ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
May 14, 2010
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 6-K

Report of Foreign Private Issuer

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

14 May 2010

The Royal Bank of Scotland Group plc

Gogarburn
PO Box 1000
Edinburgh EH12 1HQ
Scotland
United Kingdom

(Address of principal executive offices)

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

Form 20-F X Form 40-F ___

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

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

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

Yes ___ No X

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

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File No. 333-162219) and to be a part thereof from the date on which this report is filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Contents

1

Contents (continued)

Forward-looking statements

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

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

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: general geopolitical and economic conditions in the UK and in other countries in which the Group has significant business activities or investments, including the United States; the global economy and instability in the global financial markets, and their impact on the financial industry in general and on the Group in particular; the full nationalisation of the Group or other resolution procedures under the Banking Act 2009; the monetary and interest rate policies of the Bank of England, the Board of Governors of the Federal Reserve System and other G7 central banks; inflation; deflation; unanticipated turbulence in interest rates, foreign currency exchange rates, credit spreads, bond prices, commodity prices and equity prices; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; a change of UK Government or changes to UK Government policy; changes in the Group’s credit ratings; the Group’s participation in the Asset Protection Scheme (APS) and the effect of such Scheme on the Group’s financial and capital position; the conversion of the B Shares in accordance with their terms; the ability to access the contingent capital arrangements with HM Treasury; limitations on, or additional requirements imposed on, the Group’s activities as a result of HM Treasury’s investment in the Group; the Group’s ability to attract or retain senior management or other key employees; changes in competition and pricing environments; the financial stability of other financial institutions, and the Group’s counterparties and borrowers; the value and effectiveness of any credit protection purchased by the Group; the extent of future write-downs and impairment charges caused by depressed asset valuations; the ability to achieve revenue benefits and cost savings from the integration of certain of RBS Holdings N.V.’s businesses and assets; general operational risks; the inability to hedge certain risks economically; the ability to access sufficient funding to meet liquidity needs; the ability to complete restructurings on a timely basis, or at all, including the disposal of certain non-core assets and assets and businesses required as part of the EC State Aid approval; the adequacy of loss reserves; acquisitions or restructurings; technological changes; changes in consumer spending and saving habits; 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.

3

Presentation of information

Acquisition of ABN AMRO

On 17 October 2007, RFS Holdings B.V. (“RFS Holdings”), which at the time was owned by The Royal Bank of Scotland Group plc (RBSG), Fortis N.V., Fortis S.A./N.V., Fortis Bank Nederland (Holding) N.V. (“Fortis”) and Banco Santander, S.A. (“Santander”), completed the acquisition of ABN AMRO Holding N.V. (renamed RBS Holdings N.V. on 1 April 2010).

RFS Holdings, which is now jointly owned by RBSG, the Dutch State (following its acquisition of Fortis) and Santander (the “Consortium Members”), has substantially completed the process of implementing an orderly separation of the business units of RBS Holdings N.V. As part of this reorganisation, on 6 February 2010, the businesses of RBS Holdings N.V. acquired by the Dutch State were legally demerged from the RBS Holdings N.V. businesses acquired by the Group and were transferred into a newly established holding company, ABN AMRO Bank N.V. (save for certain assets and liabilities acquired by the Dutch State that were not part of the legal separation and which will be transferred to the Dutch State as soon as possible).

Legal separation of ABN AMRO Bank N.V. occurred on 1 April 2010, with the shares in that entity being transferred by RBS Holdings N.V. to a holding company called ABN AMRO Group N.V., which is owned by the Dutch State. Certain assets within RBS Holdings N.V. continue to be shared by the Consortium Members. RBS Holdings N.V. is a fully operational bank within the Group and is independently rated and licensed and regulated by the Dutch Central Bank.

Statutory results

RFS Holdings is jointly owned by the Consortium Members. It is controlled by RBS and is therefore fully consolidated in its financial statements. Consequently, the statutory results of the Group include the results of ABN AMRO. The interests of Fortis, and its successor the State of the Netherlands, and Santander in RFS Holdings are included in minority interests. From 1 April 2010, RBS will cease to consolidate the Consortium Members’ interests in ABN AMRO.

Financial information contained in this document does not constitute complete financial statements prepared in accordance with International Financial Reporting Standards as issued by the IASB and adopted by the European Union.

Non-GAAP financial information

IFRS requires the Group to consolidate those entities that it controls, including RFS Holdings as described below. However, discussion of the Group’s performance focuses on performance measures that exclude the RFS Holdings minority interest as the Group believes that such measures allow a more meaningful analysis of the Group’s financial condition and the results of its operations. These measures are non-GAAP financial measures. A body of generally accepted accounting principles such as IFRS is commonly referred to as ‘GAAP’. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Reconciliations of these non-GAAP measures are presented throughout this document. These non-GAAP financial measures are not a substitute for GAAP measures, for which management has responsibility.

4

Presentation of information (continued)

Non-GAAP financial information (continued)

RBS has divided its operations into “Core” and “Non-Core” for internal reporting purposes. Certain measures disclosed in this document for Core operations and used by RBS management are a non-GAAP financial measure.

Comment

Stephen Hester, Group Chief Executive, commented:

“Last year we began implementing one of the most significant corporate restructurings ever undertaken. We said the Plan would take five years to implement. We set out transparently where the milestones would be along the way. And we explained how, if implemented properly, the Plan would turn RBS from a problem into an opportunity for all our constituencies.

Today we show that we remain on track for the delivery of the Plan – we are doing what we said we would do. We have made good progress but there is still significant work to be done. I welcome the market's recognition of our progress to date, but the challenges we still face are real and should not be underestimated.

The year has begun for RBS broadly as we had expected. Economic recovery is benefiting our customers and thereby ourselves. However, we remain conscious of the economic imbalances still to be tackled globally and of the risk of specific events (such as those affecting Greece), with the associated danger of contagion. Certain sectors, like real estate, also face a longer term work-out and there are ongoing losses for banks to absorb. At present, global recovery is helping impairments fall a little faster than we expected, though lumpy events may well interrupt that trend. Our medium-term targets already factor in a normalisation of credit conditions.

RBS’s Retail and Commercial businesses are beginning to recover and should drive our growth over the next few years. While we have taken decisive management actions to improve these businesses, the pace of recovery will also be affected by the rate at which credit conditions change and when interest rates return to more normal levels, giving some relief to liability margins.

Global Banking & Markets, our investment bank, is on track with a seasonally strong first quarter, though significantly below the unusual conditions of a year previously. GBM was radically restructured 15 months ago and is the area with greatest people retention challenges, so we are pleased with progress in this important Division.

RBS’s risk profile continues to recover. We made huge balance sheet, capital and liquidity improvements in 2009 and these are now being extended through steady progress, in-line with targets, in Non-Core run-off and disposals. We are substantially improving the internal fabric and machinery of risk management. While not likely to be called upon, we also retain the valuable fallback protection of the Asset Protection Scheme and related contingent capital.

We aspire to be focused and purposeful in pursuit of RBS’s three principal goals:

- to serve Customers well;
- to restore the Bank to undoubted standalone strength; and
- to rebuild sustainable value for all Shareholders and in so doing to enable the UK Government to sell its shareholding profitably over time.

Comment (continued)

The first of these goals anchors all our efforts. We have renewed our focus on our Customers and how we serve them, and are investing in our businesses to improve service further. Our Customer franchises are solid and responding to these efforts though it will take time to raise customer service to the levels we aspire to.

We have already made significant progress in restoring the Bank to standalone strength through improvements in our risk profile and management culture. The job of rebuilding sustainable Shareholder value will take longer, and quarterly progress may not always be smooth. Volatility – of markets, of internal and external sentiment and outlook – is a fact of life. We will continue to try to steer a measured and determined course, rebuilding a reputation for delivery and with it the support of our people which is needed to bring about that delivery. Along the way, we are determined to support those who have supported us: to deliver for Customers, for the Communities we serve and for our Shareholders both public and private.

As covered more fully in my 2009 year-end statement, the regulatory landscape remains an area of focus, with a wide range of outcomes still under debate. The impact on economies as a whole, on banks in general and on RBS specifically is still uncertain. RBS welcomes and embraces change and reform and is actively participating to help governments and regulators calibrate measures, understand their consequences and consider timing. Shareholders and all our stakeholders need to be cautious as these issues, along with new taxes and other measures, are debated and progressed.

So, as 2010 unfolds we remain optimistic for RBS and the prospects of achieving the Plans laid out and our vision to restore RBS to an admired and high performing institution. Progress to date should give encouragement, but there is no complacency within RBS as we continue the work across our businesses."

Condensed consolidated income statement
for the period ended 31 March 2010

	Quarter ended		
	31 March 2010 £m	31 December* 2009 £m	31 March* 2009 £m
Interest receivable	5,692	5,977	7,450
Interest payable	(2,150)	(2,558)	(3,886)
Net interest income	3,542	3,419	3,564
Fees and commissions receivable	2,051	2,353	2,276
Fees and commissions payable	(572)	(894)	(691)
Income from trading activities	1,766	709	1,666
Other operating income (excluding insurance premium income)	447	304	750
Net insurance premium income	1,289	1,308	1,356
Non-interest income	4,981	3,780	5,357
Total income	8,523	7,199	8,921
Staff costs – excluding curtailment gains	(2,689)	(2,494)	(2,761)
– pension schemes curtailment gains	-	2,148	-
Premises and equipment	(535)	(685)	(661)
Other administrative expenses	(1,011)	(1,184)	(1,160)
Depreciation and amortisation	(482)	(600)	(560)
Write-down of goodwill and other intangible assets	-	(52)	-
Operating expenses	(4,717)	(2,867)	(5,142)
Profit before other operating charges and impairment losses	3,806	4,332	3,779
Net insurance claims	(1,136)	(1,321)	(966)
Impairment losses	(2,675)	(3,099)	(2,858)
Operating loss before tax	(5)	(88)	(45)
Tax charge	(107)	(644)	(210)
Loss from continuing operations	(112)	(732)	(255)
Profit/(loss) from discontinued operations, net of tax	313	(135)	(50)
Profit/(loss) for the period	201	(867)	(305)
Minority interests	(344)	246	(483)
Other owners' dividends	(105)	(144)	(114)
Loss attributable to ordinary shareholders	(248)	(765)	(902)

*Operating expenses include:			
Integration and restructuring costs:			
- administrative expenses	(165)	(221)	(374)
- depreciation and amortisation	(3)	(7)	(5)
	(168)	(228)	(379)
Amortisation of purchased intangible assets	(65)	(59)	(85)
	(233)	(287)	(464)

* restated for the reclassification of the results attributable to other Consortium Members as discontinued operations.

Highlights

First quarter results summary

Current trading

Operating performance in the first quarter of 2010 improved, with The Royal Bank of Scotland Group ('RBS' or the 'Group') recording a quarterly operating profit. Total income rose to £8,523 million, up 18% from the fourth quarter of 2009, while expenses, increased by 65% to £4,717 million and insurance claims were 14% lower at £1,136 million. Impairments fell 14% to £2,675 million, leaving a Group operating loss of £5 million, compared with a loss of £88 million in the fourth quarter. Cost savings programmes remain on track.

Net of tax, goodwill and intangible write-downs, minority interests and preference share dividends, the loss attributable to ordinary shareholders was £248 million, compared with a loss of £765 million in the fourth quarter of 2009.

In the Core bank, operating profit was £2,272 million, 92% higher than in the fourth quarter of 2009. The result was driven by a seasonally strong trading performance in Global Banking & Markets, where income rose 35%, benefiting from market conditions that, although less buoyant than the exceptional environment experienced in the first quarter of 2009, were still favourable; credit markets performance was particularly good.

In the Core retail and commercial businesses, income continued to be affected by generally low business volumes and by depressed liability margins, offsetting the repricing of new business asset margins. Adjusted for the number of days in the quarter, core retail and commercial net interest margin was stable. Customer franchises remained resilient, with good progress particularly in UK mortgages and current accounts.

Core return on equity in the quarter was 15%, in line with the longer term targets and driven by seasonally strong GBM results. However, significant quarterly movement in returns is to be anticipated, and future capital and other regulatory requirements could materially affect future returns.

Non-Core operating losses were substantially lower at £1,559 million, with income rising to £934 million.

Good progress has been made on restructuring and divestments. The divestments of a UK retail and business banking operation and of the Group's card payment acquiring business are currently on track.

Legal separation of ABN AMRO Bank NV took place on 1 April 2010. As a result RBS will no longer consolidate the interests in ABN AMRO of its consortium partners, the Dutch state and Banco Santander, in its results from the second quarter of 2010 onwards.

First quarter results summary (continued)

Efficiency

Group operating expenses increased by £1,850 million due to pension schemes curtailment gains, £2,148 million in the fourth quarter of 2009, offset by savings driven principally by Business Services, where costs declined by £129 million with reductions in property, technology and operations costs.

The Group's programme to reduce costs is already well advanced and we are beginning to see the necessary efficiency benefits of this. Over £2 billion in annualised cost savings have so far been achieved, compared with a commitment to deliver at least £2.5 billion in cost reductions by 2011.

Regrettably, but inevitably, this has resulted in job losses and while the most substantial reductions have been completed there are more to come. The Group will continue to work hard alongside staff and their representatives to minimise the human impact of this.

Impairments

Impairment losses declined in the first quarter to £2,675 million compared with £3,099 million in the fourth quarter of 2009. Impairment trends were favourable, particularly in the Core UK retail and US retail and commercial businesses, providing support for the view that impairments are likely to have peaked in 2009.

Non-Core impairments fell by 6% to £1,704 million. Improving credit trends continued in several segments of the division's portfolio, although the overall impairment level remains elevated and volatility in impairment charges remains likely.

Balance sheet management

Third party assets increased by 4% during the first quarter to £1,303 billion, with around half of the increase accounted for by exchange rate movements, as the weakness of sterling increased the value of foreign currency-denominated assets. The increase also reflected seasonal movements in GBM assets, which rose after falling sharply in the fourth quarter but remain within the division's targeted range, and a modest increase in retail and commercial lending, offset by Non-Core run-off.

First quarter results summary (continued)

Balance sheet management (continued)

Liquidity reserves totalled £165 billion, down £6 billion from 31 December 2009 but still above the Group's long term target band, including a central government bond portfolio of £59 billion.

Capital

Risk-weighted assets increased by £26 billion to £567 billion, more rapidly than nominal assets, primarily reflecting the roll-off of capital relief trades in the old ABN AMRO portfolios in line with guidance provided earlier this year. This increase in RWAs drove a reduction in the Group's Core Tier 1 ratio to 9.5% at 31 March 2010, compared with 11.0% at 31 December 2009.

Good progress has been made on restructuring and divestments. The divestments of a UK retail and business banking operation and of the Group's card payment acquiring business are currently on track.

Customers

The Group's customer franchises have remained resilient. RBS has sustained its position in its core retail and corporate markets, with customer numbers steady or growing across most of the Group's major businesses.

UK Retail maintained good growth in the current account market and now serves over 12.8 million current account customers. Progress has also continued in the mortgage market, with the division achieving a 10.6% market share of new lending in the first quarter, compared with a 7% share of the mortgage stock. Net mortgage lending in the first quarter totalled £2.0 billion.

Good progress in the current account market was also achieved by other divisions, with Ulster Bank adding 9,000 current account customers during the quarter and the US retail and commercial division expanding its consumer checking account base by 44,000 since the first quarter of 2009.

The Group has kept up its efforts to make credit available to UK businesses. Over £10 billion of new facilities were extended to businesses and corporates during the first quarter, with activity picking up in March after a seasonal lull in January and February.

First quarter results summary (continued)

Outlook

The economic outlook has stabilised and continues to improve steadily. However, substantial risks remain from the unwinding of structural imbalances globally and the impact of the withdrawal of fiscal and monetary support. The timing and make-up of regulatory and fiscal responses to the crisis also remains uncertain. However, the Group currently remains on track to deliver its five year plan.

Operating performance in the second quarter is expected to reflect GBM income returning to more normal levels from the seasonally strong first quarter performance, but steady progress in Core retail and commercial divisions.

Group net interest margin is expected to gradually improve over the remainder of 2010, with the recovery from the unsustainably low margins experienced in 2009 driven by the Core retail and commercial divisions. Impairment trends have turned more favourable in a number of areas, but levels of impairment are likely to remain high and there may be volatility in impairment losses, particularly in the Non-Core portfolio.

Customer franchises

The Group’s customer franchises remained resilient. RBS sustained its position in its core retail and corporate markets, with customer numbers steady or growing across most of the Group’s major businesses.

UK Retail maintained good growth in the current account market and now serves over 12.8 million current account customers. Almost 1 million savings accounts have been added since the first quarter of 2009. The division continues to make progress towards a more convenient operating model, with over 4 million active users of online banking and a record share of new sales achieved through direct channels.

UK Retail added 4,000 mortgage accounts during the first quarter, taking mortgage account numbers to 849,000, 10% up on 31 March 2009. RBS accounted for 10.6% of new mortgage lending in the quarter, compared with a 7% share of the mortgage stock.

UK Corporate and Commercial customer numbers held stable, with modest growth in business and commercial customers. The division serves over 1.1 million SMEs.

GBM maintained its market position in core franchise areas, with top tier market rankings in foreign exchange, options, rates, equities and debt capital markets.

Ulster Bank increased consumer, SME and corporate customer numbers during the quarter, with consumer accounts up 3%, compared with the first quarter of 2009. Current account numbers increased by 9,000 in the quarter, buoyed by a strong campaign focused on switching customers from competitors withdrawing from the Irish market.

US Retail and Commercial’s consumer and commercial customer bases held steady in its core New England and Mid-Atlantic regions, with some erosion of customer numbers in the Midwest. Over 44,000 consumer checking accounts and 12,000 small business checking accounts have been added since the first quarter of 2009.

RBS Insurance saw a small decline in own-brand motor policy numbers during the first quarter, following increased pricing introduced during the period, offset by good growth in the international and commercial business. Compared with the first quarter of 2009, Churchill’s motor policy numbers grew by 11% and its home policies by 27%, while Direct Line, which is not available on price comparison websites, held motor policy numbers stable and grew home policies by 2%.

Restructuring and divestments

The Group has made progress on its restructuring and divestment programme during the first quarter.

Agreement to sell RBS Sempra Commodities' metals, oil and European energy businesses to J.P.Morgan Chase for $1.7 billion was announced in February, and a sales process is under way for the remaining business lines. The sale of RBS Asset Management's investment strategies business to Aberdeen Asset Management was completed, and parts of the Non-Core Latin American businesses have also been successfully disposed of. The sale of RBS Factoring GmbH to GE Capital was agreed in March and is expected to complete by the third quarter.

The divestment of a retail, business and corporate banking operation, whose principal components are the RBS branch network in England and Wales together with NatWest's Scottish branches, is currently on track, as is the disposal of Global Merchant Services, the Group's card payment acquiring business.

UK Lending

In February 2009, the Group agreed with the UK Government to a number of measures aimed at improving the availability of credit to UK homeowners and businesses. During the 12 month period commencing 1 March 2009:

- Net mortgage lending exceeded the original target of £9 billion by £3.7 billion.
- Whilst gross business lending remained relatively strong (£41 billion of new facilities were extended to businesses during the 12 months), net business lending fell by £6.2 billion, reflecting subdued demand, accelerating repayments, continued strong competition and buoyant capital markets.

In March 2010, the Group reached new agreements on lending availability for the period March 2010 to February 2011:

- Residential lending: to make available an additional £8 billion of net mortgage lending.
- Business lending: to make available £50 billion in gross new facilities, whether drawn or undrawn, for business customers.

In the first quarter of 2010, net mortgage lending increased by £2.0 billion, compared with an increase of £3.2 billion in the fourth quarter of 2009. The slower rate of growth was reflective of the competitive mortgage environment. In addition, many completions were brought forward to December 2009 to take advantage of the temporary increase in stamp duty thresholds, and this had a corresponding adverse effect in the early part of 2010.

However, notwithstanding the lower mortgage lending growth, activity levels improved during the quarter with over 54,000 applications, 22% higher than in the fourth quarter of 2009.

Gross new facilities totalling £10.4 billion were extended to UK businesses, slightly lower than the corresponding figure of £11.1 billion during the fourth quarter of 2009. However, activity levels picked up after a seasonal lull in January and February, with over £4.3 billion of new facilities provided in March 2010.

Condensed consolidated balance sheet
at 31 March 2010

	31 March 2010 £m	31 December 2009 (audited) £m
Assets		
Cash and balances at central banks	42,008	52,261
Net loans and advances to banks	56,528	56,656
Reverse repurchase agreements and stock borrowing	43,019	35,097
Loans and advances to banks	99,547	91,753
Net loans and advances to customers	553,905	687,353
Reverse repurchase agreements and stock borrowing	52,906	41,040
Loans and advances to customers	606,811	728,393
Debt securities	252,116	267,254
Equity shares	21,054	19,528
Settlement balances	24,369	12,033
Derivatives	462,272	441,454
Intangible assets	14,683	17,847
Property, plant and equipment	18,248	19,397
Deferred taxation	6,540	7,039
Prepayments, accrued income and other assets	14,534	20,985
Assets of disposal groups	203,530	18,542
Total assets	1,765,712	1,696,486
Liabilities		
Bank deposits	98,294	104,138
Repurchase agreements and stock lending	48,083	38,006
Deposits by banks	146,377	142,144
Customer deposits	425,102	545,849
Repurchase agreements and stock lending	81,144	68,353
Customer accounts	506,246	614,202
Debt securities in issue	239,212	267,568
Settlement balances and short positions	70,632	50,876
Derivatives	444,223	424,141
Accruals, deferred income and other liabilities	28,466	30,327
Retirement benefit liabilities	2,682	2,963
Deferred taxation	2,295	2,811
Insurance liabilities	7,711	10,281
Subordinated liabilities	31,936	37,652
Liabilities of disposal groups	196,892	18,890
Total liabilities	1,676,672	1,601,855
Equity		

Minority interests	10,364	16,895
Owners’ equity*		
Called up share capital	15,031	14,630
Reserves	63,645	63,106
Total equity	89,040	94,631
Total liabilities and equity	1,765,712	1,696,486
*Owners’ equity attributable to:		
Ordinary shareholders	70,830	69,890
Other equity owners	7,846	7,846
	78,676	77,736

16

Commentary on condensed consolidated balance sheet

Total assets of £1,765.7 billion at 31 March 2010 were up £69.2 billion, 4%, compared with 31 December 2009.

Cash and balances at central banks were down £10.3 billion, 20% to £42.0 billion primarily due to reduced placings of short-term cash surpluses.

Loans and advances to banks increased by £7.8 billion, 8%, to £99.5 billion but rose £15.7 billion excluding the transfer to disposal groups of the RFS Minority Interest. Of the £15.7 billion, reverse repurchase agreements and stock borrowing ('reverse repos') were up £7.9 billion, 23% to £43.0 billion and bank placings rose £7.8 billion, 16%, to £56.5 billion, largely as a result of increased wholesale funding activity in Global Banking & Markets and Ulster Bank.

Loans and advances to customers decreased by £121.6 billion, 17% to £606.8 billion. Excluding the transfer of the RFS Minority Interest to disposal groups, lending was up £11.1 billion, 2%. Within the £11.1 billion, reverse repos increased £11.9 billion, 29% to £52.9 billion. Customer lending decreased by £0.8 billion to £553.9 billion but grew by £0.9 billion before impairment provisions. This reflected growth in UK Corporate & Commercial, £2.7 billion, Global Transaction Services, £1.4 billion, UK Retail, £0.9 billion and Wealth, £0.8 billion and the effect of exchange rate movements, £8.8 billion, following the weakening of sterling against the US dollar since the year end. These were partially offset by planned reductions in Non-Core of £10.0 billion, together with declines in Ulster Bank, £1.1 billion, US Retail & Commercial, £0.9 billion and Global Banking & Markets, £1.8 billion.

Debt securities declined by £15.1 billion, 6% to £252.1 billion largely reflecting the transfer of the RFS Minority Interest to disposal groups.

Equity shares were up £1.5 billion, 8% at £21.1 billion or £5.1 billion, 32% excluding transfers to disposal groups. Growth was principally due to increased holdings in Global Banking & Markets.

Settlement balances rose £12.3 billion to £24.4 billion as a result of increased customer activity from seasonal year end lows.

The value of derivative assets was up £20.8 billion, 5% to £462.3 billion, and liabilities, up £20.1 billion, 5%, to £444.2 billion. Excluding the RFS Minority Interest transfer to disposal groups, assets were up £24.1 billion, 5%, to £462.3 billion, and liabilities, up £22.7 billion, 5%, to £444.2 billion, primarily reflecting changes in interest rates, the weakening of sterling against the US dollar and growth in trading volumes.

Growth in assets and liabilities of disposal groups principally reflects the inclusion of the RFS Minority Interest, excluding those items which have shared ownership between the consortium members, together with the Global Merchant Services business and increases in respect of the Group's retail and commercial activities in Asia and Latin America.

Deposits by banks were up £4.2 billion, 3%, at £146.4 billion but declined by £5.4 billion, 4%, to £148.3 billion excluding the RFS Minority Interest. Of the £5.4 billion, reduced inter-bank deposits, down £15.5 billion, 13%, to £100.2 billion, principally in Group Treasury, were offset in part by increased repurchase agreements and stock lending ('repos'), up £10.1 billion, 27%, to £48.1 billion.

Commentary on condensed consolidated balance sheet (continued)

Customer accounts were down £108.0 billion, 18%, at £506.2 billion but up £23.6 billion, 5% following the RFS Minority Interest transfer to disposal groups. Within the £23.6 billion, repos increased £12.8 billion, 19%, to £81.1 billion. Excluding repos, customer deposits were up £10.8 billion, 3%, to £425.1 billion, reflecting growth in UK Corporate & Commercial, £3.6 billion, UK Retail, £2.3 billion, Global Transaction Services, £2.1 billion, Ulster Bank, £1.7 billion and Wealth, £0.8 billion, together with exchange rate movements of £6.3 billion. This was partially offset by reductions in Non-Core, £3.0 billion, US Retail & Commercial, £1.7 billion and Global Banking & Markets, £1.1 billion.

Debt securities in issue were down £28.4 billion, 11% to £239.2 billion. Excluding the transfer of the RFS minority interest, they declined £7.1 billion, 3%, mainly as a result of reductions in Global Banking & Markets.

Subordinated liabilities decreased £5.7 billion, 15% to £31.9 billion but increased £0.4 billion, 1% excluding transfers to disposal groups. The conversion of £0.6 billion non-cumulative US dollar preference shares and the redemption of £0.5 billion dated loan capital were more than offset by the effect of exchange rate movements and other adjustments of £1.5 billion.

Equity minority interests decreased by £6.5 billion, 39%, to £10.4 billion mainly due to net equity withdrawals of £4.2 billion and dividends of £2.7 billion paid to the RFS minority interests less attributable profits of £0.3 billion.

Owners' equity increased by £0.9 billion, 1% to £78.7 billion. The issue of £0.6 billion ordinary shares on conversion of the US dollar non-cumulative preference shares classified as debt and exchange rate movements, £0.7 billion, were partially offset by an increase in own shares held of £0.4 billion.

Key metrics

	31 March 2010	31 December 2009
Capital and balance sheet		
Funded balance sheet (1)	£1,303.4bn	£1,255.0bn
Total assets	£1,765.7bn	£1,696.5bn
Risk-weighted assets - gross	£692.0bn	£668.6bn
Benefit of Asset Protection Scheme	(£124.8bn)	(£127.6bn)
Risk-weighted assets	£567.2bn	£541.0bn
Core Tier 1 ratio	9.5%	11.0%
Tier 1 ratio	12.5%	14.1%
Loan:deposit ratio (Core – net of provisions)	102%	104%

Note:
(1) Funded balance sheet is defined as total assets less derivatives.

Results summary

	Quarter ended		
	31 March 2010	31 December 2009	31 March 2009
Non-interest income	£m	£m	£m
Net fees and commissions	1,479	1,459	1,585
Income from trading activities	1,766	709	1,666
Other operating income	447	304	750
Non-interest income (excluding insurance premiums)*	3,692	2,472	4,001
Insurance net premium income	1,289	1,308	1,356
Total non-interest income	4,981	3,780	5,357
* Includes fair value of own debt			
Income/(loss) from trading activities	41	(79)	290
Other operating income	(210)	349	741
Fair value of own debt	(169)	270	1,031

Key points

Q1 2010 compared with Q4 2009

The strong increase in non-interest income was driven largely by buoyant income from trading activities, with a good performance from GBM trading businesses and significantly reduced losses in Non-Core, both reflective of favourable market conditions. Non-Core non-interest income was £435 million, compared with losses of £403 million in Q4 2009.

Net fees and commissions increased modestly, with growth in GBM offsetting lower fee income in most retail and commercial businesses, reflecting generally low activity volumes, together with the adverse impact of repricing overdraft fees, which took effect in Q4 2009 in the UK retail businesses.

Q1 2010 compared with Q1 2009

Non-interest income was 7% lower than in the first quarter of 2009, during which GBM trading results benefited from exceptional market conditions while Non-Core recorded significant losses on monolines, credit default swaps and asset-backed securities.

Results summary (continued)

	Quarter ended		
	31 March 2010	31 December 2009	31 March 2009
Operating expenses	£m	£m	£m
Staff costs – excluding curtailment gains	2,689	2,494	2,761
Staff costs – pension scheme curtailment gains	-	(2,148)	-
Premises and equipment	535	685	661
Other	1,011	1,236	1,160
Administrative expenses	4,235	2,267	4,582
Depreciation and amortisation	482	600	560
Operating expenses	4,717	2,867	5,142
General insurance	1,107	1,304	970
Bancassurance	29	17	(4)
Insurance net claims	1,136	1,321	966
Staff costs as a percentage of total income	32%	35%	31%

Key points

Q1 2010 compared with Q4 2009

Group operating expenses excluding pension scheme curtailment gains, fell by 4%, driven principally by Business Services, where costs declined by £129 million with reductions in property, technology and operations costs. Integration costs have continued to decline as the process of integrating ABN AMRO is well advanced.

Staff costs increased by 8%, largely as a result of incentive compensation accruals in line with stronger business performance in GBM. The compensation ratio in GBM was 32%.

Other costs benefited from a one-off VAT recovery of £80 million included in Central items.

Insurance claims were lower than in Q4 2009, when reserves for bodily injury claims were built up significantly, but remained relatively high as a result of severe winter weather in the UK.

Q1 2010 compared with Q1 2009

Group operating expenses were £425 million, or 8%, lower than in the fourth quarter of 2009. Integration and restructuring costs declined compared with Q1 2009, when ABN AMRO integration activity was more substantial.

Insurance net claims were up £170 million, or 18% reflecting higher bodily injury claims and adverse winter weather.

21

Results summary (continued)

	Quarter ended		
	31 March 2010	31 December 2009	31 March 2009
Impairment losses	£m	£m	£m
Division			
UK Retail	387	451	354
UK Corporate	186	190	100
Wealth	4	10	6
Global Banking & Markets	32	130	269
Global Transaction Services	-	4	9
Ulster Bank	218	348	67
US Retail & Commercial	143	153	223
RBS Insurance	-	-	5
Central items	1	2	(3)
Core	971	1,288	1,030
Non-Core	1,704	1,811	1,828
	2,675	3,099	2,858
Asset category			
Loans and advances	2,602	3,032	2,276
Securities	73	67	582
	2,675	3,099	2,858
Loan impairment charge as % of gross loans and advances excluding reverse repurchase agreements	1.8%	2.1%	1.3%

Key points

Q1 2010 compared with Q4 2009

Impairment losses declined in the first quarter, led by improving trends in UK Retail. Loan performance in Ulster continued to deteriorate, though impairments were lower than in Q4 2009, which included a significant charge in respect of latent losses.

UK Corporate impairments held steady, while US Retail & Commercial is beginning to trend favourably. GBM recorded only a small loss in the absence of any large single name impairments.

Non-Core impairments continued the improving trend that began to emerge towards the end of 2009, though loss rates, in proportion to the division’s diminishing portfolio, remain high.

Q1 2010 compared with Q1 2009

Reduced impairment losses in GBM were partly offset by higher levels of impairment in the Core retail and commercial businesses, particularly in UK Corporate and Ulster.

Results summary (continued)

	Quarter ended		
	31 March 2010	31 December 2009	31 March 2009
Credit and other market losses (1)	£m	£m	£m
Monoline exposures	-	734	1,645
CDPCs	32	111	198
Asset-backed products (2)	55	(102)	376
Other credit exotics	(11)		