106.7 | 105.0 | 2% | 109.9 | (3%) |
| Risk elements in lending | 4.6 | 6.2 | (26%) | 5.3 | (13%) |
| Provision coverage (1) | 49% | 46% | 300bp | 45% | 400bp |
| Customer deposits | 121.2 | 124.7 | (3%) | 123.9 | (2%) |
| Loan:deposit ratio | 83% | 80% | 300bp | 84% | (100bp) |
| Risk-weighted assets | | | | | |
| - Credit risk (non-counterparty) | 72.0 | 77.7 | (7%) | 78.6 | (8%) |

| | | | | | |
|--------------------|------|---------|------|------|------|
| - Operational risk | 8.4 | 8.4 | - | 8.4 | - |
| | 80.4 | 86.1(2) | (7%) | 87.0 | (8%) |

Notes:

- (1) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
- (2) On an FLB3 basis risk-weighted assets were £82.9 billion at 31 December 2013.

Key points

Q1 2014 compared with Q4 2013

- Operating profit was £491 million for the quarter, delivering a return on equity of 14.9%. Q4 2013 included £422 million of charges relating to the creation of RCR. Excluding these, underlying operating profit improved by £184 million, primarily from lower impairments and expenses partially offset by reduced income.
- Net interest income was down 3% due to fewer days in the quarter (£15 million), along with a decline in asset margin from the transfer of loans relating to the establishment of RCR. This was partially offset by increased income from deposit repricing.
- Non-interest income was down 1%, primarily from lower Markets revenue share and transaction services income.
- Total expenses were 6% lower as a result of reduced customer remediation costs, down £27 million, and the initial impacts of cost saving initiatives.
- Impairments declined by £596 million. Excluding the increased losses incurred in Q4 2013 (£410 million) relating to the creation of RCR, underlying impairments were £186 million lower, with fewer significant individual cases in the mid-to-large corporate business.

UK Corporate

Key points (continued)

Q1 2014 compared with Q4 2013 (continued)

- Loans and advances increased by 1%, driven by improved lending activity, particularly in relation to large corporate clients. Deposit volumes declined by 3% reflecting seasonal outflows and the rebalancing of the Bank's liquidity position. Consequently, the loan:deposit ratio moved to 83% from 80%.
- Risk-weighted assets on an FLB3 basis were £2.5 billion lower reflecting the net of the transfers to RCR and from Non-Core.

Q1 2014 compared with Q1 2013

- Operating profit increased 37%, primarily reflecting lower impairment charges.

Net interest income was flat as repricing of both deposits and assets was offset by lower asset volumes, reduced yields on current accounts and the transfers relating to the establishment of RCR and the cessation of Non-Core.

- Non-interest income increased by 5% due to lower derivative close-out charges and higher equity gains. These were partially offset by lower Markets revenue share and lending fees.
- Total expenses increased by 1% as higher indirect costs were partially offset by lower customer remediation costs.
- Impairments were down £122 million, primarily from improved trends in the SME business and fewer individual cases in the mid-to-large corporate business.
- The loan:deposit ratio declined 100 basis points as the deposit base contracted during Q1 2014 whilst asset volumes declined 3% as repayments outpaced new lending growth during 2013.

Wealth

| | Quarter ended | | |
|---------------------------------|---------------|----------|----------|
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| | £m | £m | £m |
| Income statement | | | |
| Net interest income | 171 | 174 | 169 |
| Net fees and commissions | 87 | 85 | 89 |
| Other non-interest income | 16 | 18 | 15 |
| Non-interest income | 103 | 103 | 104 |
| Total income | 274 | 277 | 273 |
| Direct expenses | | | |
| - staff | (94) | (79) | (103) |
| - other | (30) | (43) | (23) |
| Indirect expenses | (73) | (85) | (86) |
| | (197) | (207) | (212) |
| Profit before impairment losses | 77 | 70 | 61 |
| Impairment recoveries/(losses) | 1 | (21) | (5) |
| Operating profit | 78 | 49 | 56 |
| | | | 31 |

| | | | |
|----------------------|---------------|----------|----------|
| Analysis of income | | | |
| Private banking | 229 | 225 | 224 |
| Investments | 45 | 52 | 49 |
| Total income | 274 | 277 | 273 |
| Key metrics | | | |
| | Quarter ended | | |
| | 31 | | |
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| Performance ratios | | | |
| Return on equity (1) | 16.9% | 10.9% | 12.1% |
| Net interest margin | 3.72% | 3.70% | 3.55% |
| Cost:income ratio | 72% | 75% | 78% |

Note:

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

Wealth

| | 31 March | 31 December | Change | 31 March | Change |
|--|----------|-------------|--------|----------|--------|
| | 2014 | 2013 | | 2013 | |
| | £bn | £bn | | £bn | |
| Capital and balance sheet | | | | | |
| Loans and advances to customers (gross) | | | | | |
| - mortgages | 8.7 | 8.7 | - | 8.8 | (1%) |
| - personal | 5.6 | 5.6 | - | 5.7 | (2%) |
| - other | 2.5 | 2.5 | - | 2.7 | (7%) |
| | 16.8 | 16.8 | - | 17.2 | (2%) |
| Loan impairment provisions | (0.1) | (0.1) | - | (0.1) | - |
| Net loans and advances to customers | 16.7 | 16.7 | - | 17.1 | (2%) |
| Risk elements in lending | | | | | |
| Provision coverage (1) | 45% | 43% | 200bp | 43% | 200bp |
| Assets under management (excluding deposits) | 28.5 | 29.7 | (4%) | 30.8 | (7%) |
| Customer deposits | 36.6 | 37.2 | (2%) | 39.6 | (8%) |
| Loan:deposit ratio (excluding repos) | 45% | 45% | - | 43% | 200bp |

Risk-weighted assets

| | | | | | |
|--------------------|------|------|--------|------|--------|
| - Credit risk | | | | | |
| - non-counterparty | 10.1 | 10.0 | 1% | 10.4 | (3%) |
| - Market risk | - | 0.1 | (100%) | 0.2 | (100%) |
| - Operational risk | 1.9 | 1.9 | - | 1.9 | - |
| | 12.0 | 12.0 | - | 12.5 | (4%) |

Note:

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

Key points

Q1 2014 compared with Q4 2013

- Operating profit was £29 million higher, driven by lower expenses and impairment losses.
- Income was £3 million, 1%, lower, reflecting the impact of fewer days in the quarter.
- Expenses were 5% lower at £197 million, primarily due to the non-recurrence of a one-off UK tax treaty charge in the International business in Q4 2013 and savings from the streamlining of the business's property footprint.
- Impairments decreased by £22 million, reflecting the non-recurrence of a single specific impairment in Q4 2013.
- Client assets and liabilities were 2% lower, with the decrease in assets under management mainly driven by low margin custody asset outflows and negative market movements. Deposits were £0.6 billion lower following cyclical outflows for tax payments and repricing action in the UK. Lending remained broadly flat.

Q1 2014 compared with Q1 2013

- Operating profit increased by £22 million, as a result of lower expenses and impairments.
- Net interest income increased by £2 million, primarily driven by higher deposit spreads. Non-interest income fell by £1 million as a result of lower transaction and investment volumes in the International business.
- Expenses decreased by £15 million, 7%, reflecting savings from the streamlining of the business's property footprint, reduced headcount and the continued tight management of discretionary costs.
- Impairments were £6 million lower.

International Banking

| | Quarter ended | | |
|--|---------------|----------|----------|
| | 31 | | |
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| | £m | £m | £m |
| Income statement | | | |
| Net interest income | 180 | 173 | 197 |
| Non-interest income | 248 | 271 | 285 |
| Total income | 428 | 444 | 482 |
| Direct expenses | | | |
| - staff | (109) | (114) | (125) |
| - other | (35) | (57) | (38) |
| Indirect expenses | (164) | (166) | (170) |
| | (308) | (337) | (333) |
| Profit before impairment losses | 120 | 107 | 149 |
| Impairment losses | (10) | (47) | (55) |
| Operating profit | 110 | 60 | 94 |
| Analysis of income by product | | | |
| Cash management | 173 | 185 | 187 |
| Trade finance | 76 | 77 | 70 |
| Loan portfolio | 179 | 182 | 224 |
| Ongoing businesses | 428 | 444 | 481 |
| Run-off businesses | - | - | 1 |
| Total income | 428 | 444 | 482 |
| Analysis of impairments by sector | | | |
| Manufacturing and infrastructure | - | 20 | 40 |
| Property and construction | - | - | (14) |
| Transport and storage | - | 23 | 24 |
| Telecommunications, media and technology | (1) | - | - |
| Banks and financial institutions | - | (15) | - |
| Other | 11 | 19 | 5 |
| Total impairment losses | 10 | 47 | 55 |
| Of which RCR related (1) | - | 52 | - |
| Loan impairment charge as % of gross customer loans and advances | 0.1% | 0.5% | 0.5% |

Note:

(1) Pertaining to the creation of RCR and related strategy in Q4 2013.

| | | | | | |
|----------------------------------|------|---------|-------|------|-------|
| Risk-weighted assets | | | | | |
| - Credit risk (non-counterparty) | 43.0 | 44.3 | (3%) | 44.2 | (3%) |
| - Operational risk | 4.1 | 4.7 | (13%) | 4.7 | (13%) |
| | 47.1 | 49.0(4) | (4%) | 48.9 | (4%) |

Notes:

- (1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions) for the ongoing businesses.
- (2) Excludes disposal groups.
- (3) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
- (4) On an FLB3 basis risk-weighted assets were £50.3 billion at 31 December 2013.

International Banking

Key points

Q1 2014 compared with Q4 2013

- Operating profit was £110 million for the quarter, delivering a return on equity of 6.5%. Q4 2013 included £52 million of impairment charges on assets now transferred to RCR. Excluding these charges, underlying operating profit was slightly down, with lower revenues offset by lower costs and impairments.
- Income was down £16 million as low interest rates and the competitive environment continued to drive down margins in Cash management.
- Impairments were £37 million lower, driven by increased provisions in Q4 2013 relating to the creation of RCR and its related strategy.
- Third party assets were up 5%, driven by £0.9 billion of new business, primarily in Asia and the net of the transfers from Non-Core and to RCR.
- Customer deposits were 14% lower, in line with a change in funding strategy.
- Risk-weighted assets on an FLB3 basis decreased by 6%, primarily driven by the net of the transfers of assets to RCR and from Non-Core.

Q1 2014 compared with Q1 2013

- Operating profit was up £16 million, driven by lower costs and impairments partially offset by lower income.
- Income was £54 million lower:

Loan Portfolio income declined £45 million largely reflecting the reduced balance sheet.

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Cash Management income was £14 million lower, as low interest rates and the competitive environment drove down margins.

Trade Finance income was up £6 million, driven by volume growth in Asia and EMEA.

- Expenses decreased by £25 million, primarily driven by lower variable compensation.
- Third party assets were down 6%, reflecting the netting of pooled accounts, partially offset by an increase in Trade and the net of the transfers of assets from Non-Core and to RCR.
- Customer deposits were 28% lower in line with a change in funding strategy.

Ulster Bank

| | Quarter ended 31 | | |
|---------------------------------------|------------------------|------------------------|------------------------|
| | 31 March 2014 £m | December 2013 £m | 31 March 2013 £m |
| Income statement | | | |
| Net interest income | 159 | 169 | 154 |
| Net fees and commissions | 32 | 37 | 34 |
| Other non-interest income | 15 | 1 | 20 |
| Non-interest income | 47 | 38 | 54 |
| Total income | 206 | 207 | 208 |
| Direct expenses | | | |
| - staff | (63) | (51) | (57) |
| - other | (17) | (21) | (15) |
| Indirect expenses | (62) | (64) | (60) |
| | (142) | (136) | (132) |
| Profit before impairment losses | 64 | 71 | 76 |
| Impairment losses | (47) | (1,067) | (240) |
| Operating profit/(loss) | 17 | (996) | (164) |
| Analysis of income by business | | | |
| Corporate | 69 | 69 | 82 |
| Retail | 90 | 98 | 89 |
| Other | 47 | 40 | 37 |
| Total income | 206 | 207 | 208 |

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| | | | |
|---|--------|-------|------|
| Analysis of impairments by sector | | | |
| Mortgages | 19 | 24 | 90 |
| Commercial real estate | | | |
| - investment | 8 | 392 | 46 |
| - development | (3) | 115 | 14 |
| Other corporate | 17 | 534 | 75 |
| Other lending | 6 | 2 | 15 |
| | | | |
| Total impairment losses | 47 | 1,067 | 240 |
| | | | |
| Of which RCR related (1) | - | 892 | - |
| | | | |
| Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector | | | |
| Mortgages | 0.4% | 0.5% | 1.8% |
| Commercial real estate | | | |
| - investment | 3.2% | 46.1% | 5.1% |
| - development | (3.0%) | 65.7% | 8.0% |
| Other corporate | 1.3% | 30.1% | 3.8% |
| Other lending | 2.4% | 0.7% | 4.6% |
| | | | |
| Total | 0.7% | 13.6% | 2.9% |

Note:

(1) Pertaining to the creation of RCR and related strategy in Q4 2013.

Ulster Bank

| Key metrics | Quarter ended | | |
|---|-------------------------------|-------------------------------|-------------------------------|
| | 31 March 2014 | 31 December 2013 | 31 March 2013 |
| Performance ratios | | | |
| Return on equity (1) | 2.5% | (98.1%) | (13.5%) |
| Net interest margin | 2.36% | 2.10% | 1.85% |
| Cost:income ratio | 69% | 66% | 63% |
| | | | |
| | 31 31 March 2014 £bn | 31 December 2013 £bn | 31 31 March 2013 £bn |
| | | Change | Change |
| Capital and balance sheet | | | |
| Loans and advances to customers (gross) | | | |
| Mortgages | 18.8 | 19.0 | (1%) |
| Commercial real estate | | | 19.7 (5%) |

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| | | | | | |
|--------------------------------------|-------|-------|-----------|-------|-----------|
| - investment | 1.0 | 3.4 | (71%) | 3.6 | (72%) |
| - development | 0.4 | 0.7 | (43%) | 0.7 | (43%) |
| Other corporate | 5.4 | 7.1 | (24%) | 7.8 | (31%) |
| Other lending | 1.0 | 1.2 | (17%) | 1.3 | (23%) |
| | 26.6 | 31.4 | (15%) | 33.1 | (20%) |
| Loan impairment provisions | (3.4) | (5.4) | (37%) | (4.2) | (19%) |
| Net loans and advances to customers | 23.2 | 26.0 | (11%) | 28.9 | (20%) |
| Risk elements in lending | | | | | |
| - Mortgages | 3.1 | 3.2 | (3%) | 3.4 | (9%) |
| - Commercial real estate | | | | | |
| - investment | 0.3 | 2.3 | (87%) | 1.6 | (81%) |
| - development | 0.2 | 0.5 | (60%) | 0.4 | (50%) |
| - Other corporate | 0.9 | 2.3 | (61%) | 2.4 | (63%) |
| - Other lending | 0.2 | 0.2 | - | 0.2 | - |
| Total risk elements in lending | 4.7 | 8.5 | (45%) | 8.0 | (41%) |
| Provision coverage (2) | 72% | 64% | 800bp | 53% | 1,900bp |
| Customer deposits | 21.1 | 21.7 | (3%) | 22.7 | (7%) |
| Loan:deposit ratio (excluding repos) | 110% | 120% | (1,000bp) | 127% | (1,700bp) |
| Risk-weighted assets | | | | | |
| - Credit risk | | | | | |
| - non-counterparty | 26.7 | 28.2 | (5%) | 34.3 | (22%) |
| - counterparty | 0.3 | 0.3 | - | 0.6 | (50%) |
| - Market risk | 0.2 | 0.5 | (60%) | 0.2 | - |
| - Operational risk | 1.5 | 1.7 | (12%) | 1.7 | (12%) |
| | 28.7 | 30.7 | (7%) | 36.8 | (22%) |
| Spot exchange rate - €/£ | 1.210 | 1.201 | | 1.183 | |

Notes:

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

Ulster Bank

Key points

The creation of RCR resulted in additional charges of £911 million in Ulster Bank's results in Q4 2013, and the transfer of £4.4 billion of gross assets to RCR at the start of Q1 2014. This has had a significant impact on the

comparison of Q1 2014 financial performance with both Q4 2013 and Q1 2013.

Q1 2014 compared with Q4 2013

Ulster Bank posted an operating profit of £17 million for the quarter, compared with a loss of £996 million in Q4 2013, which included additional charges related to the creation of RCR. The return to profitability for the first time since Q1 2009 marked a key milestone for the bank reflecting improving trading conditions albeit volatility is still a feature of business performance.

Net interest margin increased by 26 basis points in the quarter to 2.36% reflecting the transfer of non-performing assets to RCR coupled with a continued improvement in deposit margins. Net interest income fell by £10 million due to a combination of fewer days in the quarter, the impact of assets transferred to RCR and a lower margin on the tracker mortgage book following a reduction in the European Central Bank refinancing interest rate during Q4 2013. This was partially offset by lower funding costs.

Non-interest income increased by £9 million to £47 million, primarily reflecting the impact of a number of one-off items totalling £10 million which depressed Q4 2013 income, including an increased provision on a counterparty swap exposure related to the creation of RCR.

Total expenses increased by £6 million in Q1 2014 to £142 million principally due to the charge of £4 million in respect of the new bank levy, introduced in the Republic of Ireland. Expenses in Q4 2013 were affected by a number of one-off items, including a pension service cost reduction and an accelerated depreciation charge.

Impairment losses fell significantly in Q1 2014 to 0.7% of gross customer loans and advances, reflecting improved credit metrics particularly within the corporate and SME portfolios. The Q4 2013 results included an increased charge of £892 million relating to the creation of RCR.

Ulster Bank's loan:deposit ratio of 110% in Q1 2014 reflects the impact of the transfer of loan balances to RCR. While Retail and SME deposit balances have remained stable in the quarter, total deposit balances declined by 3% attributable to a reduction in wholesale balances.

Q1 2014 compared with Q1 2013

Operating results improved by £181 million, primarily reflecting a reduction in impairment losses.

Income has remained stable despite a reduction in net loans following the transfer of assets to RCR. Net interest margin increased by 51 basis points to 2.36% driven by deposit repricing actions and the impact of the asset transfer to RCR. Non-interest income decreased by £7 million primarily reflecting mark-to-market movements on tracker mortgage hedging swaps.

Expenses increased by £10 million. Savings arising from a reduction in staff numbers were more than offset by the new bank levy in the Republic of Ireland and a realignment of costs following the creation of RCR.

Ulster Bank

Key points (continued)

Q1 2014 compared with Q1 2013 (continued)

Impairment losses decreased by 80% with significant reductions across the mortgage, SME and corporate portfolios. This improvement not only reflects the transfer of high risk assets to RCR but also reflects the progress made in addressing legacy issues, including the implementation of strategies to help customers normalise their payments.

The loan:deposit ratio of 110% reflects a 20% reduction in loan balances driven by the transfer of assets to RCR coupled with the impact of customer deleveraging. Customer deposits declined by 7% with growth in Retail and SME balances outweighed by a reduction in wholesale balances.

Risk-weighted assets decreased by 22%, reflecting a smaller performing loan book and stabilising credit metrics.

US Retail & Commercial (£ Sterling)

| | Quarter ended | | |
|---------------------------------|---------------|----------|----------|
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| | £m | £m | £m |
| Income statement | | | |
| Net interest income | 488 | 479 | 471 |
| Net fees and commissions | 169 | 182 | 190 |
| Other non-interest income | 60 | 58 | 102 |
| Non-interest income | 229 | 240 | 292 |
| Total income | 717 | 719 | 763 |
| Direct expenses | | | |
| - staff | (251) | (249) | (286) |
| - other | (249) | (251) | (248) |
| Indirect expenses | - | (31) | (21) |
| | (500) | (531) | (555) |
| Profit before impairment losses | 217 | 188 | 208 |
| Impairment losses | (73) | (46) | (19) |

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| | | | |
|---|--------|-------|--------|
| Operating profit | 144 | 142 | 189 |
| Average exchange rate - US\$/£ | 1.655 | 1.619 | 1.552 |
| Analysis of income by product | | | |
| Mortgages and home equity | 112 | 100 | 126 |
| Personal lending and cards | 98 | 101 | 100 |
| Retail deposits | 186 | 187 | 190 |
| Commercial lending | 165 | 169 | 168 |
| Commercial deposits | 107 | 100 | 102 |
| Other | 49 | 62 | 77 |
| Total income | 717 | 719 | 763 |
| Analysis of impairments by sector | | | |
| Residential mortgages | (5) | - | 2 |
| Home equity | 19 | 1 | 19 |
| SBO home equity | 21 | - | - |
| Corporate and commercial | 9 | 25 | (24) |
| Other consumer | 29 | 20 | 22 |
| Total impairment losses | 73 | 46 | 19 |
| Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector | | | |
| Residential mortgages | (0.3%) | - | 0.1% |
| Home equity | 0.6% | - | 0.6% |
| SBO home equity | 6.5% | - | - |
| Corporate and commercial | 0.1% | 0.4% | (0.4%) |
| Other consumer | 1.3% | 0.9% | 1.0% |
| Total | 0.5% | 0.4% | 0.1% |

US Retail & Commercial (£ Sterling)

| Key metrics | Quarter ended | | |
|----------------------|------------------|------------------------|------------------|
| | 31 March 2014 | 31 December 2013 | 31 March 2013 |
| Performance ratios | | | |
| Return on equity (1) | 6.1% | 6.5% | 8.2% |
| Net interest margin | 2.94% | 2.98% | 2.93% |
| Cost:income ratio | 70% | 74% | 73% |

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| | 31 March 2014 £bn | 31 December 2013 £bn | Change | 31 March 2013 £bn | Change |
|---|-------------------------|-------------------------------|---------|-------------------------|---------|
| Capital and balance sheet | | | | | |
| Loans and advances to customers (gross) | | | | | |
| - residential mortgages | 6.2 | 5.8 | 7% | 6.0 | 3% |
| - home equity | 12.0 | 12.1 | (1%) | 13.8 | (13%) |
| - SBO home equity | 1.3 | - | - | - | - |
| - corporate and commercial | 24.7 | 24.1 | 2% | 25.1 | (2%) |
| - other consumer | 9.0 | 8.6 | 5% | 8.9 | 1% |
| | 53.2 | 50.6 | 5% | 53.8 | (1%) |
| Loan impairment provisions | (0.5) | (0.3) | 67% | (0.3) | 67% |
| Net loans and advances to customers | 52.7 | 50.3 | 5% | 53.5 | (1%) |
| Total third party assets | 76.1 | 71.7 | 6% | 77.0 | (1%) |
| Investment securities | 14.9 | 12.9 | 16% | 11.9 | 25% |
| Risk elements in lending | | | | | |
| - retail | 1.1 | 0.9 | 22% | 0.9 | 22% |
| - commercial | 0.2 | 0.1 | 100% | 0.4 | (50%) |
| Total risk elements in lending | 1.3 | 1.0 | 30% | 1.3 | - |
| Provision coverage (2) | 41% | 26% | 1,500bp | 22% | 1,900bp |
| Customer deposits (excluding repos) | 54.9 | 55.1 | - | 62.4 | (12%) |
| Bank deposits (excluding repos) | 3.4 | 2.0 | 70% | 1.7 | 100% |
| Loan:deposit ratio (excluding repos) | 96% | 91% | 500bp | 86% | 1,000bp |
| Risk-weighted assets | | | | | |
| - Credit risk | | | | | |
| - non-counterparty | 55.4 | 50.7 | 9% | 53.1 | 4% |
| - counterparty | 0.8 | 0.5 | 60% | 0.8 | - |
| - Operational risk | 5.1 | 4.9 | 4% | 5.0 | 2% |
| | 61.3 | 56.1 | 9% | 58.9 | 4% |
| Spot exchange rate - US\$/£ | 1.668 | 1.654 | | 1.517 | |

Notes:

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

Key points

Sterling strengthened against the US dollar, with the spot exchange rate at 31 March 2014 increasing 1% compared with 31 December 2013.

Performance is described in full in the US dollar-based financial statements set out on pages 38 to 41.

US Retail & Commercial (US dollar)

| | Quarter ended | | |
|--|-------------------------|-------------------------------|-------------------------|
| | 31 March 2014 \$m | 31 December 2013 \$m | 31 March 2013 \$m |
| Income statement | | | |
| Net interest income | 809 | 781 | 731 |
| Net fees and commissions | 279 | 298 | 295 |
| Other non-interest income | 99 | 97 | 158 |
| Non-interest income | 378 | 395 | 453 |
| Total income | 1,187 | 1,176 | 1,184 |
| Direct expenses | | | |
| - staff | (416) | (409) | (444) |
| - other | (412) | (409) | (384) |
| Indirect expenses | - | (50) | (34) |
| | (828) | (868) | (862) |
| Profit before impairment losses | 359 | 308 | 322 |
| Impairment losses | (121) | (75) | (30) |
| Operating profit | 238 | 233 | 292 |
| Analysis of income by product | | | |
| Mortgages and home equity | 185 | 164 | 195 |
| Personal lending and cards | 162 | 165 | 155 |
| Retail deposits | 308 | 306 | 295 |
| Commercial lending | 273 | 275 | 261 |
| Commercial deposits | 177 | 163 | 158 |
| Other | 82 | 103 | 120 |
| Total income | 1,187 | 1,176 | 1,184 |
| Analysis of impairments by sector | | | |
| Residential mortgages | (9) | 1 | 3 |
| Home equity | 32 | 2 | 29 |
| SBO home equity | 34 | - | - |

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| | | | |
|---|--------|------|--------|
| Corporate and commercial | 15 | 38 | (36) |
| Other consumer | 49 | 33 | 34 |
| Securities | - | 1 | - |
| Total impairment losses | 121 | 75 | 30 |
| Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector | | | |
| Residential mortgages | (0.3%) | - | 0.1% |
| Home equity | 0.6% | - | 0.6% |
| SBO home equity | 6.5% | - | - |
| Corporate and commercial | 0.1% | 0.4% | (0.4%) |
| Other consumer | 1.3% | 0.9% | 1.0% |
| Total | 0.5% | 0.4% | 0.1% |

US Retail & Commercial (US dollar)

Key metrics

| | Quarter ended | | |
|----------------------|---------------|----------|----------|
| | 31 | | |
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| Performance ratios | | | |
| Return on equity (1) | 6.1% | 6.5% | 8.2% |
| Net interest margin | 2.94% | 2.98% | 2.93% |
| Cost:income ratio | 70% | 74% | 73% |

The legal entity results of RBS Citizens Financial Group under IFRS are set out below.

| | Quarter ended | | |
|----------------------|---------------|----------|----------|
| | 31 | | |
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| | \$m | \$m | \$m |
| Total income | 1,187 | 1,183 | 1,219 |
| Operating expenses | (828) | (828) | (840) |
| Impairment losses | (121) | (133) | (90) |
| Operating profit | 238 | 222 | 289 |
| Return on equity (1) | 6.1% | 5.8% | 7.5% |

| | | 31 | | | |
|--|--|----------|----------|----------|--------|
| | | 31 March | December | 31 March | |
| | | 2014 | 2013 | 2013 | |
| | | \$bn | \$bn | \$bn | Change |
| | | Change | | | |

Capital and balance sheet

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| | | | | | |
|---|-------|-------|---------|-------|---------|
| Loans and advances to customers (gross) | | | | | |
| - residential mortgages | 10.3 | 9.6 | 7% | 9.1 | 13% |
| - home equity | 20.0 | 20.1 | - | 20.9 | (4%) |
| - SBO home equity | 2.1 | - | - | - | - |
| - corporate and commercial | 41.2 | 39.8 | 4% | 38.1 | 8% |
| - other consumer | 15.2 | 14.1 | 8% | 13.5 | 13% |
| | 88.8 | 83.6 | 6% | 81.6 | 9% |
| Loan impairment provisions | (0.9) | (0.4) | 125% | (0.4) | 125% |
| Net loans and advances to customers | 87.9 | 83.2 | 6% | 81.2 | 8% |
| Total third party assets | 126.8 | 118.7 | 7% | 116.8 | 9% |
| Investment securities | 24.9 | 21.3 | 17% | 18.1 | 38% |
| Risk elements in lending | | | | | |
| - retail | 1.9 | 1.5 | 27% | 1.4 | 36% |
| - commercial | 0.3 | 0.2 | 50% | 0.5 | (40%) |
| Total risk elements in lending | 2.2 | 1.7 | 29% | 1.9 | 16% |
| Provision coverage (2) | 41% | 26% | 1,500bp | 22% | 1,900bp |
| Customer deposits (excluding repos) | 91.6 | 91.1 | 1% | 94.6 | (3%) |
| Bank deposits (excluding repos) | 5.7 | 3.3 | 73% | 2.6 | 119% |
| Loan:deposit ratio (excluding repos) | 96% | 91% | 500bp | 86% | 1,000bp |
| Risk-weighted assets | | | | | |
| - Credit risk | | | | | |
| - non-counterparty | 92.4 | 83.8 | 10% | 80.6 | 15% |
| - counterparty | 1.3 | 0.8 | 63% | 1.2 | 8% |
| - Operational risk | 8.5 | 8.2 | 4% | 7.5 | 13% |
| | 102.2 | 92.8 | 10% | 89.3 | 14% |

Notes:

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

US Retail & Commercial (US dollar)

Key points

Q1 2014 results are not directly comparable with prior periods; prior period results exclude Non-Core operations and include Group allocations. In the context of the planned disposal of RBS Citizens Financial Group, central Group costs are no longer allocated to the division.

Q1 2014 compared with Q4 2013

- Operating profit increased by \$5 million, or 2%, to \$238 million, driven by higher income and lower expenses, partially offset by higher impairments. The Non-Core portfolio is now included on a prospective basis beginning 1 January 2014. On a comparable basis operating profit increased by \$16 million, or 7%.
- The operating environment and market conditions remained challenging, with intense competition for loans. The continuation of low short-term rates has limited net interest margin expansion and the rise in long-term rates reduced mortgage refinance volumes.
- Net interest income was up 4% to \$809 million due to a larger investment portfolio and loan growth, including the Non-Core loan transfer. Excluding Group allocations in Q4 2013, net interest income was up \$46 million, or 6%.
- Higher rates led to investment security purchases resulting in average portfolio growth of \$2.5 billion in the quarter.
- Average loans and advances were up 6%, driven by the \$3.7 billion Non-Core transfer, higher commercial loans and auto loans and a strategic initiative to purchase residential mortgages.
- Non-interest income was down \$17 million, or 4% at \$378 million reflecting lower consumer banking fees, primarily lower deposit fees. Commercial banking fee income was up, driven by strong leasing income.
- Total expenses were down \$40 million, or 5% at \$828 million reflecting the removal of indirect costs in Q1 2014 and incentive reversals for prior year plans partially offset by a seasonal increase in payroll taxes.
- Impairment losses increased \$46 million to \$121 million for the quarter due to the Non-Core transfer.

US Retail & Commercial (US dollar)

Key points (continued)

Q1 2014 compared with Q1 2013

- Operating profit decreased by \$54 million, or 18%, to \$238 million, driven by higher impairments partially offset by lower expenses.
- Net interest income was up \$78 million, or 11% at \$809 million driven by a larger investment portfolio, loan growth including the Non-Core loan transfer, the benefit of interest rate swaps and deposit pricing discipline.
- Higher rates led to investment security purchases resulting in average portfolio growth of \$5.1 billion over the year.
- Average loans and advances were up 7%, driven by the Non-Core transfer, commercial loan growth, auto loan growth and a strategic initiative to purchase residential mortgages

and to hold more originations on the balance sheet. This was partially offset by home equity run-off.

- Average customer deposits were down 3%, with planned run-off of high priced deposits and lower wholesale deposits partially offset by growth in checking balances. Consumer and small business checking balances both grew by 4% over the year.
- Non-interest income was down \$75 million, or 17%, at \$378 million, reflecting lower mortgage banking fees as refinancing volumes have slowed, lower securities gains and lower deposit fees due to a change in the posting order of customer transactions. Mortgage origination activity is slowing as market rates have risen, leading to lower applications combined with lower levels of gains on sales of mortgage.
- Total expenses were down \$34 million, or 4%, at \$828 million largely driven by the removal of indirect costs allocated by Group in Q1 2014.
- Impairment losses increased by \$91 million to \$121 million for the quarter largely due to the Non-Core transfer.

Markets

| | Quarter ended | | |
|---|---------------|----------|----------|
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| | £m | £m | £m |
| Income statement | | | |
| Net interest income from banking activities | 48 | 62 | 30 |
| Net fees and commissions receivable | 35 | 44 | 77 |
| Income from trading activities | 861 | 517 | 916 |
| Other operating income (net of related funding costs) | 13 | 3 | 17 |
| Non-interest income | 909 | 564 | 1,010 |
| Total income | 957 | 626 | 1,040 |
| Direct expenses | | | |
| - staff | (305) | (171) | (362) |
| - other | (153) | (181) | (181) |
| Indirect expenses | (179) | (201) | (203) |
| | (637) | (553) | (746) |
| Profit before impairment losses | 320 | 73 | 294 |
| Impairment losses (1) | (2) | (34) | (16) |

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| | | | |
|------------------------------------|-------|-------|-------|
| Operating profit | 318 | 39 | 278 |
| Of which: | | | |
| Ongoing businesses (2) | 306 | 92 | 254 |
| Run-off businesses | 12 | (53) | 24 |
| Analysis of income by product | | | |
| Rates | 368 | 189 | 228 |
| Currencies | 213 | 214 | 223 |
| Asset backed products | 324 | 204 | 448 |
| Credit markets | 136 | 143 | 217 |
| Total income ongoing businesses | 1,041 | 750 | 1,116 |
| Inter-divisional revenue share | (133) | (132) | (169) |
| Run-off businesses | 49 | 8 | 93 |
| Total income | 957 | 626 | 1,040 |
| Memo - Fixed income and currencies | | | |
| Total income ongoing businesses | 1,041 | 750 | 1,116 |
| Less: primary credit markets | (121) | (128) | (151) |
| Total fixed income and currencies | 920 | 622 | 965 |

Notes:

- (1) Includes £18 million in Q4 2013 pertaining to the creation of RCR and related strategy.
- (2) The ongoing businesses comprise the Rates, Currencies, Asset backed products and Credit markets areas.

Markets

Key metrics

| | Quarter ended | | |
|------------------------|------------------|------------------------|------------------|
| | 31 March 2014 | 31 December 2013 | 31 March 2013 |
| Performance ratios | | | |
| Return on equity (1) | 9.4% | 1.5% | 7.9% |
| Cost:income ratio | 67% | 88% | 72% |
| Compensation ratio (2) | 32% | 27% | 35% |

| | 31 31 March 2014 £bn | 31 December 2013 £bn | Change | 31 31 March 2013 £bn | Change |
|--|-------------------------------|-------------------------------|--------|-------------------------------|--------|
|--|-------------------------------|-------------------------------|--------|-------------------------------|--------|

Capital and balance sheet

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| | | | | | |
|--|-------|-------|---------|-------|-------|
| Loans and advances to customers (gross) | 24.9 | 25.4 | (2%) | 32.0 | (22%) |
| Loan impairment provisions | (0.1) | (0.2) | (50%) | (0.2) | (50%) |
| Net loans and advances to customers | 24.8 | 25.2 | (2%) | 31.8 | (22%) |
| Net loans and advances to banks | 12.1 | 12.5 | (3%) | 20.1 | (40%) |
| Reverse repos | 78.1 | 76.2 | 2% | 100.8 | (23%) |
| Securities | 72.8 | 69.8 | 4% | 90.7 | (20%) |
| Cash and eligible bills | 20.8 | 20.3 | 2% | 24.3 | (14%) |
| Other | 19.6 | 8.8 | 123% | 20.3 | (3%) |
| Total third party assets (excluding derivatives mark-to-market) | 228.2 | 212.8 | 7% | 288.0 | (21%) |
| Net derivative assets (after netting) | 13.1 | 15.5 | (15%) | 21.7 | (40%) |
| Provision coverage (3) | 80% | 85% | (500bp) | 76% | 400bp |
| Customer deposits (excluding repos) | 19.6 | 21.5 | (9%) | 25.7 | (24%) |
| Bank deposits (excluding repos) | 24.4 | 23.8 | 3% | 43.7 | (44%) |
| Risk-weighted assets | | | | | |
| - Credit risk | | | | | |
| - non-counterparty | 10.7 | 10.8 | (1%) | 12.4 | (14%) |
| - counterparty | 34.0 | 17.5 | 94% | 32.7 | 4% |
| - Market risk | 35.3 | 26.4 | 34% | 33.6 | 5% |
| - Operational risk | 7.4 | 9.8 | (24%) | 9.8 | (24%) |
| | 87.4 | 64.5 | 36% | 88.5 | (1%) |

Notes:

- (1) Divisional return on equity is based on divisional operating profit after tax, divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).
- (2) Compensation ratio is based on staff costs as a percentage of total income.
- (3) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
- (4) On an FLB3 basis risk-weighted assets were £99.9 billion at 31 December 2013.

Markets

| | Quarter ended | | |
|-------------------------------------|------------------|------------------|------------------|
| | 31 March 2014 | December 2013 | 31 March 2013 |
| Income statement (ongoing business) | £m | £m | £m |
| Total income | 909 | 619 | 951 |
| Direct expenses | (428) | (327) | (501) |
| Indirect expenses | (172) | (180) | (200) |

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| | | | |
|---|----------|----------|----------|
| Impairment (losses)/recoveries | (3) | (20) | 4 |
| Operating profit | 306 | 92 | 254 |
| Performance ratios (ongoing business) | | | |
| Return on equity (1) | 10.5% | 4.6% | 9.4% |
| Cost:income ratio | 66% | 82% | 74% |
| Compensation ratio (2) | 31% | 26% | 35% |
| | | 31 | |
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| Balance sheet (ongoing business) | £bn | £bn | £bn |
| Total third party assets (excluding derivatives mark-to-market) | 214.9 | 198.8 | 264.7 |
| Risk-weighted assets | 73.8 | 52.1 | 69.1 |

Notes:

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

Key points

Q1 2014 compared with Q4 2013

- Operating profit increased by £279 million, driven by higher trading income.
- Rates benefited from a limited pick-up in client driven trading activity, and the gains predominantly associated with continued deleveraging and de-risking of the business.
- Currencies performance remained steady, despite the highly competitive market environment.
- Asset backed products benefited from positive sentiment and favourable market movements.
- Credit markets income declined. Issuer volumes were subdued and the secondary market suffered from cautious investor sentiment.
- Costs increased as a substantial reduction in non-staff costs, driven by the ongoing success of the division's cost reduction programme, was more than offset by higher staff costs, which reflected increased income.
- The 7% increase in third party assets reflected a pick-up in activity in the first quarter as clients returned to the market.
- Risk-weighted assets increased following the introduction of CRD IV on 1 January 2014. However, excluding this impact, risk-weighted assets fell significantly, driven by a range of mitigation actions. This included £9 billion of risk-weighted assets transferred

to RCR.

Markets

Key points (continued)

Q1 2014 compared with Q1 2013

- Operating profit increased by 14% compared with the same period last year. This reflected a significant reduction in costs as headcount was reduced and discretionary expenditure tightly controlled, offset by lower income as the division refocused on core fixed income and currencies product areas.
- Rates increased substantially (up 61%) compared to a weak Q1 2013, and was helped by gains predominantly associated with continued deleveraging and de-risking of the business.
- Currencies income decreased slightly, reflecting a steady performance given low overall volatility and the reduction in client volumes seen throughout 2013.
- Asset backed products benefited from the general credit market rally in Q1 2013, which was not repeated in Q1 2014. This, combined with a reduced deployment of risk-weighted assets, resulted in lower income.
- Lower Credit income primarily reflected the de-risking of the credit trading business that took place in 2013, compared to gains from the credit asset rally in Q1 2013.
- Costs fell by 15%, driven by headcount reductions of 1,300 and a tightly controlled approach to discretionary expenditure.
- The strategic decision to refocus the division on core fixed income and currencies products drove the substantial reduction in third party assets, down from £288 billion to £228 billion.
- Risk-weighted assets were £1.1 billion lower compared with 31 March 2013, despite an increase following the introduction of Basel III on 1 January 2014. The overall reduction reflected the de-risking and strategic refocusing of the Markets business and, in Q1 2014, the creation of RCR.

Central items

| Quarter ended | | |
|---------------|----------|----------|
| 31 | | |
| 31 March | December | 31 March |
| 2014 | 2013 | 2013 |
| £m | £m | £m |

| | | | |
|-----------------------------|------|-------|------|
| Central items not allocated | (76) | (174) | (36) |
|-----------------------------|------|-------|------|

Note:

(1) Costs/charges are denoted by brackets.

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

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

Key points

Q1 2014 compared with Q4 2013

- Central items not allocated represented a debit of £76 million compared with a debit of £174 million in Q4 2013 principally driven by lower unallocated Treasury and funding costs, including volatile items under IFRS and increased gains on the disposal of available-for-sale securities in Treasury, which were up £89 million to £203 million for Q1 2014 compared with £114 million in Q4 2013.

Q1 2014 compared with Q1 2013

- Central items not allocated represented a debit of £76 million compared with a debit of £36 million in Q1 2013. This was principally driven by a lower share of profit on the Group's stake in Saudi Hollandi, down from £65 million in Q1 2013 to £8 million in Q1 2014, and unallocated Treasury and funding costs which were £31 million lower compared with Q1 2013. The unallocated Treasury costs included increased gains on Treasury available-for-sale securities, which were up £97 million quarter on quarter offset by higher Treasury and funding costs, including volatile items under IFRS.

RCR

In line with its new strategic direction, RBS announced the creation of RBS Capital Resolution ('RCR') with effect from 1 January 2014 to separate and wind down RBS's high capital intensive assets. RCR brings assets under common management and was established with the following principles:

- removing risk from the balance sheet in an efficient, expedient and economic manner;
- reducing the volatile outcomes in stressed environments; and
- accelerating the release of capital through management and exit of the portfolio.

RCR is managed and analysed by four business pillars - Ulster Bank, Real Estate Finance, Corporate and Markets. Real Estate Finance excludes commercial real estate lending in Ulster Bank.

Quarter
ended
31 March
2014
£m

Income statement

| | |
|--|--------|
| Net interest expense | (5) |
| Net fees and commissions | 14 |
| Income from trading activities (1) | 16 |
| Other operating income (1) | 48 |
| Non-interest income | 78 |
| Total income | 73 |
| Direct expenses | |
| - staff | (38) |
| - other | (18) |
| Indirect expenses | (23) |
| | (79) |
| Operating loss before impairment losses | (6) |
| Impairment losses (1) | (108) |
| Operating loss | (114) |
| Total income | |
| Ulster Bank | (13) |
| Real Estate Finance | 83 |
| Corporate | (2) |
| Markets | 5 |
| Total income | 73 |
| Impairment losses | |
| Ulster Bank | (51) |
| Real Estate Finance | (89) |
| Corporate | 34 |
| Markets | (2) |
| Total impairment losses | (108) |
| Loan impairment charge as % of gross customer loans and advances (2) | |
| Ulster Bank | 1.3% |
| Real Estate Finance | 4.1% |
| Corporate | (1.5%) |
| Total | 1.2% |

Notes:

- (1) Net disposal gains of £56 million comprised £5 million losses in income from trading activities, £3 million losses in other operating income offset by £64 million gains in impairments.
- (2) Includes disposal groups.

RCR

| | 31 March 2014 £bn |
|--|-------------------------|
| Capital and balance sheet | |
| Loans and advances to customers (gross) (1) | 34.0 |
| Loan impairment provisions | (15.7) |
| Net loans and advances to customers | 18.3 |
| Debt securities | 2.2 |
| Total funded assets | 24.3 |
| Total third party assets (including derivatives) | 38.8 |
| Risk elements in lending | 23.0 |
| Provision coverage (2) | 68% |
| Risk-weighted assets | |
| - Credit risk | |
| - non-counterparty | 29.6 |
| - counterparty | 5.7 |
| - Market risk | 5.2 |
| | 40.5 |
| Gross loans and advances to customers (1) | |
| Ulster Bank | 15.5 |
| Real Estate Finance | 8.6 |
| Corporate | 9.1 |
| Markets | 0.8 |
| | 34.0 |
| Funded assets | |
| Ulster Bank | 4.4 |
| Real Estate Finance | 7.7 |
| Corporate | 8.6 |
| Markets | 3.6 |
| | 24.3 |
| Risk weighted assets | |
| Ulster Bank | 2.8 |
| Real Estate Finance | 11.5 |
| Corporate | 14.7 |
| Markets | 11.5 |

| | |
|----------------------------|------|
| | 40.5 |
| RWA equivalent (RW Ae) (3) | |
| Ulster Bank | 6.7 |
| Real Estate Finance | 13.4 |
| Corporate | 17.0 |
| Markets | 13.8 |
| | 50.9 |

Notes:

- (1) Includes disposal groups.
- (2) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.
- (3) RWA equivalent (RW Ae) is an internal metric that measures the equity capital employed in divisions. RW Ae converts both performing and non-performing exposures into a consistent capital measure, being the sum of the regulatory RWAs and the regulatory capital deductions, the latter converted to RW Ae by applying a multiplier. The Group applies a CET 1 ratio of 10%, consistent with that used for divisional return on equity measure; this results in an end point CRR RW Ae conversion multiplier of 10.

RCR

Funded assets and
RW Ae

| | Non-performing (1) | | | | | Performing (1) | | | | | Total | | | | |
|---------------------|--------------------|-----|---------|-----|---------|----------------|------|-----------------|------|-------|---------------|------|-----------------|------|-------|
| | Funded assets | | Capital | | | Funded assets | | Capital deducts | | | Funded assets | | Capital deducts | | |
| | Gross | Net | RW Ae | RWA | Deducts | Gross | Net | RW Ae | RWA | (2) | Gross | Net | RW Ae | RWA | (3) |
| 31 March 2014 | £bn | £bn | £bn | £bn | £m | £bn | £bn | £bn | £bn | £m | £bn | £bn | £bn | £bn | £m |
| Ulster Bank | 14.6 | 3.6 | 6.3 | 0.1 | 622 | 1.1 | 0.8 | 0.4 | 2.7 | (235) | 15.7 | 4.4 | 6.7 | 2.8 | 387 |
| Real Estate Finance | 5.4 | 2.9 | 2.9 | 0.3 | 260 | 4.9 | 4.8 | 10.5 | 11.2 | (76) | 10.3 | 7.7 | 13.4 | 11.5 | 184 |
| Corporate | 2.9 | 1.2 | 2.1 | 0.1 | 209 | 7.5 | 7.4 | 14.9 | 14.6 | 28 | 10.4 | 8.6 | 17.0 | 14.7 | 237 |
| Markets | 0.2 | 0.2 | 0.3 | - | 26 | 3.4 | 3.4 | 13.5 | 11.5 | 205 | 3.6 | 3.6 | 13.8 | 11.5 | 231 |
| Total RCR | 23.1 | 7.9 | 11.6 | 0.5 | 1,117 | 16.9 | 16.4 | 39.3 | 40.0 | (78) | 40.0 | 24.3 | 50.9 | 40.5 | 1,039 |
| 1 January 2014 | | | | | | | | | | | | | | | |
| | 14.8 | 3.7 | 7.6 | 0.2 | 738 | 1.4 | 1.1 | 1.3 | 3.1 | (179) | 16.2 | 4.8 | 8.9 | 3.3 | 559 |

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| | | | | | | | | | | | | | | | |
|-------------------------------|------|-----|------|-----|-------|------|------|------|------|------|------|------|------|------|-------|
| Ulster Bank Real Estate | | | | | | | | | | | | | | | |
| Finance | 7.2 | 4.2 | 6.1 | 0.3 | 580 | 5.8 | 5.3 | 12.5 | 13.2 | (75) | 13.0 | 9.5 | 18.6 | 13.5 | 505 |
| Corporate | 3.3 | 1.7 | 2.9 | 0.2 | 269 | 8.1 | 8.1 | 18.2 | 16.2 | 208 | 11.4 | 9.8 | 21.1 | 16.4 | 477 |
| Markets | 0.2 | 0.1 | 0.6 | - | 58 | 4.7 | 4.7 | 15.8 | 13.5 | 233 | 4.9 | 4.8 | 16.4 | 13.5 | 291 |
| Total RCR | 25.5 | 9.7 | 17.2 | 0.7 | 1,645 | 20.0 | 19.2 | 47.8 | 46.0 | 187 | 45.5 | 28.9 | 65.0 | 46.7 | 1,832 |

Notes:

- Performing assets are those with an internal asset quality band of AQ1 - 9; and non-performing assets are in
- (1) AQ10 with a probability of default being 100%.
The negative capital deductions are a result of the latent loss provisions held in respect of the performing
 - (2) portfolio.
£960 million (31 December 2013 - £1,774 million) of capital deductions relates to expected loss less impairment
 - (3) provisions.

RCR

Roll forward for quarter ended 31 March 2014

| | 1 January | | | | 31 March |
|---------------|-----------|---------|---------------|-------------|----------|
| | 2014 | Net | Disposals (a) | Impairments | 2014 |
| Funded assets | £bn | run-off | £bn | £bn | £bn |
| Ulster Bank | 4.8 | (0.1) | (0.2) | (0.1) | 4.4 |
| Real Estate | | | | | |
| Finance | 9.5 | (1.2) | (0.5) | (0.1) | 7.7 |
| Corporate | 9.8 | (0.7) | (0.5) | - | 8.6 |
| Markets | 4.8 | (0.5) | (0.7) | - | 3.6 |
| Total | 28.9 | (2.5) | (1.9) | (0.2) | 24.3 |

| | 1 January | | Risk | | | 31 March |
|-------------|-----------|-------------|-----------|--------------------|-----------|----------|
| | 2014 | Net run-off | Disposals | (a) parameters (b) | Other (c) | 2014 |
| RWAs | £bn | £bn | £bn | £bn | £bn | £bn |
| Ulster Bank | 3.3 | (0.5) | - | - | - | 2.8 |
| Real Estate | | | | | | |
| Finance | 13.5 | (1.6) | (0.1) | (0.3) | - | 11.5 |
| Corporate | 16.4 | (0.3) | (0.5) | (0.8) | (0.1) | 14.7 |
| Markets | 13.5 | (0.2) | (0.6) | (1.2) | - | 11.5 |

| | 31 | | | | | | |
|--------------------|-----------|-------------|-----------------|-------|-------------|-----------|-------|
| | March | | | | | | |
| | 1 January | | Risk parameters | | | | |
| | 2014 | Net run-off | Disposals (a) | (b) | Impairments | Other (c) | 2014 |
| | £m | £m | £m | £m | £m | £m | £m |
| Total | | 46.7 | (2.6) | (1.2) | (2.3) | (0.1) | 40.5 |
| Capital deductions | | | | | | | |
| Ulster Bank | 559 | (2) | (14) | (135) | (17) | (4) | 387 |
| Real Estate | | | | | | | |
| Finance | 505 | (211) | (59) | 31 | (78) | (4) | 184 |
| Corporate | 480 | (71) | 17 | (159) | (27) | (3) | 237 |
| Markets | 288 | - | - | (56) | - | (1) | 231 |
| Total | 1,832 | (284) | (56) | (319) | (122) | (12) | 1,039 |
| RWA equivalent | | | | | | | |
| Ulster Bank | 8.9 | (0.5) | (0.1) | (1.4) | (0.2) | - | 6.7 |
| Real Estate | | | | | | | |
| Finance | 18.6 | (3.7) | (0.7) | - | (0.8) | - | 13.4 |
| Corporate | 21.1 | (1.0) | (0.3) | (2.4) | (0.3) | (0.1) | 17.0 |
| Markets | 16.4 | (0.2) | (0.6) | (1.7) | - | (0.1) | 13.8 |
| Total | 65.0 | (5.4) | (1.7) | (5.5) | (1.3) | (0.2) | 50.9 |

Notes:

- (a) Include all aspects relating to disposal including associated removal of deductions from regulatory capital.
- (b) Reflects credit migration, the implementation of methodology changes and lower operational and market risk RWAs.
- (c) Includes fair value adjustments, and foreign exchange movements.

RCR

Gross loans and advances to customers and related impairments

31 March 2014

Gross
loans and
advances to
customers (1)

Impairment
provisions

Q1 2014
Impairment
losses (2)

| | £bn | £bn | £m |
|---------------------------------|------|------|------|
| By donating division and sector | | | |
| Ulster Bank | | | |
| Commercial real estate | | | |
| - investment | 5.4 | 3.1 | 47 |
| - development | 7.1 | 6.2 | (29) |
| Other corporate | 3.0 | 2.0 | 33 |
| Total Ulster Bank | 15.5 | 11.3 | 51 |
| UK Corporate | | | |
| Commercial real estate | | | |
| - investment | 2.4 | 0.5 | 52 |
| - development | 0.7 | 0.3 | 13 |
| Asset finance | 2.5 | 0.4 | 2 |
| Other corporate | 1.6 | 0.5 | 22 |
| Total UK Corporate | 7.2 | 1.7 | 89 |
| International Banking | | | |
| Commercial real estate | | | |
| - investment | 5.1 | 1.4 | 34 |
| - development | 0.3 | 0.1 | 10 |
| Asset finance | 0.1 | - | - |
| Other corporate | 5.5 | 1.2 | (47) |
| Other | 0.2 | - | (30) |
| Total International Banking | 11.2 | 2.7 | (33) |
| Other | 0.1 | - | 1 |
| Total | 34.0 | 15.7 | 108 |

Notes:

- (1) Includes disposal groups.
- (2) Impairment losses include £2 million relating to other financial assets; sector analyses above include allocation of latent impairment charges.

RCR

Key points

Funded assets

- RCR funded assets fell to £24 billion, a reduction of £5 billion, or 16%, during the quarter and an overall reduction to date of £23 billion, or 48%, since the perimeter of the

division was agreed.

- The reduction in the quarter has been achieved by a mixture of run-off, disposals and impairments and has benefited from a combination of strong liquidity in the market and asset demand.
- The percentage mix of assets across each of the business pillars has remained broadly consistent.

Capital

- RWA equivalent reduction of £14 billion in the quarter to £51 billion reflected disposals, run-off, methodology changes and lower operational and market risk RWAs.
- The operating focus in the quarter was on large capital intensive positions to maximise the capital benefit. Reductions in these positions were achieved in an economic manner consistent with our asset management principles. There was disposal activity across all sectors with notable reductions in each of the RCR business pillars.

Operating performance

- Operating loss for the quarter was £114 million. This benefited from a number of disposal gains and recoveries through good execution and pricing in the market.
- The favourable market conditions have manifested in a higher than anticipated sale prices for assets disposed of in the quarter, resulting in disposal gains of £56 million in the quarter.
- The net effect of the operating loss of £114 million and RWAE reduction of £14 billion(1) has resulted in net CET1 accretion of £1.3 billion in the quarter.

Funding employed

- RCR is funded primarily by Treasury and has no material third party deposits.
- A run off profile of 85% over three years has been assumed for RCR's asset base with the associated funding cost being calculated from Treasury issuance maturing in line with the run down of the RCR balance sheet.
- The net effect is a funding charge at a spread of c.200 basis points above three month LIBOR.

Note

- (1) Capital equivalent: £1.4 billion at an internal CET1 ratio of 10% (see page 48).

Condensed consolidated income statement
for the quarter ended 31 March 2014

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| | Quarter ended | | |
|--|---------------|-------------|----------|
| | 31 March | 31 December | 31 March |
| | 2014 | 2013 | 2013 |
| | £m | £m | £m |
| Interest receivable | 3,800 | 3,973 | 4,279 |
| Interest payable | (1,105) | (1,209) | (1,609) |
| Net interest income | 2,695 | 2,764 | 2,670 |
| Fees and commissions receivable | 1,291 | 1,370 | 1,316 |
| Fees and commissions payable | (236) | (244) | (210) |
| Income from trading activities | 952 | 177 | 1,115 |
| Gain/(loss) on redemption of own debt | 20 | (29) | (51) |
| Other operating income | 691 | 31 | 612 |
| Non-interest income | 2,718 | 1,305 | 2,782 |
| Total income | 5,413 | 4,069 | 5,452 |
| Staff costs | (1,691) | (1,541) | (1,887) |
| Premises and equipment | (653) | (700) | (556) |
| Other administrative expenses | (711) | (3,960) | (763) |
| Depreciation and amortisation | (272) | (336) | (387) |
| Write-down of goodwill and other intangible assets | (82) | (1,403) | - |
| Operating expenses | (3,409) | (7,940) | (3,593) |
| Profit/(loss) before impairment losses | 2,004 | (3,871) | 1,859 |
| Impairment losses | (362) | (5,112) | (1,033) |
| Operating profit/(loss) before tax | 1,642 | (8,983) | 826 |
| Tax (charge)/credit | (362) | 377 | (350) |
| Profit/(loss) from continuing operations | 1,280 | (8,606) | 476 |
| Profit from discontinued operations, net of tax | 9 | 15 | 129 |
| Profit/(loss) for the period | 1,289 | (8,591) | 605 |
| Non-controlling interests | (19) | 3 | (131) |
| Preference share and other dividends | (75) | (114) | (81) |
| Profit/(loss) attributable to ordinary and B shareholders | 1,195 | (8,702) | 393 |
| Earnings per ordinary and equivalent B share (Note 8) | | | |
| Loss per ordinary and equivalent B share from continuing operations | | | |
| - basic and diluted (2) | - | (77.3p) | - |
| Loss per ordinary and equivalent B share from continuing and discontinued operations | | | |
| - basic and diluted (2) | - | (77.3p) | - |

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| | | | |
|---|------|---------|------|
| Adjusted earnings/(loss) per ordinary and equivalent B share from continuing operations | 9.4p | (45.2p) | 2.8p |
|---|------|---------|------|

Notes:

- (1) In the income statement above, one-off and other items as shown on page 13 are included in the appropriate captions. A reconciliation between the income statement above and the managed view income statement on page 7 is given in Appendix 1 to this announcement.
- (2) Earnings per ordinary and equivalent B share for the quarter ending 31 March 2013 has been restated to reflect the terms of the dividend access share (see Note 8).

Condensed consolidated statement of comprehensive income
for the quarter ended 31 March 2014

| | Quarter ended | | |
|---|------------------|---------------------|------------------|
| | 31 March 2014 | 31 December 2013 | 31 March 2013 |
| | £m | £m | £m |
| Profit/(loss) for the period | 1,289 | (8,591) | 605 |
| Items that do not qualify for reclassification | | | |
| Actuarial losses on defined benefit plans | - | 446 | - |
| Tax | - | (83) | - |
| | - | 363 | - |
| Items that do qualify for reclassification | | | |
| Available-for-sale financial assets | 264 | (103) | 276 |
| Cash flow hedges | 295 | (667) | (34) |
| Currency translation | (135) | (328) | 1,197 |
| Tax | (88) | 203 | 48 |
| | 336 | (895) | 1,487 |
| Other comprehensive income/(loss) after tax | 336 | (532) | 1,487 |
| Total comprehensive income/(loss) for the period | 1,625 | (9,123) | 2,092 |
| Total comprehensive income/(loss) is attributable to: | | | |
| Non-controlling interests | 24 | 16 | 149 |
| Preference shareholders | 65 | 99 | 71 |
| Paid-in equity holders | 10 | 15 | 10 |
| Ordinary and B shareholders | 1,526 | (9,253) | 1,862 |
| | 1,625 | (9,123) | 2,092 |

Key points

The movement in available-for-sale financial assets during the quarter reflects unrealised gains arising on Spanish, UK and US bonds, partially offset by realised gains on high quality UK, Dutch and German sovereign bonds.

- Cash flow hedging gains in the quarter largely result from decreases in Sterling, Euro and US dollar swap rates in the main durations of the underlying portfolio.
- Currency translation losses during the quarter are principally due to the strengthening of Sterling against the US dollar.

Condensed consolidated balance sheet
at 31 March 2014

| | 31 March 2014 £m | 31 December 2013 £m |
|---|------------------------|------------------------------|
| Assets | | |
| Cash and balances at central banks | 69,647 | 82,659 |
| Net loans and advances to banks | 28,302 | 27,555 |
| Reverse repurchase agreements and stock borrowing | 26,470 | 26,516 |
| Loans and advances to banks | 54,772 | 54,071 |
| Net loans and advances to customers | 390,780 | 390,825 |
| Reverse repurchase agreements and stock borrowing | 51,743 | 49,897 |
| Loans and advances to customers | 442,523 | 440,722 |
| Debt securities | 120,737 | 113,599 |
| Equity shares | 9,761 | 8,811 |
| Settlement balances | 16,900 | 5,591 |
| Derivatives | 277,294 | 288,039 |
| Intangible assets | 12,428 | 12,368 |
| Property, plant and equipment | 7,437 | 7,909 |
| Deferred tax | 3,289 | 3,478 |
| Prepayments, accrued income and other assets | 7,077 | 7,614 |
| Assets of disposal groups | 1,905 | 3,017 |
| Total assets | 1,023,770 | 1,027,878 |
| Liabilities | | |
| Bank deposits | 35,371 | 35,329 |
| Repurchase agreements and stock lending | 31,691 | 28,650 |
| Deposits by banks | 67,062 | 63,979 |
| Customer deposits | 401,276 | 414,396 |
| Repurchase agreements and stock lending | 57,085 | 56,484 |
| Customer accounts | 458,361 | 470,880 |
| Debt securities in issue | 61,755 | 67,819 |
| Settlement balances | 17,175 | 5,313 |
| Short positions | 37,850 | 28,022 |

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| | | |
|---|------------------|------------------|
| Derivatives | 274,506 | 285,526 |
| Accruals, deferred income and other liabilities | 15,336 | 16,017 |
| Retirement benefit liabilities | 2,829 | 3,210 |
| Deferred tax | 583 | 507 |
| Subordinated liabilities | 24,139 | 24,012 |
| Liabilities of disposal groups | 3,238 | 3,378 |
| Total liabilities | 962,834 | 968,663 |
| Equity | | |
| Non-controlling interests | 612 | 473 |
| Owners' equity* | | |
| Called up share capital | 6,752 | 6,714 |
| Reserves | 53,572 | 52,028 |
| Total equity | 60,936 | 59,215 |
| Total liabilities and equity | 1,023,770 | 1,027,878 |
| * Owners' equity attributable to: | | |
| Ordinary and B shareholders | 55,032 | 53,450 |
| Other equity owners | 5,292 | 5,292 |
| | 60,324 | 58,742 |

Average balance sheet

| | Quarter ended | |
|---|-----------------------|-----------------------------|
| | 31 March 2014 % | 31 December 2013 % |
| Average yields, spreads and margins of the banking business | | |
| Gross yield on interest-earning assets of banking business | 3.01 | 3.01 |
| Cost of interest-bearing liabilities of banking business | (1.21) | (1.22) |
| Interest spread of banking business | 1.80 | 1.79 |
| Benefit from interest-free funds | 0.32 | 0.29 |
| Net interest margin of banking business | 2.12 | 2.08 |
| Average interest rates | | |
| The Group's base rate | 0.50 | 0.50 |
| London inter-bank three month offered rates | | |
| - Sterling | 0.52 | 0.52 |
| - Eurodollar | 0.23 | 0.24 |

- Euro 0.30 0.24

Average balance sheet

| | Quarter ended 31 March 2014 | | | Quarter ended 31 December 2013 | | |
|---|--------------------------------|----------------|-----------|-----------------------------------|----------------|-----------|
| | Average balance £m | Interest £m | Rate % | Average balance £m | Interest £m | Rate % |
| Assets | | | | | | |
| Loans and advances to banks | 72,181 | 89 | 0.50 | 75,338 | 102 | 0.54 |
| Loans and advances to customers | 383,898 | 3,518 | 3.72 | 389,390 | 3,656 | 3.73 |
| Debt securities | 56,165 | 194 | 1.40 | 59,218 | 216 | 1.45 |
| Interest-earning assets | | | | | | |
| - banking business (1,4) | 512,244 | 3,801 | 3.01 | 523,946 | 3,974 | 3.01 |
| - trading business (3) | 177,347 | | | 190,320 | | |
| Non-interest earning assets | | | | | | |
| | 344,476 | | | 393,624 | | |
| Total assets | 1,034,067 | | | 1,107,890 | | |
| Memo: funded assets | 743,399 | | | 791,529 | | |
| Liabilities | | | | | | |
| Deposits by banks | 16,768 | 51 | 1.23 | 20,086 | 85 | 1.68 |
| Customer accounts | 306,189 | 516 | 0.68 | 330,208 | 562 | 0.68 |
| Debt securities in issue | 45,202 | 302 | 2.71 | 49,374 | 317 | 2.55 |
| Subordinated liabilities | 23,314 | 212 | 3.69 | 22,992 | 216 | 3.73 |
| Internal funding of trading business | (18,262) | 36 | (0.80) | (24,467) | 49 | (0.79) |
| Interest-bearing liabilities | | | | | | |
| - banking business (1,2) | 373,211 | 1,117 | 1.21 | 398,193 | 1,229 | 1.22 |
| - trading business (3) | 186,096 | | | 199,273 | | |
| Non-interest-bearing liabilities | | | | | | |
| - demand deposits | 80,409 | | | 73,883 | | |
| - other liabilities | 334,403 | | | 370,829 | | |
| Owners' equity | 59,948 | | | 65,712 | | |
| Total liabilities and owners' equity | 1,034,067 | | | 1,107,890 | | |

Notes:

- (1) Interest receivable has been increased by £1 million (Q4 2013 - £1 million) and interest payable has been increased by £15 million (Q4 2013 - £23 million) to record interest on financial assets and liabilities designated as at fair value through profit or loss. Related

interest-earning assets and interest-bearing liabilities have also been adjusted.

- (2) Interest payable has been decreased by £3 million (Q4 2013 - £3 million) to exclude RFS Holdings minority interest. Related interest-bearing liabilities have also been adjusted.
- (3) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
- (4) Interest income includes amounts (unwind of discount) recognised on impaired loans and receivables. The average balances of such loans are included in average loans and advances to banks and loans and advances to customers.

Condensed consolidated statement of changes in equity
for the quarter ended 31 March 2014

| | Quarter ended | | |
|--|------------------------|------------------------------|------------------------|
| | 31 March 2014 £m | 31 December 2013 £m | 31 March 2013 £m |
| Called-up share capital | | | |
| At beginning of period | 6,714 | 6,697 | 6,582 |
| Ordinary shares issued | 38 | 17 | 37 |
| At end of period | 6,752 | 6,714 | 6,619 |
| Paid-in equity | | | |
| At beginning and end of period | 979 | 979 | 979 |
| Share premium account | | | |
| At beginning of period | 24,667 | 24,628 | 24,361 |
| Ordinary shares issued | 93 | 39 | 94 |
| At end of period | 24,760 | 24,667 | 24,455 |
| Merger reserve | | | |
| At beginning and end of period | 13,222 | 13,222 | 13,222 |
| Available-for-sale reserve | | | |
| At beginning of period | (308) | (252) | (346) |
| Unrealised gains | 433 | 1 | 582 |
| Realised gains | (218) | (122) | (164) |
| Tax | (5) | 65 | 28 |
| Recycled to profit or loss on disposal of businesses (1) | 36 | - | (110) |
| At end of period | (62) | (308) | (10) |
| Cash flow hedging reserve | | | |
| At beginning of period | (84) | 447 | 1,666 |

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| | | | |
|---|-------|---------|---------|
| Amount recognised in equity | 653 | (271) | 259 |
| Amount transferred from equity to earnings | (358) | (396) | (293) |
| Tax | (70) | 136 | 3 |
| At end of period | 141 | (84) | 1,635 |
| Foreign exchange reserve | | | |
| At beginning of period | 3,691 | 4,018 | 3,908 |
| Retranslation of net assets | (170) | (417) | 1,386 |
| Foreign currency gains/(losses) on hedges of net assets | 32 | 88 | (201) |
| Tax | (2) | 2 | (18) |
| Recycled to profit or loss on disposal of businesses | - | - | (3) |
| At end of period | 3,551 | 3,691 | 5,072 |
| Capital redemption reserve | | | |
| At beginning and end of period | 9,131 | 9,131 | 9,131 |
| Contingent capital reserve | | | |
| At beginning of period | - | (1,208) | (1,208) |
| Transfer to retained earnings | - | 1,208 | - |
| At end of period | - | - | (1,208) |

For the notes to this table refer the following page.

Condensed consolidated statement of changes in equity
for the quarter ended 31 March 2014

| | Quarter ended | | |
|---|---------------|------------------|---------------|
| | 31 March 2014 | 31 December 2013 | 31 March 2013 |
| | £m | £m | £m |
| Retained earnings | | | |
| At beginning of period | 867 | 10,144 | 10,596 |
| Profit/(loss) attributable to ordinary and B shareholders and other equity owners | | | |
| - continuing operations | 1,268 | (8,592) | 366 |
| - discontinued operations | 2 | 4 | 108 |
| Equity preference dividends paid | (65) | (99) | (71) |
| Paid-in equity dividends paid, net of tax | (10) | (15) | (10) |
| Transfer of contingent capital agreement | - | (1,208) | - |
| Termination of contingent capital agreement | - | 320 | - |
| Actuarial losses recognised in retirement benefit schemes | | | |
| - gross | - | 446 | - |
| - tax | - | (83) | - |
| Shares released for employee benefits | (36) | (76) | - |
| Share-based payments | | | |

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| | | | |
|--|--------|---------|---------|
| - gross | (39) | 26 | (37) |
| - tax | (1) | - | (3) |
| At end of period | 1,986 | 867 | 10,949 |
| Own shares held | | | |
| At beginning of period | (137) | (138) | (213) |
| Disposal of own shares | 1 | 1 | 2 |
| At end of period | (136) | (137) | (211) |
| Owners' equity at end of period | 60,324 | 58,742 | 70,633 |
| Non-controlling interests | | | |
| At beginning of period | 473 | 462 | 1,770 |
| Currency translation adjustments and other movements | 3 | 1 | 15 |
| Profit/(loss) attributable to non-controlling interests | | | |
| - continuing operations | 12 | (14) | 110 |
| - discontinued operations | 7 | 11 | 21 |
| Dividends paid | - | (5) | - |
| Movements in available-for-sale securities | | | |
| - unrealised (losses)/gains | (1) | (3) | 9 |
| - realised losses | 3 | 21 | - |
| - tax | - | - | (1) |
| - recycled to profit or loss on disposal of businesses (2) | - | - | (5) |
| Equity withdrawn and disposals | - | - | (1,387) |
| Equity raised | 115 | - | - |
| At end of period | 612 | 473 | 532 |
| Total equity at end of period | 60,936 | 59,215 | 71,165 |
| Total comprehensive income/(loss) recognised in the statement of changes in equity is attributable to: | | | |
| Non-controlling interests | 24 | 16 | 149 |
| Preference shareholders | 65 | 99 | 71 |
| Paid-in equity holders | 10 | 15 | 10 |
| Ordinary and B shareholders | 1,526 | (9,253) | 1,862 |
| | 1,625 | (9,123) | 2,092 |

Notes:

- (1) Net of tax - £11 million credit (Q1 2013 - £35 million charge).
- (2) Net of tax - Q1 2013 £1 million charge.

For an explanation of the movements in the available-for-sale, cash flow hedging and foreign exchange reserves refer to page 54.

Notes

1. Basis of preparation

The Group's condensed consolidated financial statements should be read in conjunction with the 2013 annual accounts which were prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS).

From 13 March 2013, DLG was classified as an associated undertaking and at 31 December 2013 the Group's interest in DLG was transferred to disposal groups. The Group disposed of its remaining interest in DLG in February 2014.

Going concern

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. Accordingly, the Interim Management Statement for the quarter ended 31 March 2014 has been prepared on a going concern basis.

2. Accounting policies

There have been no significant changes to the Group's principal accounting policies as set out on pages 377 to 389 of the 2013 Annual Report and Accounts. The adoption of a number of amendments to IFRSs that are effective for 2014 has not had a material effect on the Group's results.

Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgements and assumptions that are considered to be the most important to the portrayal of the Group's financial condition are those relating to pensions; goodwill; provisions for liabilities; deferred tax; loan impairment provisions and fair value of financial instruments. These critical accounting policies and judgments are described on pages 386 to 389 of the Group's 2013 Annual Report and Accounts.

Notes

3. Analysis of income, expenses and impairment losses

| | Quarter ended | | |
|--|---------------|------------------|---------------|
| | 31 March 2014 | 31 December 2013 | 31 March 2013 |
| | £m | £m | £m |
| Loans and advances to customers | 3,518 | 3,656 | 3,831 |
| Loans and advances to banks | 89 | 102 | 108 |
| Debt securities | 193 | 215 | 340 |
| Interest receivable | 3,800 | 3,973 | 4,279 |
| Customer accounts | 516 | 562 | 837 |
| Deposits by banks | 54 | 88 | 116 |
| Debt securities in issue | 287 | 294 | 353 |
| Subordinated liabilities | 212 | 216 | 222 |
| Internal funding of trading businesses | 36 | 49 | 81 |

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| | | | |
|--|-------|-------|-------|
| Interest payable | 1,105 | 1,209 | 1,609 |
| Net interest income | 2,695 | 2,764 | 2,670 |
| Fees and commissions receivable | | | |
| - payment services | 322 | 368 | 333 |
| - credit and debit card fees | 255 | 265 | 254 |
| - lending (credit facilities) | 332 | 344 | 353 |
| - brokerage | 105 | 110 | 109 |
| - investment management | 106 | 131 | 113 |
| - trade finance | 67 | 74 | 78 |
| - other | 104 | 78 | 76 |
| | 1,291 | 1,370 | 1,316 |
| Fees and commissions payable | (236) | (244) | (210) |
| Net fees and commissions | 1,055 | 1,126 | 1,106 |
| Foreign exchange | 218 | 206 | 195 |
| Interest rate | 248 | (54) | 199 |
| Credit | 356 | 2 | 552 |
| Own credit adjustments | 95 | 15 | 99 |
| Other | 35 | 8 | 70 |
| Income from trading activities | 952 | 177 | 1,115 |
| Gain/(loss) on redemption of own debt | 20 | (29) | (51) |
| Operating lease and other rental income | 91 | 103 | 138 |
| Own credit adjustments | 44 | (15) | 150 |
| Other changes in the fair value of financial assets and liabilities designated as at fair value through profit or loss and related derivatives | 20 | (91) | 12 |
| Changes in fair value of investment properties | (12) | (258) | (9) |
| Profit on sale of securities | 211 | 91 | 153 |
| Profit/(loss) on sale of: | | | |
| - property, plant and equipment | 24 | 11 | 18 |
| - subsidiaries and associated undertakings | 192 | 171 | (6) |
| Dividend income | 13 | 46 | 14 |
| Share of profits less losses of associated undertakings | 27 | 43 | 177 |
| Other income | 81 | (70) | (35) |
| Other operating income | 691 | 31 | 612 |

Notes

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

| | Quarter ended | | |
|---------------------------------------|------------------------|------------------------------|------------------------|
| | 31 March 2014 £m | 31 December 2013 £m | 31 March 2013 £m |
| Total non-interest income | 2,718 | 1,305 | 2,782 |
| Total income | 5,413 | 4,069 | 5,452 |
| Staff costs | (1,691) | (1,541) | (1,887) |
| Premises and equipment | (653) | (700) | (556) |
| Other (1) | (711) | (3,960) | (763) |
| Administrative expenses | (3,055) | (6,201) | (3,206) |
| Depreciation and amortisation | (272) | (336) | (387) |
| Write-down of goodwill | - | (1,059) | - |
| Write-down of other intangible assets | (82) | (344) | - |
| Operating expenses | (3,409) | (7,940) | (3,593) |
| Loan impairment losses | 360 | 5,131 | 1,036 |
| Securities impairment losses | 2 | (19) | (3) |
| Impairment losses | 362 | 5,112 | 1,033 |

Note:

(1) Q4 2013 includes bank levy of £200 million, Payment Protection Insurance costs of £465 million, Interest Rate Hedging Products redress and related costs of £500 million (Q1 2013 - £50 million) and regulatory and legal actions of £1,910 million.

Payment Protection Insurance (PPI)

No additional charge has been recognised for PPI in Q1 2014 (Q4 2013 - £465 million; Q1 2013 - nil). The cumulative charge in respect of PPI is £3.1 billion, of which £2.4 billion (77%) in redress and expenses had been utilised by 31 March 2014. Of the £3.1 billion cumulative charge, £2.8 billion relates to redress and £0.3 billion to administrative expenses.

| | Quarter ended | | |
|----------------------------|------------------------|---------------------------|------------------------|
| | 31 March 2014 £m | 31 December 2013 £m | 31 March 2013 £m |
| At beginning of period | 926 | 737 | 895 |
| Charge to income statement | - | 465 | - |
| Utilisations | (218) | (276) | (190) |
| At end of period | 708 | 926 | 705 |

The remaining provision provides coverage for approximately ten months for redress and administrative expenses, based on the current average monthly utilisation.

Interest that will be payable on successful complaints has been included in the provision as has the estimated cost to the Group of administering the redress process. The Group expects the majority of the cash outflows associated with this provision to have occurred by the end of 2014. There are uncertainties as to the eventual cost of redress which will depend on actual complaint volumes, take up and uphold rates and average redress costs. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different than the amount provided. The Group will continue to monitor the position closely and refresh its assumptions.

Notes

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

Interest Rate Hedging Products (IRHP) redress and related costs

Following an industry-wide review conducted in conjunction with the Financial Services Authority (now being dealt with by the Financial Conduct Authority (FCA)), the Group agreed to provide redress to customers in relation to certain interest rate hedging products sold to small and medium-sized businesses classified as retail clients under FSA rules. A cumulative charge of £1.3 billion has been recognised for redress, of which £1.0 billion relates to redress and £0.3 billion relates to administrative expenses. No additional charge has been recognised in Q1 2014 (Q4 2013 - £500 million; Q1 2013 - £50 million).

| | Quarter ended | | |
|----------------------------|------------------------|---------------------------|------------------------|
| | 31 March 2014 £m | 31 December 2013 £m | 31 March 2013 £m |
| At beginning of period | 1,077 | 631 | 676 |
| Charge to income statement | - | 500 | 50 |
| Utilisations | (199) | (54) | (24) |
| At end of period | 878 | 1,077 | 702 |

The Group is progressing with its review of sales of IRHP and providing basic redress to all customers who are entitled to it. Customers may also be entitled to be compensated for any consequential losses they may have suffered. The Group is not able to measure reliably any liability it may have and has accordingly not made any provision. Customers will receive redress monies without having to wait for the assessment of any additional consequential loss claims which are outside the allowance for such claims included in the 8% interest on redress due.

The Group continues to monitor the level of provision given the uncertainties over the number of transactions that will qualify for redress and the nature and cost of that redress.

Regulatory and legal actions

The Group is party to certain legal proceedings and regulatory investigations and continues to co-operate with a number of regulators. All such matters are periodically reassessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of the Group incurring a liability and to evaluate the extent to which a reliable estimate of any liability can be made. No additional charge was booked in Q1 2014 (Q4 2013 - £1,910 million; Q1 2013 - nil). The charge in Q4 2013 was primarily in respect of matters related to mortgage-backed securities and securities related litigation following recent third party litigation settlements and regulatory decisions.

Notes

4. Loan impairment provisions and REIL

Loan impairments

Operating profit/(loss) is stated after charging loan impairment losses of £360 million (Q4 2013 - £5,131 million; Q1 2013 - £1,036 million). The balance sheet loan impairment provisions decreased in the quarter ended 31 March 2014 from £25,216 million to £24,235 million and the movements thereon were:

| | 31 March 2014 | | | Quarter ended 31 December 2013 | | | 31 March 2013 | | |
|---|----------------|-----------|-------------|-----------------------------------|------------|-------------|---------------------|------------|-------------|
| | Group excl. | | | Group excl. Non- | | | Group excl. Non- | | |
| | RCR £m | RCR £m | Total £m | Non-Core £m | Core £m | Total £m | Non-Core £m | Core £m | Total £m |
| At beginning of period (1) | 8,716 | 16,500 | 25,216 | 10,101 | 11,320 | 21,421 | 10,062 | 11,188 | 21,250 |
| Transfers to disposal groups | - | - | - | (9) | - | (9) | - | - | - |
| Currency translation and other adjustments | (43) | (62) | (105) | (28) | (90) | (118) | 136 | 266 | 402 |
| Amounts written-off | (421) | (792) | (1,213) | (607) | (586) | (1,193) | (529) | (627) | (1,156) |
| Recoveries of amounts previously written-off | 41 | 11 | 52 | 38 | 27 | 65 | 49 | 16 | 65 |
| Charge to income statement - continuing operations | 254 | 106 | 360 | 1,924 | 3,207 | 5,131 | 599 | 437 | 1,036 |
| Unwind of discount (recognised in interest income) | (31) | (44) | (75) | (42) | (39) | (81) | (51) | (52) | (103) |
| At end of period | 8,516 | 15,719 | 24,235 | 11,377 | 13,839 | 25,216 | 10,266 | 11,228 | 21,494 |

Note:

(1) As a result of the creation of RCR on 1 January 2014, £855 million of provisions were transferred from Non-Core to the original donating divisions and £16,500 million of provisions were transferred to RCR, £12,984 million from Non-Core and £3,516 million from other divisions.

Provisions at 31 March 2014 include £62 million in respect of loans and advances to banks (31 December 2013 - £63 million; 31 March 2013 - £119 million).

Risk elements in lending

Risk elements in lending (REIL) comprises impaired loans and accruing loans past due 90 days or more as to principal or interest. Impaired loans are all loans (including loans subject to forbearance) for which an impairment provision has been established; for collectively assessed loans, impairment loss provisions are not allocated to individual loans and the entire portfolio is included in impaired loans. Accruing loans past due 90 days or more comprise loans past due 90 days where no impairment loss is expected and those awaiting individual assessment. A latent provision is established

for the latter.

Notes

4. Loan impairment provisions and REIL (continued)

REIL decreased by £2,039 million in the quarter to £37,353 million and the movements thereon were:

| | 31 March 2014 | | | Quarter ended 31 December 2013 | | | 31 March 2013 | | |
|---|----------------|-----------|-------------|-----------------------------------|------------|-------------|---------------------|------------|-------------|
| | Group excl. | | | Group excl. Non- | | | Group excl. Non- | | |
| | RCR £m | RCR £m | Total £m | Non-Core £m | Core £m | Total £m | Non-Core £m | Core £m | Total £m |
| At beginning of period (1) | 15,276 | 24,116 | 39,392 | 20,551 | 19,815 | 40,366 | 19,766 | 21,374 | 41,140 |
| Currency translation and other adjustments | (65) | (98) | (163) | (59) | (33) | (92) | 376 | 528 | 904 |
| Additions | 1,463 | 1,323 | 2,786 | 2,298 | 959 | 3,257 | 2,097 | 939 | 3,036 |
| Transfers | (56) | 16 | (40) | (28) | (1) | (29) | 89 | 31 | 120 |
| Transfer to performing book | (103) | (3) | (106) | (106) | (27) | (133) | (41) | (33) | (74) |
| Repayments and disposals | (1,743) | (1,560) | (3,303) | (1,671) | (1,113) | (2,784) | (1,472) | (1,456) | (2,928) |
| Amounts written-off | (421) | (792) | (1,213) | (607) | (586) | (1,193) | (529) | (627) | (1,156) |
| At end of period | 14,351 | 23,002 | 37,353 | 20,378 | 19,014 | 39,392 | 20,286 | 20,756 | 41,042 |

Note:

- (1) As a result of the creation of RCR on 1 January 2014, £1,328 million of REIL were transferred from Non-Core to the original donating divisions and £24,116 million of REIL were transferred to RCR, £17,686 million from Non-Core and £6,430 million from other divisions.

Provision coverage of REIL was 65% at 31 March 2014 (31 December 2013 - 64%; 31 March 2013 - 52%).

Notes

5. Tax

The actual tax (charge)/credit differs from the expected tax (charge)/credit computed by applying the standard UK corporation tax rate of 21.5% (2013 - 23.25%).

| Quarter ended | | |
|---------------|----------|----------|
| 31 | | |
| 31 March | December | 31 March |
| 2014 | 2013 | 2013 |
| £m | £m | £m |

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| | | | |
|--|-------|---------|-------|
| Profit/(loss) before tax | 1,642 | (8,983) | 826 |
| Expected tax (charge)/credit | (353) | 2,088 | (192) |
| Losses in period where no deferred tax asset recognised | (13) | (688) | (72) |
| Foreign profits taxed at other rates | (57) | (44) | (88) |
| UK tax rate change impact | - | (116) | - |
| Unrecognised timing differences | 4 | (6) | 3 |
| Non-deductible goodwill impairment | - | (247) | - |
| Items not allowed for tax | | | |
| - losses on disposal and write-downs | - | (15) | - |
| - UK bank levy | (19) | (6) | (20) |
| - regulatory and legal actions | - | (54) | - |
| - employee share schemes | (3) | 10 | (7) |
| - other disallowable items | (25) | (99) | (37) |
| Non-taxable items | | | |
| - gain on sale of Direct Line Insurance Group | 41 | - | - |
| - gain on sale of Global Merchant Services | - | 37 | - |
| - other non-taxable items | 14 | 56 | 55 |
| Taxable foreign exchange movements | 1 | (11) | 2 |
| Losses brought forward and utilised | 36 | 13 | 5 |
| Reduction in carrying value of deferred tax asset in respect of losses in UK | - | (701) | - |
| Adjustments in respect of prior periods | 12 | 160 | 1 |
| Actual tax (charge)/credit | (362) | 377 | (350) |

At 31 March 2014 the Group has recognised a deferred tax asset of £3,289 million (31 December 2013 - £3,478 million) and a deferred tax liability of £583 million (31 December 2013 - £507 million). These include amounts recognised in respect of UK trading losses of £2,240 million (31 December 2013 - £2,411 million). Under UK tax legislation, these UK losses can be carried forward indefinitely to be utilised against profits arising in the future. The Group has considered the carrying value of this asset as at 31 March 2014 and concluded that it is recoverable based on future profit projections.

6.Profit/(loss) attributable to non-controlling interests

| | Quarter ended | | |
|---|---------------|----------|----------|
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| | £m | £m | £m |
| RBS Sempra Commodities JV | - | (2) | (2) |
| RFS Holdings BV Consortium Members | 17 | (5) | 113 |
| Direct Line Group | - | - | 19 |
| Other | 2 | 4 | 1 |
| Profit/(loss) attributable to non-controlling interests | 19 | (3) | 131 |

Notes

7. Dividends

Dividends paid to preference shareholders and paid-in equity holders are as follows:

| | 31 March 2014 £m | Quarter ended 31 December 2013 £m | 31 March 2013 £m |
|---|------------------------|--|------------------------|
| Preference shareholders | | | |
| Non-cumulative preference shares of US\$0.01 | 65 | 41 | 71 |
| Non-cumulative preference shares of €0.01 | - | 57 | - |
| Non-cumulative preference shares of £1 | - | 1 | - |
| Paid-in equity holders | | | |
| Interest on securities classified as equity, net of tax | 10 | 15 | 10 |
| | 75 | 114 | 81 |

The Group has now resumed payments on all discretionary non-equity capital instruments following the end of the European Commission ban in 2012 for RBSG and 2013 for RBS N.V. Future coupons and dividends on hybrid capital instruments will only be paid subject to, and in accordance with, the terms of the relevant instruments.

The Board has decided to continue partially neutralising the Common Equity Tier 1 impact of Group hybrid capital instruments. It is expected that £300 million of new equity will be issued during the course of 2014 to achieve this aim.

8. Earnings/(loss) per ordinary and equivalent B share

| | Quarter ended 31 December 2013 |
|---|--|
| Earnings | |
| Loss from continuing operations attributable to ordinary and B shareholders (£m) | (8,706) |
| Profit from discontinued operations attributable to ordinary and B shareholders (£m) | 4 |
| Loss attributable to ordinary and B shareholders (£m) | (8,702) |
| Ordinary shares outstanding during the period (millions) | 6,156 |
| Equivalent B shares in issue during the period (millions) | 5,100 |
| Weighted average number of ordinary shares and equivalent B shares outstanding during the period (millions) | 11,256 |
| Basic loss per ordinary and equivalent B share from continuing operations | (77.3p) |

When calculating earnings per share, IFRS requires profit or loss to be allocated to participating equity instruments as if all of the profit or loss for the period had been distributed. The Dividend Access Share is entitled to a dividend amounting to the greater of 7% of the aggregate issue price of B shares and 250% of the ordinary dividend rate

multiplied by the number of B shares issued, less any dividends paid on the B shares and on ordinary shares issued on their conversion. Consequently, Q1 2014 and Q1 2013 earnings are allocated solely to the dividend access share and earnings per ordinary and equivalent B share are nil for these periods.

Notes

8. Earnings/(loss) per ordinary and equivalent B share (continued)

Adjusted earnings/(loss) per ordinary and equivalent B share excludes the rights of the dividend access share and has been calculated on the basis set out below:

| | Quarter ended | | |
|--|---------------|----------|----------|
| | 31 | | |
| | 31 March | December | 31 March |
| | 2014 | 2013 | 2013 |
| Earnings | | | |
| Profit/(loss) from continuing operations attributable to ordinary and B shareholders (£m) | 1,193 | (8,706) | 285 |
| Profit from discontinued operations attributable to ordinary and B shareholders (£m) | 2 | 4 | 108 |
| Profit/(loss) attributable to ordinary and B shareholders (£m) | 1,195 | (8,702) | 393 |
| Ordinary shares outstanding during the period (millions) | 6,181 | 6,156 | 6,031 |
| Equivalent B shares in issue during the period (millions) | 5,100 | 5,100 | 5,100 |
| Weighted average number of ordinary shares and equivalent B shares outstanding during the period (millions) | 11,281 | 11,256 | 11,131 |
| Effect of dilutive share options and convertible securities (millions) | 110 | - | 114 |
| Diluted weighted average number of ordinary shares and equivalent B shares outstanding during the period (millions) | 11,391 | 11,256 | 11,245 |
| Earnings/(loss) per ordinary and equivalent B share from continuing operations (excluding the rights of the dividend access share) | 10.6p | (77.3p) | 2.6p |
| Own credit adjustments | (0.9p) | - | (1.8p) |
| Payment Protection Insurance costs | - | 3.1p | - |
| Interest Rate Hedging Products redress and related costs | - | 3.4p | 0.3p |
| Regulatory and legal actions | - | 11.1p | - |
| Integration and restructuring costs | 0.9p | 1.2p | 0.9p |
| (Gain)/loss on redemption of own debt | (0.2p) | 0.2p | 0.4p |
| Write-down of goodwill | - | 9.4p | - |
| Amortisation of purchased intangible assets | - | 0.3p | 0.3p |
| Strategic disposals | (1.7p) | (1.5p) | 0.1p |
| Bank levy | - | 1.8p | - |
| Write-down of other intangible assets | 0.7p | 3.1p | - |
| Adjusted earnings/(loss) per ordinary and equivalent B share from | 9.4p | (45.2p) | 2.8p |

continuing operations

Notes

9. Trading valuation reserves and own credit adjustments

There have been no significant changes in the valuation methodologies in relation to valuation reserve on traded instruments or own credit adjustment (OCA) recorded on held-for-trading (HFT) and designated as at fair value through profit or loss (DFV) debt securities in issue and derivative liabilities from those discussed in the 2013 Annual Report and Accounts.

Valuation reserves

| | 31 March 2014 £m | 31 December 2013 £m | 31 March 2013 £m |
|--|------------------------|------------------------------|------------------------|
| Credit valuation adjustments (CVA) | | | |
| - monoline insurers and credit derivative product companies (CDPC) | 75 | 99 | 387 |
| - other counterparties | 1,532 | 1,667 | 2,210 |
| | 1,607 | 1,766 | 2,597 |
| Other valuation reserves | | | |
| - bid-offer | 476 | 513 | 581 |
| - funding valuation adjustment (FVA) | 497 | 424 | 523 |
| - product and deal specific | 744 | 745 | 748 |
| - other | 21 | 8 | 180 |
| | 1,738 | 1,690 | 2,032 |
| Valuation reserves | 3,345 | 3,456 | 4,629 |

Key points

- The decrease in CVA was primarily driven by credit spreads tightening, together with the impact of restructuring certain exposures.
- The decrease in bid-offer reserves reflects risk reduction.
- The increase in FVA was driven by additional funding related reserves and increased exposures due to market movements.

Notes

9. Trading valuation reserves and own credit adjustment (continued)

Own credit adjustment (OCA)

| Cumulative OCA DR/(CR) | Debt securities in issue | | | Subordinated liabilities | | Total Derivatives £m | Total (3) £m |
|---|--------------------------|-----------|-------------|--------------------------|-------|-------------------------|-----------------|
| | HFT £m | DFV £m | Total £m | DFV £m | Total | | |
| 31 March 2014 | (368) | 2 | (366) | 261 | (105) | 107 | 2 |
| 31 December 2013 | (467) | (33) | (500) | 256 | (244) | 96 | (148) |
| 31 March 2013 | (597) | 148 | (449) | 433 | (16) | 325 | 309 |
| Carrying values of underlying liabilities | £bn | £bn | £bn | £bn | £bn | | |
| 31 March 2014 | 8.1 | 14.2 | 22.3 | 0.9 | 23.2 | | |
| 31 December 2013 | 8.6 | 15.8 | 24.4 | 0.9 | 25.3 | | |
| 31 March 2013 | 10.8 | 22.2 | 33.0 | 1.1 | 34.1 | | |

Key points

- The cumulative OCA increased during the quarter due to widening of spreads and time decay.
- Senior issued debt OCA is determined by reference to secondary debt issuance spreads. The five year spread widened to 97 basis points (31 December 2013 - 92 basis points; 31 March 2013 - 103 basis points).
- RBS CDS spreads remained broadly flat during the quarter.

10. Contingent liabilities and commitments

| | 31 March 2014 | | | 31 December 2013 | | |
|---|------------------------------|-----------|-------------|----------------------------------|----------------|-------------|
| | Group excl. Non-RCR £m | RCR £m | Total £m | Group excl. Non-Core £m | Non-Core £m | Total £m |
| Contingent liabilities | | | | | | |
| Guarantees and assets pledged as collateral security | 19,634 | 270 | 19,904 | 19,563 | 616 | 20,179 |
| Other | 6,039 | 236 | 6,275 | 5,893 | 98 | 5,991 |
| | 25,673 | 506 | 26,179 | 25,456 | 714 | 26,170 |
| Commitments | | | | | | |
| Undrawn formal standby facilities, credit lines and other | 208,550 | 2,482 | 211,032 | 210,766 | 2,280 | 213,046 |
| Other | 2,590 | 13 | 2,603 | 2,793 | - | 2,793 |
| | 211,140 | 2,495 | 213,635 | 213,559 | 2,280 | 215,839 |
| Contingent liabilities and commitments | 236,813 | 3,001 | 239,814 | 239,015 | 2,994 | 242,009 |

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

Notes

11. Litigation, investigations and reviews

Except for the developments noted below, there have been no material changes to litigation, investigations and reviews as disclosed in the Annual Results for the year ended 31 December 2013.

Litigation

Shareholder litigation

As previously disclosed, claims were issued in the High Court of Justice of England and Wales in March and July 2013, against the Group (and in one of those claims, also against certain former individual officers and directors) alleging that untrue and misleading statements and/or improper omissions were made in connection with the rights issue announced by the Group on 22 April 2008 in breach of the Financial Services and Markets Act 2000. On 30 July 2013 these and other similar threatened claims were consolidated by the Court via a Group Litigation Order. The Group's defence to the claims was filed on 13 December 2013. On 28 April 2014 a further High Court claim was issued against the Group under the Group Litigation Order.

Investigations and reviews

Card Protection Plan Limited

As previously disclosed, the Financial Conduct Authority announced on 22 August 2013 that Card Protection Plan Limited (CPP) and 13 banks and credit card issuers, including the Group, had agreed to a compensation scheme in relation to the sale of card and/or identity protection insurance to certain retail customers. The compensation scheme has now been approved by the requisite number of customers and by the High Court of England and Wales. CPP has written to affected policyholders to ask those who believe they have been mis-sold to submit their claims. Claims that have been submitted to date are currently being processed. Save for exceptional cases, all claims must be submitted before 31 August 2014. The Group has made appropriate levels of provision based on its estimate of ultimate exposure.

Tomlinson Report

As previously disclosed, on 25 November 2013, a report by Lawrence Tomlinson, entrepreneur in residence at the UK government's Department for Business Innovation and Skills, was published (Tomlinson Report). The Tomlinson Report was critical of the Group's Global Restructuring Group's treatment of SMEs. In response to the Tomlinson Report, the Bank instructed the law firm Clifford Chance to conduct an independent review of the principal allegation made in the Tomlinson Report: the Group's Global Restructuring Group was alleged to be culpable of systematic and institutional behaviour in artificially distressing otherwise viable businesses and through that putting businesses into insolvency. Clifford Chance published its report on 17 April 2014 and concluded that there was no evidence to support the principal allegation.

The Group continues to cooperate fully with the ongoing FCA investigation.

SME banking market study

As previously disclosed, the Office of Fair Trading (OFT) announced its market study on competition in banking for SMEs in England and Wales, Scotland and Northern Ireland on 19 June 2013. Following a consultation on the scope of the market study, the OFT published an update paper on 27 September 2013 setting out its proposed scope. On 11

March 2014, the OFT set out some competition concerns on SME banking but also announced that its successor body, the Competition and Markets Authority (CMA), would continue the review. On the same day, the CMA indicated that it expected to come to a provisional decision on whether or not to refer SME banking to a more detailed phase 2 investigation by Summer 2014. The OFT also announced on 11 March 2014 that the CMA would be undertaking an update of the OFT's 2013 review of personal current accounts. The preliminary findings of this update are expected by Summer 2014.

Notes

12. Other developments

Completion of sale of remaining interest in Direct Line Insurance Group (DLG)

The Group completed the sale of its remaining interest of 423.2 million ordinary shares in DLG on 27 February 2014 at a price of £2.63 pence per share, raising gross proceeds of £1,113 million and realising a gain of £191 million.

RBS has now sold all its ordinary shares in DLG except for 4.2 million shares held to satisfy long term incentive plan awards granted by RBS to DLG management. The sale marks the completion of RBS's EC-mandated disposal of its interest in DLG.

Dividend Access Share and revised State Aid terms

RBS announced on 9 April 2014 that it has entered into an agreement ('DAS Retirement Agreement') with Her Majesty's Treasury ('HMT') to provide for the future retirement of the Dividend Access Share ('DAS') subject to approval by the company's independent shareholders. The DAS Retirement Agreement sets out the process for removal of the DAS - a key element of the Government's 2009 capital injection into RBS and the associated European Commission approval of the State Aid package for the bank. Among other benefits, the retirement of the DAS will in future allow the Board to state more clearly a dividend policy to existing and potential investors.

The DAS was an important factor in the EC's assessment of the State aid RBS received and was part of the basis for its approval of that support in 2009. It was therefore necessary for the proposal for the eventual retirement of the DAS to be notified to the EC by HMT and this was done by HMT.

The EC concluded that the new arrangements for the eventual retirement of the DAS did not constitute new State aid and approved the changes to RBS's restructuring plan in its State Aid Amendment Decision of 9 April 2014. In addition, this decision included two further key commitments made by HMT to the EC as follows:

The deadline for RBS's divestment of the Williams & Glyn business (by Initial Public Offering (IPO), whole business sale or tendering procedure for its entire interest) has been extended. In the expected event of divestment by IPO, RBS must carry out this IPO before 31 December 2016 and complete the disposal of its entire interest in the Williams & Glyn business by 31 December 2017.

Citizens Financial Group, Inc. ('Citizens') will be disposed of by 31 December 2016, with an automatic 12 month extension if market metrics indicate that an IPO or subsequent tranches of disposal cannot be completed in an orderly fashion or at a fair value. On 1 November 2013, RBS announced that it would accelerate the divestment of Citizens with a partial IPO and that it planned to fully divest the business by the end of 2016. The obligation under the State Aid Amendment Decision to dispose of Citizens is therefore in line with RBS's planned and publicly stated divestment timetable and already reflected in its capital and strategic planning.

RBS has entered into a Revised State Aid Commitment Deed under which it undertakes to do all acts and things necessary to ensure that HMT is able to comply with the revised State aid commitments made by HMT to the EC. HMT's obligations to the EC and RBS's commitments under the Revised State Aid Commitment Deed will remain in effect even if the DAS Retirement Agreement is not approved by independent shareholders.

Notes

12. Other developments (continued)

Board changes

On 27 February 2014, RBS announced that Philip Scott, a non-executive director, will step down from the Board by 31 October 2014.

Morten Friis was appointed as a non-executive director with effect from 10 April 2014.

Anthony Di Iorio, a non-executive director, stepped down from the Board on 26 March 2014.

On 4 April 2014, RBS announced that Ewen Stevenson had been appointed as an executive director and RBS Chief Financial Officer with effect from 19 May 2014.

Cap on variable remuneration

The fourth EU Capital Requirements Directive (CRD IV), implemented for banks in the UK by the Prudential Regulation Authority, imposes a 1:1 cap on variable remuneration in relation to salary; however with shareholder approval it is possible to award variable remuneration up to 200% of fixed pay (i.e. a 2:1 cap).

All of our major competitors have indicated that they will seek approval from their shareholders to introduce a 2:1 cap and the Board believes the best commercial solution for RBS would be to have the flexibility on variable compensation which is now emerging as the sector norm. This would also allow RBS to maintain the maximum amount of compensation that could be subject to performance conditions including claw back for conduct issues that may emerge in future.

On 24 April UKFI informed the board that it would vote against any resolution which proposes a 2:1 ratio. In these circumstances, the Board expects that such a resolution would fail and will therefore not be brought to the Annual General Meeting. HM Treasury has commented that it considers an increase to the cap on variable remuneration cannot be justified whilst RBS has yet to complete its restructuring and remains a majority publicly-owned bank, and notes that as a result of its pay policy RBS will remain a 'back-marker' in its overall remuneration compared to other banks.

The Board acknowledges that this outcome creates a commercial and prudential risk which it must try to mitigate within the framework of a 1:1 fixed to variable compensation ratio.

EU financial transaction tax

On 30 April 2014, the European Court rejected a challenge from the UK Government of the initial proposal for the EU financial transaction tax on procedural grounds. A further challenge on substantive grounds may follow, depending on the nature of any subsequent Directive enacted in the future, an announcement on which may be forthcoming after the 6 May 2014 ECOFIN meeting. RBS continues to monitor developments.

Rating agencies

Moody's Investors Service

On 13 March 2014, Moody's Investors Service ('Moody's') lowered its credit ratings of RBS Group plc and certain subsidiaries by one notch. The long term ratings of RBS Group plc were lowered to 'Baa2' from 'Baa1' whilst the long term ratings of RBS plc and National Westminster Bank Plc were lowered to 'Baa1' from 'A3'. Short term ratings were affirmed as unchanged. Post the review, a negative ratings outlook was assigned.

Notes

12. Other developments (continued)

The ratings of Ulster Bank Ltd and Ulster Bank Ireland Ltd were also impacted by the rating action on the RBS Group. The long term and short term ratings of these entities were lowered by one notch to 'Baa3' (long term)/'P-3' (short term) from 'Baa2'/'P-2'. A negative outlook was assigned to ratings, in line with the ratings outlook on the RBS Group.

Moody's rating actions were prompted by their concerns over the RBS Group's execution risks relating to the effective roll-out of the Group's strategic plans, their concerns over the impact of restructuring costs on the RBS Group's profitability and their concern that the RBS Group's capitalisation is vulnerable to short-term shocks. Despite these short to medium term concerns, Moody's expects the RBS Group's capitalisation to improve in the medium to long term as the RBS Group's recovery plan is progressed. The agency also considers that, if executed according to plan, the RBS Group's intended restructuring will ultimately be positive for creditors in the medium to long term as it will deliver a more efficient UK-focused bank with lower risk operations.

The long term ratings of subsidiaries, RBS Citizens National Association and Citizens Bank of Pennsylvania were not impacted by the rating action on the RBS Group and the long term ratings of these entities were affirmed as unchanged by Moody's. Ratings are on a negative outlook.

Fitch Ratings

On 26 March 2014 Fitch Ratings ('Fitch') affirmed as unchanged the long term ratings of RBS Group plc and subsidiaries, RBS plc and National Westminster Bank Plc, whilst revising the rating outlooks of these entities to negative from stable. The outlook change was driven by the conclusion of Fitch's global review of 'Sovereign Support' incorporated in Fitch's bank ratings.

On 27 March 2014 Fitch also revised the rating outlooks of certain RBS Group subsidiaries, including RBS NV, Ulster Bank Ltd and Ulster Bank Ireland Ltd, to negative from stable to align these with the revised ratings outlook of RBS Group plc. RBS Citizens National Association and Citizens Bank of Pennsylvania were not impacted by these rating actions and long term rating outlooks of these entities remain stable.

Standard & Poor's

On 23 April 2014, Standard & Poor's ('S&P') published a report setting out their views on potential risks for banks and key considerations for rating banks in an independent Scotland.

On 30 April 2014, S&P affirmed as unchanged its ratings on the Group and notable subsidiaries. Negative rating outlooks were maintained.

Current RBS Group plc and subsidiary ratings are shown in the table below:

| Moody's | | S&P | | Fitch | |
|-----------|------------|-----------|------------|-----------|------------|
| Long term | Short term | Long term | Short term | Long term | Short term |

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| | | | | | | |
|--|------|-----|------|-----|------|----|
| RBS Group plc | Baa2 | P-2 | BBB+ | A-2 | A | F1 |
| The Royal Bank of Scotland plc | Baa1 | P-2 | A- | A-2 | A | F1 |
| National Westminster Bank Plc | Baa1 | P-2 | A- | A-2 | A | F1 |
| RBS N.V. | Baa1 | P-2 | A- | A-2 | A | F1 |
| RBS Citizens, National Association/Citizens Bank of Pennsylvania | A3 | P-2 | A- | A-2 | BBB+ | F2 |
| Ulster Bank Ltd/Ulster Bank Ireland Ltd | Baa3 | P-3 | BBB+ | A-2 | A- | F1 |

Notes

13. Date of approval

This announcement was approved by the Board of directors on 1 May 2014.

14. Post balance sheet events

Other than matters referred to in Note 12, there have been no significant events between 31 March 2014 and the date of approval of this announcement which would require a change to or additional disclosure in the announcement.

Additional information

Share information

| | 31 March 2014 | 31 December 2013 |
|------------------------------------|---------------|------------------|
| Ordinary share price | 311.0p | 338.1p |
| Number of ordinary shares in issue | 6,241m | 6,203m |

Statutory results

Financial information contained in this document does not constitute statutory accounts within the meaning of section 434 of the Companies Act 2006 ('the Act'). The statutory accounts for the year ended 31 December 2013 will be filed with the Registrar of Companies following the company's Annual General Meeting. The report of the auditor on those statutory accounts was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Act.

The Q1 2014 results have not been audited or reviewed by the auditors.

Financial calendar

Annual General Meeting 25 June 2014

2014 interim results 1 August 2014

2014 third quarter interim management statement 31 October 2014

Appendix 1

Income statement reconciliations
and segmental analysis

Appendix 1 Income statement reconciliations and segmental analysis

| | 31 March 2014 | | | Quarter ended 31 December 2013 | | | 31 March 2013 | | |
|---|---------------|--|-----------------|-----------------------------------|--|-----------------|---------------|--|-----------------|
| | Managed £m | One-off reallocation items £m | Statutory £m | Managed £m | One-off reallocation items £m | Statutory £m | Managed £m | One-off reallocation items £m | Statutory £m |
| Interest receivable | 3,799 | 1 | 3,800 | 3,973 | - | 3,973 | 4,279 | - | 4,279 |
| Interest payable | (1,101) | (4) | (1,105) | (1,206) | (3) | (1,209) | (1,607) | (2) | (1,609) |
| Net interest income | 2,698 | (3) | 2,695 | 2,767 | (3) | 2,764 | 2,672 | (2) | 2,670 |
| Fees and commissions receivable | 1,291 | - | 1,291 | 1,370 | - | 1,370 | 1,316 | - | 1,316 |
| Fees and commissions payable | (236) | - | (236) | (244) | - | (244) | (210) | - | (210) |
| Income from trading activities | 856 | 96 | 952 | 162 | 15 | 177 | 1,016 | 99 | 1,115 |
| Gain/(loss) on redemption of own debt | - | 20 | 20 | - | (29) | (29) | - | (51) | (51) |
| Other operating income | 444 | 247 | 691 | (115) | 146 | 31 | 367 | 245 | 612 |
| Non-interest income | 2,355 | 363 | 2,718 | 1,173 | 132 | 1,305 | 2,489 | 293 | 2,782 |

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| | | | | | | | | | |
|--|---------|-------|---------|---------|---------|---------|---------|-------|---------|
| Total income | 5,053 | 360 | 5,413 | 3,940 | 129 | 4,069 | 5,161 | 291 | 5,452 |
| Staff costs | (1,647) | (44) | (1,691) | (1,539) | (2) | (1,541) | (1,821) | (66) | (1,887) |
| Premises and equipment | (594) | (59) | (653) | (614) | (86) | (700) | (553) | (3) | (556) |
| Other administrative expenses | (687) | (24) | (711) | (785) | (3,175) | (3,960) | (678) | (85) | (763) |
| Depreciation and amortisation | (262) | (10) | (272) | (309) | (27) | (336) | (329) | (58) | (387) |
| Write down of goodwill and other intangible assets | - | (82) | (82) | - | (1,403) | (1,403) | - | - | - |
| Operating expenses | (3,190) | (219) | (3,409) | (3,247) | (4,693) | (7,940) | (3,381) | (212) | (3,593) |
| Profit/(loss) before impairment losses | 1,863 | 141 | 2,004 | 693 | (4,564) | (3,871) | 1,780 | 79 | 1,859 |
| Impairment losses | (362) | - | (362) | (5,112) | - | (5,112) | (1,033) | - | (1,033) |
| Operating profit/(loss) | 1,501 | 141 | 1,642 | (4,419) | (4,564) | (8,983) | 747 | 79 | 826 |

Appendix 1 Income statement reconciliations and segmental analysis

| | 31 March 2014 | | | Quarter ended 31 December 2013 | | | 31 March 2013 | | |
|--|---------------|--|-----------------|-----------------------------------|--|-----------------|---------------|--|-----------------|
| | Managed | One-off reallocation items £m | Statutory £m | Managed | One-off reallocation items £m | Statutory £m | Managed | One-off reallocation items £m | Statutory £m |
| Operating profit/(loss) | 1,501 | 141 | 1,642 | (4,419) | (4,564) | (8,983) | 747 | 79 | 826 |
| Own credit adjustments (1) | 139 | (139) | - | - | - | - | 249 | (249) | - |
| Payment Protection Insurance costs | - | - | - | (465) | 465 | - | - | - | - |
| Interest Rate Hedging Products redress and related costs | - | - | - | (500) | 500 | - | (50) | 50 | - |
| Regulatory and legal actions | - | - | - | (1,910) | 1,910 | - | - | - | - |
| Integration and restructuring costs | (129) | 129 | - | (180) | 180 | - | (122) | 122 | - |
| Gain/(loss) on redemption of own debt | 20 | (20) | - | (29) | 29 | - | (51) | 51 | - |
| | - | - | - | (1,059) | 1,059 | - | - | - | - |

| | | | | | | | | | |
|---|-------|-------|-------|---------|-------|---------|-------|-------|-------|
| Write-down of goodwill | | | | | | | | | |
| Amortisation of purchased intangible assets | (7) | 7 | - | (35) | 35 | - | (41) | 41 | - |
| Strategic disposals | 191 | (191) | - | 168 | (168) | - | (6) | 6 | - |
| Bank levy | - | - | - | (200) | 200 | - | - | - | - |
| Write-down of other intangible assets | (82) | 82 | - | (344) | 344 | - | - | - | - |
| RFS Holdings minority interest | 9 | (9) | - | (10) | 10 | - | 100 | (100) | - |
| Profit/(loss) before tax | 1,642 | - | 1,642 | (8,983) | - | (8,983) | 826 | - | 826 |
| Tax (charge)/credit | (362) | - | (362) | 377 | - | 377 | (350) | - | (350) |
| Profit/(loss) from continuing operations | 1,280 | - | 1,280 | (8,606) | - | (8,606) | 476 | - | 476 |
| Profit from discontinued operations, net of tax | 9 | - | 9 | 15 | - | 15 | 129 | - | 129 |
| Profit/(loss) for the period | 1,289 | - | 1,289 | (8,591) | - | (8,591) | 605 | - | 605 |
| Non-controlling interests | (19) | - | (19) | 3 | - | 3 | (131) | - | (131) |
| Preference share and other dividends | (75) | - | (75) | (114) | - | (114) | (81) | - | (81) |
| Profit/(loss) attributable to ordinary and B shareholders | 1,195 | - | 1,195 | (8,702) | - | (8,702) | 393 | - | 393 |

Note:

- (1) Reallocation of £95 million gain (Q4 2013 - £15 million gain; Q1 2013 - £99 million gain) to income from trading activities and £44 million gain (Q4 2013 - £15 million loss; Q1 2013 - £150 million gain) to other operating income.

Appendix 1 Income statement reconciliations and segmental analysis

Segmental analysis

Analysis of divisional operating profit/(loss)

The following tables provide an analysis of divisional operating profit/(loss) by main income statement captions. The divisional income statements on pages 17 to 52 reflect certain presentational reallocations as described in the notes below. These do not affect the overall operating profit/(loss).

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RBS Capital Resolution was established on 1 January 2014 by the transfer of capital intensive and higher risk assets from existing divisions. Non-Core was dissolved on 31 December. No business lines moved to RCR and so comparative data has not been restated.

| | Net interest income £m | Non- interest income £m | Total income £m | Operating expenses £m | Impairment (losses)/ recoveries £m | Operating profit/(loss) £m |
|---|---------------------------------|----------------------------------|-----------------------|-----------------------------|---|----------------------------------|
| Quarter ended 31 March 2014 | | | | | | |
| UK Retail | 994 | 246 | 1,240 | (648) | (59) | 533 |
| UK Corporate | 706 | 397 | 1,103 | (549) | (63) | 491 |
| Wealth | 171 | 103 | 274 | (197) | 1 | 78 |
| International Banking | 180 | 248 | 428 | (308) | (10) | 110 |
| Ulster Bank | 159 | 47 | 206 | (142) | (47) | 17 |
| US Retail & Commercial | 488 | 229 | 717 | (500) | (73) | 144 |
| Markets | 48 | 909 | 957 | (637) | (2) | 318 |
| Central items | (40) | 95 | 55 | (130) | (1) | (76) |
| | 2,706 | 2,274 | 4,980 | (3,111) | (254) | 1,615 |
| RCR (1) | (8) | 81 | 73 | (79) | (108) | (114) |
| Managed basis | 2,698 | 2,355 | 5,053 | (3,190) | (362) | 1,501 |
| Reconciling items: | | | | | | |
| Own credit adjustments (2) | - | 139 | 139 | - | - | 139 |
| Integration and restructuring costs | - | - | - | (129) | - | (129) |
| Gain on redemption of own debt | - | 20 | 20 | - | - | 20 |
| Strategic disposals | - | 191 | 191 | - | - | 191 |
| Amortisation of purchased intangible assets | - | - | - | (7) | - | (7) |
| Write-down of intangible assets | - | - | - | (82) | - | (82) |
| RFS Holdings minority interest | (3) | 13 | 10 | (1) | - | 9 |
| Statutory basis | 2,695 | 2,718 | 5,413 | (3,409) | (362) | 1,642 |

Notes:

- (1) Reallocation of £3 million between net interest income and non-interest income in respect of funding costs of rental assets.
- (2) Comprises £95 million gain included in Income from trading activities and £44 million gain included in Other operating income on a statutory basis.

Appendix 1 Income statement reconciliations and segmental analysis

Segmental analysis (continued)

| | Net interest income £m | Non- interest income £m | Total income £m | Operating expenses £m | Impairment losses £m | Operating profit/(loss) £m |
|--------------------------------|---------------------------------|----------------------------------|-----------------------|-----------------------------|----------------------------|----------------------------------|
| Quarter ended 31 December 2013 | | | | | | |
| UK Retail | 1,014 | 253 | 1,267 | (722) | (73) | 472 |
| UK Corporate | 728 | 401 | 1,129 | (585) | (659) | (115) |

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| | | | | | | |
|--|-------|-------|-------|---------|---------|---------|
| Wealth | 174 | 103 | 277 | (207) | (21) | 49 |
| International Banking | 173 | 271 | 444 | (337) | (47) | 60 |
| Ulster Bank | 169 | 38 | 207 | (136) | (1,067) | (996) |
| US Retail & Commercial | 479 | 240 | 719 | (531) | (46) | 142 |
| Markets (1) | 61 | 565 | 626 | (553) | (34) | 39 |
| Central items | 7 | (143) | (136) | (37) | (1) | (174) |
| | 2,805 | 1,728 | 4,533 | (3,108) | (1,948) | (523) |
| Non-Core (2) | (38) | (555) | (593) | (139) | (3,164) | (3,896) |
| Managed basis | 2,767 | 1,173 | 3,940 | (3,247) | (5,112) | (4,419) |
| Reconciling items: | | | | | | |
| Payment Protection Insurance costs | - | - | - | (465) | - | (465) |
| Interest Rate Hedging Products redress and related costs | - | - | - | (500) | - | (500) |
| Regulatory and legal actions | - | - | - | (1,910) | - | (1,910) |
| Integration and restructuring costs | - | - | - | (180) | - | (180) |
| Loss on redemption of own debt | - | (29) | (29) | - | - | (29) |
| Write-down of goodwill | - | - | - | (1,059) | - | (1,059) |
| Amortisation of purchased intangible assets | - | - | - | (35) | - | (35) |
| Strategic disposals | - | 168 | 168 | - | - | 168 |
| Bank levy | - | - | - | (200) | - | (200) |
| Write-down of other intangible assets | - | - | - | (344) | - | (344) |
| RFS Holdings minority interest | (3) | (7) | (10) | - | - | (10) |
| Statutory basis | 2,764 | 1,305 | 4,069 | (7,940) | (5,112) | (8,983) |

Notes:

- (1) Reallocation of £1 million between net interest income and non-interest income to record interest on financial assets and liabilities designated as at fair value through profit or loss.
- (2) Reallocation of £8 million between net interest income and non-interest income in respect of funding costs of rental assets, £7 million, and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £1 million.

Appendix 1 Income statement reconciliations and segmental analysis

Segmental analysis (continued)

| Quarter ended 31 March 2013 | Net interest income £m | Non-interest income £m | Total income £m | Operating expenses £m | Impairment losses £m | Operating profit/(loss) £m |
|-----------------------------|---------------------------|---------------------------|--------------------|--------------------------|-------------------------|-------------------------------|
| UK Retail | 965 | 226 | 1,191 | (634) | (80) | 477 |
| UK Corporate | 706 | 378 | 1,084 | (541) | (185) | 358 |
| Wealth | 169 | 104 | 273 | (212) | (5) | 56 |

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| | | | | | | |
|--|-------|-------|-------|---------|---------|-------|
| International Banking | 197 | 285 | 482 | (333) | (55) | 94 |
| Ulster Bank | 154 | 54 | 208 | (132) | (240) | (164) |
| US Retail & Commercial | 471 | 292 | 763 | (555) | (19) | 189 |
| Markets | 30 | 1,010 | 1,040 | (746) | (16) | 278 |
| Central items | 17 | 10 | 27 | (63) | - | (36) |
| | 2,709 | 2,359 | 5,068 | (3,216) | (600) | 1,252 |
| Non-Core (1) | (37) | 130 | 93 | (165) | (433) | (505) |
| Managed basis | 2,672 | 2,489 | 5,161 | (3,381) | (1,033) | 747 |
| Reconciling items: | | | | | | |
| Own credit adjustments (2) | - | 249 | 249 | - | - | 249 |
| Interest Rate Hedging Products redress and related costs | - | - | - | (50) | - | (50) |
| Integration and restructuring costs | - | - | - | (122) | - | (122) |
| Loss on redemption of own debt | - | (51) | (51) | - | - | (51) |
| Amortisation of purchased intangible assets | - | - | - | (41) | - | (41) |
| Strategic disposals | - | (6) | (6) | - | - | (6) |
| RFS Holdings minority interest | (2) | 101 | 99 | 1 | - | 100 |
| Statutory basis | 2,670 | 2,782 | 5,452 | (3,593) | (1,033) | 826 |

Notes:

- (1) Reallocation of £9 million between net interest income and non-interest income in respect of funding costs of rental assets.
- (2) Comprises £99 million gain included in Income from trading activities and £150 million gain included in Other operating income on a statutory basis.

Appendix 2

Capital and risk management

Appendix 2 Capital and risk management

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Appendix 2 Capital and risk management

Capital management

Introduction

The Group aims to maintain an appropriate level of capital to meet its business needs and regulatory requirements, and operates within an agreed risk appetite. The appropriate level of capital is determined based on the dual aims of: (i) meeting minimum regulatory capital requirements; and (ii) ensuring the Group maintains sufficient capital to uphold customer, investor and rating agency confidence in the organisation, thereby supporting the business franchise and funding capacity.

Capital and leverage ratios

| Capital | 31 March 2014 | | 31 December 2013 | | Basel 2.5 basis £bn |
|----------------------------------|--|---|-------------------------------|---|------------------------|
| | Current basis (transitional PRA basis) £bn | Estimated end-point (CRR basis) £bn | Transitional PRA basis £bn | Estimated end-point (CRR basis) £bn | |
| Common Equity Tier 1 capital (1) | 39.1 | 39.1 | 36.8 | 36.8 | 42.2 |
| Tier 1 | 46.4 | 39.1 | 44.3 | 36.8 | 50.6 |
| Total | 59.9 | 47.3 | 58.2 | 45.5 | 63.7 |

RWAs by risk

Credit risk

| | | | | | |
|--------------------|-------|-------|-------|-------|-------|
| - non-counterparty | 295.2 | 295.2 | 317.9 | 317.9 | 291.1 |
| - counterparty | 41.3 | 41.3 | 39.1 | 39.1 | 22.3 |
| Market risk | 41.0 | 41.0 | 30.3 | 30.3 | 30.3 |
| Operational risk | 36.8 | 36.8 | 41.8 | 41.8 | 41.8 |

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| | | | | | |
|-----------------------------------|-------|-------|-------|-------|-------|
| | 414.3 | 414.3 | 429.1 | 429.1 | 385.5 |
| Risk asset ratios | % | % | % | % | % |
| Common Equity Tier 1 capital (1)* | 9.4 | 9.4 | 8.6 | 8.6 | 10.9 |
| Tier 1 | 11.2 | 9.4 | 10.3 | 8.6 | 13.1 |
| Total | 14.5 | 11.4 | 13.6 | 10.6 | 16.5 |

| | | |
|-----------------|----------|----------|
| | | 31 |
| | 31 March | December |
| | 2014 | 2013 |
| Leverage ratios | % | % |
| CRR basis | 3.7 | 3.5 |
| Basel III basis | 3.6 | 3.4 |
| BCBS basis | 3.6 | 3.4 |

* Refer to footnote 4 on page 2 of the main announcement for further information.

Notes:

(1) Core Tier 1 before 1 January 2014.

Appendix 2 Capital and risk management

Key points

The Group's Core Tier 1 ratio on a CRR end-point basis improved from 8.6% to 9.4%* principally driven by retained earnings and continuing RWA reduction.

RWA decreases were primarily in RCR and Markets.

The improvement in the leverage ratio is predominantly attributable to the higher capital base and a more modest impact from off-balance sheet items, particularly trade finance-related undrawn commitments under the CRR basis.

Capital resources

| | | | | | |
|--|---------------|-----------|------------------|-----------|-----------|
| | 31 March 2014 | | 31 December 2013 | | |
| | Current | | Estimated | | |
| | basis | Estimated | Transitional | end-point | Basel 2.5 |
| | (transitional | end-point | Transitional | end-point | (CRR |
| | PRA basis) | (CRR | PRA basis | basis) | basis |
| | £m | £m | £m | £m | £m |
| Shareholders' equity (excluding non-controlling interests) | | | | | |
| Shareholders' equity | 60,324 | 60,324 | 58,742 | 58,742 | 58,742 |
| Preference shares - equity | (4,313) | (4,313) | (4,313) | (4,313) | (4,313) |

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| | | | | | |
|---|----------|----------|----------|----------|----------|
| Other equity instruments | (979) | (979) | (979) | (979) | (979) |
| | 55,032 | 55,032 | 53,450 | 53,450 | 53,450 |
| Non-controlling interests | - | - | - | - | 473 |
| Regulatory adjustments and deductions | | | | | |
| Own credit | 492 | 492 | 601 | 601 | 726 |
| Defined benefit pension fund adjustment | (186) | (186) | (172) | (172) | 362 |
| Net unrealised available-for-sale (AFS) losses | - | - | - | - | 308 |
| Cash flow hedging reserve | (141) | (141) | 84 | 84 | 84 |
| Other regulatory adjustments | (4) | (4) | (55) | (55) | (103) |
| Deferred tax assets | (1,829) | (1,829) | (2,260) | (2,260) | - |
| Prudential valuation adjustments | (781) | (781) | (781) | (781) | - |
| Goodwill and other intangible assets | (12,428) | (12,428) | (12,368) | (12,368) | (12,368) |
| 50% of expected losses less impairment provisions | (1,092) | (1,092) | (1,731) | (1,731) | (19) |
| 50% of securitisation positions | - | - | - | - | (748) |
| | (15,969) | (15,969) | (16,682) | (16,682) | (11,758) |
| Core Tier 1 capital | 39,063 | 39,063 | 36,768 | 36,768 | 42,165 |

*Refer to footnote 4 on page 2 of the main announcement for further information.

Appendix 2 Capital and risk management

Capital resources (continued)

| | 31 March 2014 | | 31 December 2013 | | |
|---|---|------------------------------------|---------------------------|------------------------------------|--------------------|
| | Current basis (transitional PRA basis) £m | Estimated end-point (CRR basis) £m | Transitional PRA basis £m | Estimated end-point (CRR basis) £m | Basel 2.5 basis £m |
| Other Tier 1 capital | | | | | |
| Preference shares - equity | - | - | - | - | 4,313 |
| Preference shares - debt | - | - | - | - | 911 |
| Innovative/hybrid Tier 1 securities | - | - | - | - | 4,207 |
| Qualifying Tier 1 capital and related share premium subject to phase out from Additional Tier 1 (AT1) capital | 5,662 | - | 5,831 | - | - |
| Qualifying Tier 1 capital included in consolidated AT1 capital issued by subsidiaries and held by third parties | 1,722 | - | 1,749 | - | - |
| | 7,384 | - | 7,580 | - | 9,431 |
| Tier 1 deductions | | | | | |
| 50% of material holdings | - | - | - | - | (976) |
| Tax on expected losses less impairment provisions | - | - | - | - | 6 |
| | - | - | - | - | (970) |
| Total Tier 1 capital | 46,447 | 39,063 | 44,348 | 36,768 | 50,626 |
| Qualifying Tier 2 capital | | | | | |

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| | | | | | |
|---|---------------|---------------|---------------|---------------|---------------|
| Undated subordinated debt | - | - | - | - | 2,109 |
| Dated subordinated debt - net of amortisation | - | - | - | - | 12,436 |
| Qualifying items and related share premium | 4,545 | 3,951 | 4,431 | 3,582 | - |
| Qualifying own funds instruments issued by subsidiaries and held by third parties | 8,911 | 4,249 | 9,374 | 5,151 | - |
| Unrealised gains on AFS equity shares | - | - | - | - | 114 |
| Collectively assessed impairment provisions | - | - | - | - | 395 |
| | 13,456 | 8,200 | 13,805 | 8,733 | 15,054 |
| Tier 2 deductions | | | | | |
| 50% of securitisation positions | - | - | - | - | (748) |
| 50% of standardised expected losses less impairment provisions | - | - | - | - | (25) |
| 50% of material holdings | - | - | - | - | (976) |
| | - | - | - | - | (1,749) |
| Total Tier 2 capital | 13,456 | 8,200 | 13,805 | 8,733 | 13,305 |
| Supervisory deductions | | | | | |
| Unconsolidated investments | - | - | - | - | (36) |
| Other deductions | - | - | - | - | (236) |
| | - | - | - | - | (272) |
| Total regulatory capital | 59,903 | 47,263 | 58,153 | 45,501 | 63,659 |

Appendix 2 Capital and risk management

Capital resources (continued)

The table below analyses the movement in CET1 and Tier 2 capital on a CRR basis for the quarter ended 31 March 2014.

| | CET1 £m | Tier 2 £m | Total £m |
|--|------------|--------------|-------------|
| At 1 January 2014 | 36,768 | 8,733 | 45,501 |
| Attributable profit net of movements in fair value of own credit | 1,086 | - | 1,086 |
| Share capital and reserve movements in respect of employee share schemes | (75) | - | (75) |
| Ordinary shares issued | 131 | - | 131 |
| Foreign exchange reserve | (140) | - | (140) |
| AFS reserves | 246 | - | 246 |
| Increase in goodwill and intangibles | (60) | - | (60) |
| Deferred tax assets | 431 | - | 431 |
| Excess of expected loss over impairment provisions | 639 | - | 639 |
| Dated subordinated debt issues | - | 820 | 820 |
| Net dated subordinated debt/grandfathered instrument | - | (1,005) | (1,005) |
| Foreign exchange movement | - | (348) | (348) |
| Other movements | 37 | - | 37 |

At 31 March 2014

39,063 8,200 47,263

Appendix 2 Capital and risk management

Capital resources (continued)

Notes:

General:

In accordance with the PRA's Policy Statement PS7/2013 issued in December 2013 on the implementation of CRD IV, all regulatory adjustments and deductions to CET1 have been applied in full (i.e. no transition) with the exception of unrealised gains on AFS securities which will be included from 2015.

CRD IV and Basel III impose an additional minimum CET1 ratio of 4.5% of RWAs. Further, CET1 requirements are imposed through buffers in the CRD. There are three buffers which will affect the Group: the capital conservation buffer set at 2.5% of RWAs; the counter-cyclical capital buffer (up to 2.5% of RWAs) will be calculated as the weighted average of the countercyclical capital buffer rates applied in the countries where the Group has relevant credit exposures; and the highest of Global-Systemically Important Institution (G-SII), Other-Systemically Important Institution (O-SII) or Systemic Risk Buffers set by the supervisory authorities. The Group has been provisionally allocated a G-SII buffer of 1.5%. The regulatory target capital requirements will be phased in through CRR, and are expected to apply in full from 1 January 2019. In the meantime, using national discretion the PRA can apply a top-up. As set out in the PRA's Supervisory Statement SS3/13, the Group and other major UK banks and building societies are required to maintain a CET1 ratio of 7%, after taking into account certain adjustments set by the PRA.

PRA guidance indicates that from 1 January 2015, the Group must meet at least 56% of its Pillar 2A capital requirement with CET1 capital and the balance with Additional Tier 1 capital. The Pillar 2A capital requirement is the additional capital that the Group must hold, in addition to meeting its Pillar 1 requirements in order to comply with the PRA's overall financial adequacy rule.

Estimates in relation to full CRR basis, including RWAs, are based on the current interpretation, expectations, and understanding, of the CRR requirements, as well as further regulatory clarity and implementation guidance from the UK and EU authorities. The actual full basis CRR impact may differ from these estimates when the final technical standards are interpreted and adopted.

Capital base:

- (1) Own funds are based on shareholders' equity extracted from the unaudited condensed consolidated balance sheet disclosed on page 55 of this IMS.
- (2) Includes the nominal value of B shares (£0.5 billion) on the assumption that RBS will be privatised in the future and that they will count as permanent equity in some form by the end of 2017.
- (3) The prudential valuation adjustment (PVA), arising from the application of the prudent valuation requirements to all assets measured at fair value, has been included in full in line with the guidance from the PRA and uses methodology discussed with the PRA pending the issue of the final Regulatory Technical Standards (RTS) by the European Banking Authority. The PVA has been included in impairment provisions in the determination of the deduction from expected losses.
- (4)

Where the deductions from AT1 capital exceed AT1 capital, the excess is deducted from CET1 capital. The excess of AT1 deductions over AT1 capital in year one of transition is due to the application of the current rules to the transitional amounts.

- (5) Insignificant investments in equities of other financial entities (net): long cash equity positions are considered to have matched maturity with synthetic short positions if the long position is held for hedging purposes and sufficient liquidity exists in the relevant market. All the trades are managed and monitored together within the equities business.
- (6) Based on our current interpretations of the Commission Delegated Regulation issued in December 2013 on credit risk adjustments, the Group's standardised latent provision has been reclassified to specific provision and is not included in Tier 2 capital.

Risk-weighted assets:

- (1) Current securitisation positions are shown as risk-weighted at 1,250%.
- (2) RWA uplifts include the impact of credit valuation adjustments and asset valuation correlation on banks and central counterparties.
- (3) RWAs reflect implementation of the full internal model method suite, and include methodology changes that took effect immediately on CRR implementation.
- (4) Non-financial counterparties and sovereigns that meet the eligibility criteria under CRR are exempt from the credit valuation adjustments volatility charges.
- (5) The CRR final text includes a reduction in the risk-weight relating to small and medium-sized enterprises.

Appendix 2 Capital and risk management

Leverage ratio

The leverage ratios below are computed using Tier 1 capital per end-point CRR and exposure measure based on:
CRR basis: end-point CRR;

Basel III basis: The final CRR text as well as the December 2010 Basel III text; further specificity being sourced from the instructions in the July 2012 Quantitative Impact Study and the related Frequently Asked Questions; and

BCBS basis: Basel Committee on Banking Supervision (BCBS) proposal issued in January 2014.

| Leverage ratio | 31 March 2014 | | | | 31 December 2013 | | | |
|------------------------|-----------------|--------------------------|----------|-----|------------------|--------------------------|----------|-----|
| | Exposure £bn | Tier 1 capital £bn | Leverage | | Exposure £bn | Tier 1 capital £bn | Leverage | |
| CRR basis | | | | | | | | |
| Transitional measure | 1,053.6 | 46.4 | 23x | 4.4 | 1,062.1 | 44.3 | 24x | 4.2 |
| Full-end point measure | 1,053.6 | 39.1 | 27x | 3.7 | 1,062.1 | 36.8 | 29x | 3.5 |

| | | | | | | | | |
|------------------------|---------|------|-----|-----|---------|------|-----|-----|
| Basel III basis | | | | | | | | |
| Transitional measure | 1,089.1 | 46.4 | 23x | 4.3 | 1,093.5 | 44.3 | 25x | 4.1 |
| Full-end point measure | 1,089.1 | 39.1 | 28x | 3.6 | 1,093.5 | 36.8 | 30x | 3.4 |
| BCBS basis | | | | | | | | |
| Transitional measure | 1,083.4 | 46.4 | 23x | 4.3 | 1,082.0 | 44.3 | 24x | 4.1 |
| Full-end point measure | 1,083.4 | 39.1 | 28x | 3.6 | 1,082.0 | 36.8 | 29x | 3.4 |

Appendix 2 Capital and risk management

Leverage ratio (continued)

| Exposure measure | 31 March 2014 | | | 31 December 2013 | | |
|---|-------------------------|-------------------------------|--------------------------|-------------------------|-------------------------------|--------------------------|
| | CRR basis (1) £bn | Basel III basis (2) £bn | BCBS basis (3) £bn | CRR basis (1) £bn | Basel III basis (2) £bn | BCBS basis (3) £bn |
| Cash and balances at central banks | 69.6 | 69.6 | 69.6 | 82.7 | 82.7 | 82.7 |
| Debt securities | 120.7 | 120.7 | 120.7 | 113.6 | 113.6 | 113.6 |
| Equity shares | 9.8 | 9.8 | 9.8 | 8.8 | 8.8 | 8.8 |
| Derivatives | 277.3 | 277.3 | 277.3 | 288.0 | 288.0 | 288.0 |
| Loans and advances to banks and customers | 419.1 | 419.1 | 419.1 | 418.4 | 418.4 | 418.4 |
| Reverse repos | 78.2 | 78.2 | 78.2 | 76.4 | 76.4 | 76.4 |
| Goodwill and other intangible assets | 12.4 | 12.4 | 12.4 | 12.4 | 12.4 | 12.4 |
| Other assets | 34.8 | 34.8 | 34.8 | 24.6 | 24.6 | 24.6 |
| Assets of disposal groups | 1.9 | 1.9 | 1.9 | 3.0 | 3.0 | 3.0 |
| Total assets | 1,023.8 | 1,023.8 | 1,023.8 | 1,027.9 | 1,027.9 | 1,027.9 |
| Netting of derivatives (2) | (224.3) | (224.3) | (219.4) | (233.8) | (233.8) | (227.3) |
| SFTs (1) | (37.8) | (9.4) | 70.1 | (41.5) | (12.0) | 59.8 |
| Regulatory deductions and other adjustments (4) | (2.5) | (1.4) | (2.5) | (4.9) | (4.9) | (6.6) |
| Potential future exposure on derivatives (5) | 118.0 | 117.2 | 114.3 | 131.3 | 130.4 | 128.0 |
| Undrawn commitments (6) | 176.4 | 183.2 | 97.1 | 183.1 | 185.9 | 100.2 |
| Leverage exposure measure | 1,053.6 | 1,089.1 | 1,083.4 | 1,062.1 | 1,093.5 | 1,082.0 |

Notes:

- (1) In the CRR calculation, the balance sheet value is replaced with the related regulatory exposure value which has netting of both cash positions and related collateral of securities financing transactions (SFTs).
- (2) Under the Basel III view, the balance sheet value is reduced for allowable netting under the Basel II framework (excluding cross-product netting) which mainly relates to cash positions under a master netting agreement. In the BCBS calculation.
- (3)

The January 2014 BCBS proposal permits some limited netting for margin received against replacement cost for derivatives, more restrictive netting for SFT, but possible future benefit for trades against qualifying central counterparties. The notional of protection sold through credit derivatives are included in the exposure measure, offset by longer dated protection bought on the same contracts. Trade finance has benefited through alignment of exposure with credit conversion factors.

- (4) Regulatory deductions: to ensure consistency between the leverage ratio numerator and the denominator, regulatory items that are deducted from capital are also deducted from the leverage exposure measure.
- (5) Potential future exposure (PFE) on derivatives: the regulatory add-on which is calculated by assigning percentages based on the type of instrument and the residual maturity of the contract to the nominal amounts or underlying values of derivative contracts. In the Basel III calculation, qualifying credit derivatives sold are capped to the unpaid premiums which is not applied under CRR. The element of PFE relating to credit derivatives sold is removed under BCBS and replaced with the credit derivative notional on protection sold per note (1).
- (6) Undrawn commitments represent regulatory add-ons relating to off-balance sheet undrawn commitments based on a 10% credit conversion factor for unconditionally cancellable commitments and 100% of other commitments.

Appendix 2 Capital and risk management

Liquidity and funding risk

Liquidity and funding risk is the risk that the Group is unable to meet its financial obligations, including financing wholesale maturities or customer deposit withdrawals, as and when they fall due. The risk arises through the maturity transformation role that banks play. It is dependent on company specific factors such as maturity profile, composition of sources and uses of funding, the quality and size of the liquidity portfolio as well as broader factors, such as wholesale market conditions alongside depositor and investor behaviour. For a description of the liquidity and funding risk framework, governance and basis of preparation refer to the 2013 Annual Report and Accounts - Risk and balance sheet management section.

Overview

- The liquidity position remains strong: the liquidity portfolio of £131 billion at 31 March 2014 continues to cover short-term wholesale funding (STWF) by more than four times.
- Liquid assets declined by £15 billion reflecting repricing and the consequential outflow of deposits with low liquidity value. These deposits are typically from sophisticated financial institution counterparties which require a high level of liquid assets to be held to mitigate the high risk of outflows under a stress.
- The loan:deposit ratio increased 300 basis points to 97% from 94% at 31 December 2013 reflecting the bank's continued focus on reducing excess funding.
- The ratio of customer deposits to total funding improved slightly to 76% from 75% at 31 December 2013. Wholesale funding profile remained broadly stable with STWF excluding derivative collateral reducing marginally to £31 billion.

Liquidity portfolio

The table below analyses the Group's liquidity portfolio by product, liquidity value and carrying value. Liquidity value is lower than carrying value as it is stated after the discounts applied by the Bank of England and other central banks to instruments, within the secondary liquidity portfolio, eligible for discounting.

| | Period end | | Liquidity value | | Average | |
|------------------------------------|------------------------|------------------------|---------------------|------------------------|------------------|------------------|
| | 31 | | 31 | | Q1 | |
| | 31 March 2014 £m | December 2013 £m | March 2014 £m | December 2013 £m | Q1 2014 £m | Q4 2013 £m |
| Cash and balances at central banks | 62,847 | 74,362 | 65,472 | 76,242 | | |
| Central and local government bonds | 14,549 | 15,607 | 14,422 | 16,495 | | |
| Treasury bills | - | - | - | 6 | | |
| Primary liquidity | 77,396 | 89,969 | 79,894 | 92,743 | | |
| Secondary liquidity (1) | 53,418 | 56,097 | 54,551 | 56,869 | | |
| Total liquidity value | 130,814 | 146,066 | 134,445 | 149,612 | | |
| Total carrying value | 167,685 | 184,233 | | | | |

Note:

- (1) Includes assets eligible for discounting at the Bank of England and other central banks.

Appendix 2 Capital and risk management

Liquidity and funding risk (continued)

Funding metrics

The table below summarises the Group's funding metrics.

| | Short-term wholesale funding (1) | | Total wholesale funding | | Net inter-bank funding (2) | | Net inter-bank funding |
|-------------------|--|--|--|--|----------------------------|------------------|------------------------|
| | Excluding derivative collateral £bn | Including derivative collateral £bn | Excluding derivative collateral £bn | Including derivative collateral £bn | Deposits £bn | Loans (3) £bn | |
| 31 March 2014 | 31.0 | 50.8 | 101.5 | 121.3 | 15.6 | (18.1) | (2.5) |
| 31 December 2013 | 32.4 | 51.5 | 108.1 | 127.2 | 16.2 | (17.3) | (1.1) |
| 30 September 2013 | 34.6 | 55.1 | 113.6 | 134.1 | 18.1 | (16.6) | 1.5 |
| 30 June 2013 | 36.7 | 58.9 | 129.4 | 151.5 | 23.1 | (17.1) | 6.0 |
| 31 March 2013 | 43.0 | 70.9 | 147.2 | 175.1 | 26.6 | (18.7) | 7.9 |

Notes:

- (1) Short-term wholesale funding is funding with a residual maturity of less than one year.
- (2) Excludes derivative cash collateral.
- (3) Principally short-term balances.

Funding sources

The table below shows the Group's principal funding sources excluding repurchase agreements.

| | 31 March 2014 | | | 31 December 2013 | | |
|--------------------------------|---------------------------|---------------------------|---------|---------------------------|---------------------------|---------|
| | Short-term | Long-term | Total | Short-term | Long-term | Total |
| | less than 1 year £m | more than 1 year £m | | less than 1 year £m | more than 1 year £m | |
| Deposits by banks | | | | | | |
| derivative cash collateral | 19,757 | - | 19,757 | 19,086 | - | 19,086 |
| other deposits | 14,055 | 1,559 | 15,614 | 14,553 | 1,690 | 16,243 |
| | 33,812 | 1,559 | 35,371 | 33,639 | 1,690 | 35,329 |
| Debt securities in issue | | | | | | |
| commercial paper | 1,104 | - | 1,104 | 1,583 | - | 1,583 |
| certificates of deposit | 1,500 | 52 | 1,552 | 2,212 | 65 | 2,277 |
| medium-term notes | 9,729 | 33,137 | 42,866 | 10,385 | 36,779 | 47,164 |
| covered bonds | 1,762 | 7,196 | 8,958 | 1,853 | 7,188 | 9,041 |
| securitisations | 512 | 6,763 | 7,275 | 514 | 7,240 | 7,754 |
| | 14,607 | 47,148 | 61,755 | 16,547 | 51,272 | 67,819 |
| Subordinated liabilities | 2,346 | 21,793 | 24,139 | 1,350 | 22,662 | 24,012 |
| Notes issued | 16,953 | 68,941 | 85,894 | 17,897 | 73,934 | 91,831 |
| Wholesale funding | 50,765 | 70,500 | 121,265 | 51,536 | 75,624 | 127,160 |
| Customer deposits | | | | | | |
| derivative cash collateral (1) | 6,747 | - | 6,747 | 7,082 | - | 7,082 |
| financial institution deposits | 43,633 | 1,870 | 45,503 | 44,621 | 2,265 | 46,886 |
| personal deposits | 183,427 | 7,213 | 190,640 | 183,799 | 8,115 | 191,914 |
| corporate deposits | 157,177 | 4,349 | 161,526 | 167,100 | 4,687 | 171,787 |
| Total customer deposits | 390,984 | 13,432 | 404,416 | 402,602 | 15,067 | 417,669 |
| Total funding | 441,749 | 83,932 | 525,681 | 454,138 | 90,691 | 544,829 |

Note:

- (1) Cash collateral includes £6,094 million (31 December 2013 - £6,720 million) from financial institutions.

Appendix 2 Capital and risk management

Credit risk

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

Loans and related credit metrics

The tables below analyse gross loans and advances (excluding reverse repos) and the related credit metrics by division. Refer to the Group's 2013 Annual Report and Accounts for a description of methodology relating to REIL and provisions.

| | Gross loans to | | | | Credit metrics REIL as a % of gross loans to | | | Provisions as a % impairment charge | Amounts written-off | |
|--------------------------|----------------|-----------------|------------|------------------|---|--------------|-------|--|--------------------------------|------------------------|
| | Bank £m | Customers £m | REIL £m | Provisions £m | customers % | of REIL % | £m | | | £m |
| 31 March 2014 | | | | | | | | | | |
| UK Retail | 1,014 | 113,849 | 3,336 | 1,937 | 2.9 | 58 | 59 | 219 | | |
| UK Corporate | 913 | 103,189 | 4,602 | 2,272 | 4.5 | 49 | 63 | 109 | | |
| Wealth | 1,566 | 16,750 | 260 | 118 | 1.6 | 45 | (1) | 1 | | |
| International Banking | 7,869 | 38,631 | 10 | 130 | - | nm | 11 | - | | |
| Ulster Bank | 1,715 | 26,646 | 4,728 | 3,390 | 17.7 | 72 | 47 | 15 | | |
| US Retail & Commercial | 225 | 53,235 | 1,317 | 536 | 2.5 | 41 | 73 | 77 | | |
| Markets | 12,132 | 24,837 | 97 | 78 | 0.4 | 80 | 2 | - | | |
| Other | 2,206 | 5,394 | 1 | 64 | - | nm | - | - | | |
| | 27,640 | 382,531 | 14,351 | 8,525 | 3.8 | 59 | 254 | 421 | | |
| RCR | 739 | 34,043 | 23,002 | 15,719 | 67.6 | 68 | 106 | 792 | | |
| Group | 28,379 | 416,574 | 37,353 | 24,244 | 9.0 | 65 | 360 | 1,213 | | |
| | Gross loans to | | | | Credit metrics REIL as a % of gross loans to | | | Provisions as a % impairment charge | Quarter ended Of RCR (1) | Amounts written-off |
| | Banks £m | Customers £m | REIL £m | Provisions £m | customers % | of REIL % | £m | | | |
| 31 December 2013 | | | | | | | | | | |
| UK Retail | 760 | 113,152 | 3,566 | 2,106 | 3.2 | 59 | 68 | - | 206 | |
| UK Corporate | 701 | 102,547 | 6,226 | 2,833 | 6.1 | 46 | 659 | 410 | 169 | |
| Wealth | 1,531 | 16,764 | 277 | 120 | 1.7 | 43 | 21 | - | - | |
| International Banking | 7,971 | 35,993 | 470 | 325 | 1.3 | 69 | 37 | 52 | 42 | |
| Ulster Bank | 591 | 31,446 | 8,466 | 5,378 | 26.9 | 64 | 1,067 | 692 | 123 | |
| | 406 | 50,551 | 1,034 | 272 | 2.0 | 26 | 46 | - | 67 | |

| | | | | | | | | | |
|--------------------------------|--------|---------|--------|--------|------|----|-------|-------|-------|
| US Retail & Commercial Markets | 12,579 | 25,455 | 338 | 286 | 1.3 | 85 | 25 | 18 | - |
| Other | 2,670 | 5,126 | 1 | 66 | - | nm | 1 | - | - |
| | 27,209 | 381,034 | 20,378 | 11,386 | 5.3 | 56 | 1,924 | 1,372 | 607 |
| Non-Core | 431 | 36,718 | 19,014 | 13,839 | 51.8 | 73 | 3,207 | 3,118 | 586 |
| Group | 27,640 | 417,752 | 39,392 | 25,225 | 9.4 | 64 | 5,131 | 4,290 | 1,193 |

Note:

(1) Pertaining to the creation of RCR and the related change of strategy.

Appendix 2 Capital and risk management

Credit risk (continued)

Loans and related credit metrics (continued)

Key points

- Gross loans and advances to customers decreased by £1.2 billion to £416.6 billion. Adjusting for transfers to RCR and from Non-Core underlying loan growth improved, driven by strong mortgage lending in UK Retail, up £1.2 billion to £100.5 billion, and increased volumes in International Banking and US Retail & Commercial, with UK Corporate returning to modest net loan growth. This was offset primarily by disposals and run-off of RCR loans.
- Commercial real estate (CRE) lending net of provisions decreased by £1.3 billion in the quarter to £38.1 billion. Provision coverage on CRE REIL was 65% compared with 66% at 31 December 2013.
- The impairment charge of £360 million was significantly lower than the Q4 2013 charge of £841 million, excluding the RCR related impact, with improving trends in the UK retail and commercial businesses. The RCR charge of £106 million mainly related to CRE.
- Write-offs in the quarter of £1.2 billion included £0.8 billion in RCR.
- REIL decreased by £2.0 billion to £37.3 billion and represented 8.9% of loans as write-offs and repayments outpaced new defaulting balances, particularly within RCR (£1.1 billion). Excluding the impact of the RCR-creation related asset transfers, the decreases were in UK Corporate (£0.5 billion), UK Retail (£0.3 billion) and International Banking (£0.2 billion).
- Provisions decreased by £1.0 billion mainly due to single name write-offs in RCR (£0.7 billion). Provision coverage increased slightly to 65% (31 December 2013 - 64%).

Appendix 2 Capital and risk management

Credit risk (continued)

Loans and related credit metrics: Loans, REIL, provisions and impairments

The tables below analyse gross loans and advances to banks and customers (excluding reverse repos) and related credit metrics by sector and geography (by location of lending office) for the Group.

| 31 March 2014 | Gross loans £m | REIL £m | Provisions £m | Credit metrics | | | Impairment charge £m | Amounts written-off £m |
|----------------------------------|----------------------|------------|------------------|--|--------------------------------------|--|----------------------------|------------------------------|
| | | | | REIL as a % of gross loans % | Provisions as a % of REIL % | Provisions as a % of gross loans % | | |
| Central and local government | 8,588 | 4 | 2 | - | 50 | - | - | - |
| Finance | 35,636 | 525 | 287 | 1.5 | 55 | 0.8 | (3) | - |
| Personal - mortgages | 148,401 | 5,955 | 1,741 | 4.0 | 29 | 1.2 | 16 | 59 |
| - unsecured | 28,411 | 2,231 | 1,765 | 7.9 | 79 | 6.2 | 106 | 255 |
| Property | 59,957 | 19,390 | 12,570 | 32.3 | 65 | 21.0 | 78 | 574 |
| Construction | 6,501 | 1,327 | 787 | 20.4 | 59 | 12.1 | 36 | 22 |
| Manufacturing | 21,944 | 678 | 520 | 3.1 | 77 | 2.4 | (21) | 31 |
| Finance leases (1) | 13,442 | 248 | 175 | 1.8 | 71 | 1.3 | - | 15 |
| Retail, wholesale and repairs | 20,012 | 1,216 | 781 | 6.1 | 64 | 3.9 | 31 | 28 |
| Transport and storage | 15,990 | 1,362 | 642 | 8.5 | 47 | 4.0 | 24 | 11 |
| Health, education and leisure | 15,678 | 1,182 | 685 | 7.5 | 58 | 4.4 | 16 | 18 |
| Hotels and restaurants | 6,963 | 1,402 | 832 | 20.1 | 59 | 11.9 | 33 | 8 |
| Utilities | 5,204 | 124 | 77 | 2.4 | 62 | 1.5 | - | - |
| Other | 29,847 | 1,635 | 1,234 | 5.5 | 75 | 4.1 | (35) | 192 |
| Latent | - | - | 2,084 | - | - | - | 79 | - |
| | 416,574 | 37,279 | 24,182 | 8.9 | 65 | 5.8 | 360 | 1,213 |
| of which: | | | | | | | | |
| UK | | | | | | | | |
| - residential mortgages | 111,089 | 1,823 | 306 | 1.6 | 17 | 0.3 | 7 | 13 |
| - personal lending | 17,228 | 1,883 | 1,568 | 10.9 | 83 | 9.1 | 67 | 216 |
| - property | 42,181 | 8,811 | 4,840 | 20.9 | 55 | 11.5 | 58 | 466 |
| - construction | 4,809 | 939 | 528 | 19.5 | 56 | 11.0 | 28 | 17 |
| - other | 110,854 | 4,130 | 2,932 | 3.7 | 71 | 2.6 | 71 | 252 |
| Europe | | | | | | | | |
| - residential mortgages | 17,264 | 3,159 | 1,269 | 18.3 | 40 | 7.4 | (15) | 5 |
| - personal lending | 1,091 | 135 | 125 | 12.4 | 93 | 11.5 | 3 | 6 |
| - property | 12,579 | 10,480 | 7,687 | 83.3 | 73 | 61.1 | 24 | 104 |
| - construction | 1,340 | 346 | 227 | 25.8 | 66 | 16.9 | 8 | 5 |
| - other | 22,370 | 3,766 | 3,592 | 16.8 | 95 | 16.1 | 54 | 48 |
| US | | | | | | | | |
| - residential mortgages | 19,688 | 956 | 162 | 4.9 | 17 | 0.8 | 24 | 41 |

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| | | | | | | | | |
|-------------------------|---------|--------|--------|------|-----|------|-----|-------|
| - personal lending | 9,001 | 196 | 55 | 2.2 | 28 | 0.6 | 36 | 33 |
| - property | 4,590 | 74 | 18 | 1.6 | 24 | 0.4 | (4) | 1 |
| - construction | 326 | 34 | 24 | 10.4 | 71 | 7.4 | - | - |
| - other | 28,716 | 191 | 599 | 0.7 | 314 | 2.1 | 8 | 2 |
| RoW | | | | | | | | |
| - residential mortgages | 360 | 17 | 4 | 4.7 | 24 | 1.1 | - | - |
| - personal lending | 1,091 | 17 | 17 | 1.6 | 100 | 1.6 | - | - |
| - property | 607 | 25 | 25 | 4.1 | 100 | 4.1 | - | 3 |
| - construction | 26 | 8 | 8 | 30.8 | 100 | 30.8 | - | - |
| - other | 11,364 | 289 | 196 | 2.5 | 68 | 1.7 | (9) | 1 |
| | 416,574 | 37,279 | 24,182 | 8.9 | 65 | 5.8 | 360 | 1,213 |
| Banks | 28,379 | 74 | 62 | 0.3 | 84 | 0.2 | - | - |

Note:

(1) Includes instalment credit.

Appendix 2 Capital and risk management

Credit risk (continued)

Loans and related credit metrics: Loans, REIL, provisions and impairments (continued)

| | Gross loans £m | REIL £m | Provisions £m | Credit metrics | | | Quarter ended | |
|----------------------------------|----------------------|------------|------------------|--|--------------------------------------|--|----------------------------|------------------------------|
| | | | | REIL as a % of gross loans % | Provisions as a % of REIL % | Provisions as a % of gross loans % | Impairment charge £m | Amounts written-off £m |
| 31 December 2013 | | | | | | | | |
| Central and local government | 8,643 | 2 | 2 | - | 100 | - | 2 | - |
| Finance | 35,948 | 593 | 292 | 1.6 | 49 | 0.8 | 37 | 60 |
| Personal - mortgages | 148,533 | 6,025 | 1,799 | 4.1 | 30 | 1.2 | 69 | 122 |
| - unsecured | 28,160 | 2,417 | 1,909 | 8.6 | 79 | 6.8 | 59 | 195 |
| Property | 62,292 | 20,283 | 13,189 | 32.6 | 65 | 21.2 | 3,590 | 566 |
| Construction | 6,331 | 1,334 | 774 | 21.1 | 58 | 12.2 | 151 | 38 |
| Manufacturing | 21,377 | 742 | 559 | 3.5 | 75 | 2.6 | 100 | 20 |
| Finance leases (1) | 13,587 | 263 | 190 | 1.9 | 72 | 1.4 | 14 | 18 |
| Retail, wholesale and repairs | 19,574 | 1,187 | 783 | 6.1 | 66 | 4.0 | 157 | 23 |
| Transport and storage | 16,697 | 1,491 | 635 | 8.9 | 43 | 3.8 | 392 | 75 |
| Health, education and leisure | 16,084 | 1,324 | 756 | 8.2 | 57 | 4.7 | 165 | 46 |
| Hotels and restaurants | 6,942 | 1,427 | 812 | 20.6 | 57 | 11.7 | 238 | 86 |
| Utilities | 4,960 | 131 | 80 | 2.6 | 61 | 1.6 | (5) | 22 |

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| | | | | | | | | |
|-------------------------|---------|--------|--------|------|-----|------|-------|-------|
| Other | 28,624 | 2,103 | 1,370 | 7.3 | 65 | 4.8 | 341 | (78) |
| Latent | - | - | 2,012 | - | - | - | (173) | - |
| | 417,752 | 39,322 | 25,162 | 9.4 | 64 | 6.0 | 5,137 | 1,193 |
| of which: | | | | | | | | |
| UK | | | | | | | | |
| - residential mortgages | 110,515 | 1,900 | 319 | 1.7 | 17 | 0.3 | (18) | 67 |
| - personal lending | 17,098 | 2,052 | 1,718 | 12.0 | 84 | 10.0 | 18 | 151 |
| - property | 44,252 | 9,797 | 5,190 | 22.1 | 53 | 11.7 | 1,221 | 209 |
| - construction | 4,691 | 941 | 515 | 20.1 | 55 | 11.0 | 75 | 38 |
| - other | 110,466 | 4,684 | 3,202 | 4.2 | 68 | 2.9 | 869 | 104 |
| Europe | | | | | | | | |
| - residential mortgages | 17,540 | 3,155 | 1,303 | 18.0 | 41 | 7.4 | 18 | 12 |
| - personal lending | 1,267 | 141 | 129 | 11.1 | 91 | 10.2 | 3 | 6 |
| - property | 13,177 | 10,372 | 7,951 | 78.7 | 77 | 60.3 | 2,376 | 343 |
| - construction | 979 | 351 | 227 | 35.9 | 65 | 23.2 | 58 | - |
| - other | 22,620 | 4,057 | 3,498 | 17.9 | 86 | 15.5 | 379 | 45 |
| US | | | | | | | | |
| - residential mortgages | 19,901 | 951 | 173 | 4.8 | 18 | 0.9 | 71 | 42 |
| - personal lending | 8,722 | 207 | 45 | 2.4 | 22 | 0.5 | 21 | 36 |
| - property | 4,279 | 85 | 19 | 2.0 | 22 | 0.4 | (5) | 6 |
| - construction | 313 | 34 | 24 | 10.9 | 71 | 7.7 | 18 | - |
| - other | 27,887 | 198 | 589 | 0.7 | 297 | 2.1 | (2) | 67 |
| RoW | | | | | | | | |
| - residential mortgages | 577 | 19 | 4 | 3.3 | 21 | 0.7 | (2) | 1 |
| - personal lending | 1,073 | 17 | 17 | 1.6 | 100 | 1.6 | 17 | 2 |
| - property | 584 | 29 | 29 | 5.0 | 100 | 5.0 | (2) | 8 |
| - construction | 348 | 8 | 8 | 2.3 | 100 | 2.3 | - | - |
| - other | 11,463 | 324 | 202 | 2.8 | 62 | 1.8 | 22 | 56 |
| | 417,752 | 39,322 | 25,162 | 9.4 | 64 | 6.0 | 5,137 | 1,193 |
| Banks | 27,640 | 70 | 63 | 0.3 | 90 | 0.2 | (6) | - |

Note:

(1) Includes instalment credit.

Appendix 2 Capital and risk management

Credit risk (continued)

Debt securities

The table below analyses debt securities by issuer and IFRS measurement classifications. US central and local government includes US federal agencies. Financial institutions includes US government sponsored agencies and securitisation entities, the latter principally relating to asset-backed securities (ABS).

| | Central and local government | Banks | Other | Total |
|--|------------------------------|-------|-----------|-------|
| | | | Corporate | 105 |

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| | UK £m | US £m | Other £m | | financial institutions £m | £m | £m | Of which ABS £m |
|-----------------------------|----------|----------|-------------|-------|---------------------------------|---------|----------|-----------------------|
| 31 March 2014 | | | | | | | | |
| Held-for-trading (HFT) | 6,289 | 10,251 | 31,297 | 1,955 | 11,017 | 2,145 | 62,954 | 8,215 |
| Designated as at fair value | - | - | 108 | 1 | 18 | - | 127 | 15 |
| Available-for-sale (AFS) | 3,806 | 11,937 | 10,502 | 5,115 | 18,024 | 166 | 49,550 | 25,100 |
| Loans and receivables | - | - | - | 116 | 3,302 | 153 | 3,571 | 3,186 |
| Held-to-maturity (HTM) | 4,535 | - | - | - | - | - | 4,535 | - |
| Long positions | 14,630 | 22,188 | 41,907 | 7,187 | 32,361 | 2,464 | 120,737 | 36,516 |
| Of which US agencies | - | 5,892 | - | - | 13,318 | - | 19,210 | 18,399 |
| Short positions (HFT) | (3,663) | (11,115) | (19,160) | (823) | (1,240) | (1,213) | (37,214) | (6) |
| Available-for-sale | | | | | | | | |
| Gross unrealised gains | 140 | 357 | 508 | 76 | 427 | 12 | 1,520 | 502 |
| Gross unrealised losses | (15) | (137) | (7) | (156) | (356) | - | (671) | (629) |
| 31 December 2013 | | | | | | | | |
| Held-for-trading | 6,764 | 10,951 | 22,818 | 1,720 | 12,406 | 1,947 | 56,606 | 10,674 |
| Designated as at fair value | - | - | 104 | - | 17 | 1 | 122 | 15 |
| Available-for-sale | 6,436 | 12,880 | 10,303 | 5,974 | 17,330 | 184 | 53,107 | 24,174 |
| Loans and receivables | 10 | 1 | - | 175 | 3,466 | 136 | 3,788 | 3,423 |
| Long positions | 13,210 | 23,832 | 33,225 | 7,869 | 33,219 | 2,268 | 113,623 | 38,286 |
| Of which US agencies | - | 5,599 | - | - | 13,132 | - | 18,731 | 18,048 |
| Short positions (HFT) | (1,784) | (6,790) | (16,087) | (889) | (1,387) | (826) | (27,763) | (36) |
| Available-for-sale | | | | | | | | |
| Gross unrealised gains | 201 | 428 | 445 | 70 | 386 | 11 | 1,541 | 458 |
| Gross unrealised losses | (69) | (86) | (32) | (205) | (493) | (2) | (887) | (753) |

Appendix 2 Capital and risk management

Credit risk (continued)

Key points

- HFT: Holdings of UK and US government bonds, and ABS decreased, reflecting sales and continued focus on balance sheet reduction and capital management in Markets. The increase in other government bonds primarily reflected higher seasonal market activity in bond auctions compared with the year end. The increase in short positions in UK and US government bonds was driven by market conditions and customer demand, while that in other government reflected hedging of higher long positions.

- AFS: Government securities decreased by £3.4 billion. The decreases in UK and US government bonds reflected net disposals as gains were realised, as well as transfers of UK government bonds to HTM in Treasury. Holdings in bank issuances fell by £0.9 billion due to maturities and disposals. The increase in financial institution securities of £0.7 billion was primarily due to a build up of ABS in US Retail & Commercial, partially offset by disposals in Treasury as risk exposure was reduced.
- HTM: UK Government bonds in Treasury liquidity portfolio increased by £4.5 billion following transfers from AFS and purchases.
- AFS gross unrealised gains and losses: The UK and US government decreases in unrealised gains reflect exposure reductions. The increases in bank and other financial institutions reflect maturities, disposals and market movements.

Appendix 2 Capital and risk management

Credit risk (continued)

Derivatives

The table below analyses the Group's derivatives by type of contract. Master netting arrangements and collateral shown below do not result in a net presentation on the balance sheet under IFRS.

| | 31 March 2014 | | | 31 December 2013 | | |
|------------------------------|---------------|-----------|-------------|------------------|-----------|-------------|
| | Notional | Assets | Liabilities | Notional | Assets | Liabilities |
| | (1) | £m | £m | (1) | £m | £m |
| | £bn | | | £bn | | |
| Interest rate (2) | 32,950 | 218,164 | 208,837 | 35,589 | 218,041 | 208,698 |
| Exchange rate | 4,943 | 52,236 | 56,122 | 4,555 | 61,923 | 65,749 |
| Credit | 234 | 4,425 | 4,604 | 253 | 5,306 | 5,388 |
| Equity and commodity | 76 | 2,469 | 4,943 | 81 | 2,770 | 5,692 |
| | | 277,294 | 274,506 | | 288,040 | 285,527 |
| Counterparty mtm netting | | (232,286) | (232,286) | | (242,836) | (242,836) |
| Cash collateral | | (24,292) | (18,730) | | (24,288) | (20,429) |
| Securities collateral | | (5,326) | (6,985) | | (5,990) | (5,202) |
| Uncollateralised derivatives | | 15,390 | 16,505 | | 14,926 | 17,060 |

Notes:

- (1) Includes exchange traded contracts of £2,736 billion (31 December 2013 - £2,298 billion) principally interest rate. Trades are margined daily hence carrying values were insignificant: assets - £16 million (31 December 2013 - £69 million) and liabilities - £216 million (31 December 2013 - £299 million).
- (2) Interest rate notional includes £19,667 billion (31 December 2013 - £22,563 billion) in respect of contracts with central clearing counterparties to the extent related assets and liabilities are offset.

Key points

- Uncollateralised derivatives remained broadly stable.
- Interest rate contracts: fair value remained broadly stable as the decrease due to the impact of currency retranslation and trade compression cycles was offset by the downward shift in yields, as Markets is materially positioned to pay floating and receive fixed. The decrease in notionals reflected increased participation in trade compression cycles.
- Exchange rate, and equity and commodity contracts: Fair value decreased primarily due to the strengthening of sterling against the US dollar and euro.
- Credit derivatives: The impact of trade compression cycles resulted in a significant decrease in fair values and notionals.

Appendix 2 Capital and risk management

Market risk

Market risk is the risk of losses arising from fluctuations in interest rates, credit spreads, foreign currency rates, equity prices, commodity prices and other factors, such as market volatilities, that may lead to a reduction in earnings, economic value or both. For a description of the Group's basis of measurement, methodologies, value-at-risk (VaR) limitations and distinction between internal and regulatory VaR, refer to pages 318 to 340 of the Group's 2013 Annual Report and Accounts.

Trading VaR

The table below analyses the internal VaR for the Group's trading portfolios segregated by type of market risk exposure, and between Markets, RCR and Non-Core.

| | 31 March 2014 | | | | Quarter ended 31 December 2013 | | | | 31 March 2013 | | | |
|----------------------------|---------------|--------|---------|---------|-----------------------------------|--------|---------|---------|---------------|--------|---------|---------|
| | Period | | Maximum | Minimum | Period | | Maximum | Minimum | Period | | Maximum | Minimum |
| Trading VaR (1-day 99%) | Average | end | £m | £m | Average | end | £m | £m | Average | end | £m | £m |
| Interest rate | 19.1 | 14.0 | 39.8 | 10.9 | 32.3 | 44.1 | 44.1 | 19.1 | 47.7 | 38.9 | 78.2 | 33.1 |
| Credit spread | 31.4 | 25.6 | 42.8 | 24.1 | 40.5 | 37.3 | 48.4 | 33.3 | 76.3 | 70.8 | 86.8 | 60.0 |
| Currency | 6.4 | 3.7 | 8.5 | 3.7 | 5.9 | 6.5 | 9.6 | 3.6 | 10.5 | 13.0 | 20.6 | 4.0 |
| Equity | 3.8 | 4.5 | 6.0 | 2.7 | 4.3 | 4.1 | 12.6 | 3.2 | 6.8 | 8.5 | 11.6 | 4.0 |
| Commodity | 0.5 | 0.4 | 0.8 | 0.3 | 0.7 | 0.5 | 2.5 | 0.4 | 1.5 | 2.6 | 3.7 | 0.0 |
| Diversification (1) | | (21.1) | | | | (23.7) | | | | (40.1) | | |
| Total | 36.3 | 27.1 | 58.2 | 25.8 | 58.6 | 68.8 | 69.7 | 42.1 | 106.9 | 93.7 | 118.8 | 80.0 |
| Markets | 32.4 | 23.6 | 48.8 | 22.6 | 44.1 | 52.4 | 54.4 | 35.6 | 89.8 | 77.3 | 104.6 | 70.0 |
| RCR (2) | 8.0 | 7.5 | 16.2 | 3.5 | n/a | n/a | n/a | n/a | n/a | n/a | n/a | 10.0 |
| Non-Core | n/a | n/a | n/a | n/a | 15.7 | 15.2 | 17.7 | 14.9 | 22.0 | 20.3 | 24.9 | 10.0 |

Notes:

- (1) The Group benefits from diversification as it reduces risk by allocating positions across various financial instrument types, currencies and markets. The extent of the diversification benefit depends on the correlation between the assets and risk factors in the portfolio at a particular time. The diversification factor is the sum of the VaR on individual risk types less the total portfolio VaR.
- (2) The detailed RCR perimeter was not finalised at the start of the year. As average, maximum and minimum VaR are measures that require daily data, they have been prepared on a best efforts basis.

Key points

- The period end and average total VaR were lower in Q1 2014 compared with Q4 2013, driven by reductions in both credit spread and interest rate VaR.
- The reduction in credit spread VaR was driven by risk reduction as well as CVA and FVA coming into the scope of the internal VaR measure in early February 2014. Previously, only associated hedges were included. This approach reflects a more comprehensive economic view of the risk.
- The reduction in interest rate VaR was driven by de-risking and repositioning in the Rates business in Markets during January 2014.

Appendix 2 Capital and risk management

Market risk (continued)

Capital charges

Following the implementation of CRD IV on 1 January 2014, credit hedges eligible for CVA are no longer included in the modelled market risk capital charges, namely VaR, stressed VaR and the incremental risk charge. Such hedges are now included in the CVA capital charge, which forms part of the capital calculation for counterparty credit risk.

Contributors of the Pillar 1 model based position risk requirements (PRR) are presented below.

| | CRR Basel 2.5 | |
|-------------------------|---------------|---------------|
| | 31 March 2014 | December 2013 |
| | £m | £m |
| Value-at-risk | 367 | 576 |
| Stressed VaR | 856 | 841 |
| Incremental risk charge | 420 | 443 |
| All price risk | 5 | 8 |
| Risk not in VaR (RNIV) | 456 | 218 |
| Total | 2,104 | 2,086 |

Key points

- Overall, the Pillar 1 model based PRR was stable during the quarter at £2.1 billion as the decrease in the VaR-based capital charge was offset by an increase in the RNIV based charge.
- The decrease in the VaR charge was primarily driven by the removal of the CVA eligible hedges as noted above.

The RNIV charge increased as, following an agreement with the PRA, the materiality threshold previously in place was removed and all RNIVs are now capitalised.

Appendix 3

Inter-segmental transfers

Appendix 3 Inter-segmental transfers

Inter-segmental transfers at 1 January 2014

The tables below summarise the inter-segmental transfers underlying the creation of RCR and the cessation of Non-Core by donating division. RWAs, capital deductions and RWAs are on an end point CRR basis.

| | Creation of RCR | | | Funded assets | Cessation of Non-Core | | |
|-----------------------|-------------------------|---------------------------------|-------------|-------------------------|---------------------------------|---------------------------------|------------------|
| | Transfers from Non-Core | Transfers from other businesses | Total RCR | | Transfers from other businesses | Transfers to RCR | |
| | £bn | £bn | £bn | | £bn | £bn | £bn |
| Ulster Bank | 2.3 | 2.5 | 4.8 | Ulster Bank UK | 2.4 | (0.1) | (2.3) |
| UK Corporate | 1.0 | 5.3 | 6.3 | Corporate International | 6.4 | (5.4) | (1.0) |
| International Banking | 10.8 | 2.2 | 13.0 | Banking | 14.3 | (3.5) | (10.8) |
| Markets | 2.1 | 2.7 | 4.8 | Markets | 2.8 | (0.7) | (2.1) |
| | | | | US Retail & Commercial | 2.1 | (2.1) | - |
| Total | 16.2 | 12.7 | 28.9 | Total | 28.0 | (11.8) | (16.2) |
| | Transfers from Non-Core | Transfers from other businesses | Total RCR | RWAs | Non-Core | Transfers from other businesses | Transfers to RCR |
| | £bn | £bn | £bn | | £bn | £bn | £bn |
| Ulster Bank | 1.2 | 2.1 | 3.3 | Ulster Bank UK | 1.4 | (0.2) | (1.2) |
| UK Corporate | 1.6 | 8.0 | 9.6 | Corporate International | 7.0 | (5.4) | (1.6) |
| International Banking | 16.0 | 4.3 | 20.3 | Banking | 17.5 | (1.5) | (16.0) |
| Markets | 4.9 | 8.6 | 13.5 | Markets | 6.3 | (1.4) | (4.9) |
| | | | | US Retail & Commercial | 2.0 | (2.0) | - |
| Total | 23.7 | 23.0 | 46.7 | Total | 34.2 | (10.5) | (23.7) |

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| | Transfers from Non-Core | Transfers from other businesses | Total RCR | | Non-Core | Transfers from other businesses | Transfers to RCR |
|----------------------------------|-------------------------------|---------------------------------------|--------------|----------------------------|------------|---------------------------------------|---------------------|
| Capital deduction | £m | £m | £m | Capital deduction | £m | £m | £m |
| Ulster Bank | (54) | 613 | 559 | Ulster Bank UK | (54) | - | 54 |
| UK Corporate | 16 | 353 | 369 | Corporate International | 16 | - | (16) |
| International Banking Markets | 286 (5) | 201 422 | 487 417 | Banking Markets | 286 (5) | - - | (286) 5 |
| Total | 243 | 1,589 | 1,832 | Total | 243 | - | (243) |

| | Transfers from Non-Core | Transfers from other businesses | Total RCR | | Non-Core | Transfers from other businesses | Transfers to RCR |
|----------------------------------|-------------------------------|---------------------------------------|--------------|---|--------------------|---------------------------------------|----------------------|
| RWAe | £bn | £bn | £bn | RWAe | £bn | £bn | £bn |
| Ulster Bank | 0.7 | 8.2 | 8.9 | Ulster Bank UK | 0.8 | (0.1) | (0.7) |
| UK Corporate | 1.8 | 11.5 | 13.3 | Corporate International | 7.2 | (5.4) | (1.8) |
| International Banking Markets | 18.9 4.8 | 6.3 12.8 | 25.2 17.6 | Banking Markets US Retail & Commercial | 20.4 6.2 2.0 | (1.5) (1.4) (2.0) | (18.9) (4.8) - |
| Total | 26.2 | 38.8 | 65.0 | Total | 36.6 | (10.4) | (26.2) |

Signatures

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

Date: 02 May 2014

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary