

ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
May 04, 2012

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 4, 2012

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:

Condensed consolidated income statement
for the quarter ended 31 March 2012

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

| | | | |
|--|---------|---------|--------|
| Loss for the period | (1,538) | (1,780) | (529) |
| Non-controlling interests | 14 | (18) | 1 |
| Loss attributable to ordinary and B shareholders | (1,524) | (1,798) | (528) |
| Basic loss per ordinary and B share from continuing operations | (1.4p) | (1.7p) | (0.5p) |
| Diluted loss per ordinary and B share from continuing operations | (1.4p) | (1.7p) | (0.5p) |
| Basic loss per ordinary and B share from discontinued operations | - | - | - |
| Diluted loss per ordinary and B share from discontinued operations | - | - | - |

In the income statement above, one-off and other items as shown on page 17 are included in the appropriate captions. A reconciliation between the income statement above and the managed view income statement on page 11 is given in Appendix 1 to this announcement.

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

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

(1,553) (2,961) (1,121)

Key points

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

Condensed consolidated balance sheet
at 31 March 2012

| | 31 March 2012 £m | December 2011 £m |
|---|---------------------------|------------------------|
| Assets | | |
| Cash and balances at central banks | 82,363 | 79,269 |
| Net loans and advances to banks | 36,064 | 43,870 |
| Reverse repurchase agreements and stock borrowing | 34,626 | 39,440 |
| Loans and advances to banks | 70,690 | 83,310 |
| Net loans and advances to customers | 440,406 | 454,112 |
| Reverse repurchase agreements and stock borrowing | 56,503 | 61,494 |
| Loans and advances to customers | 496,909 | 515,606 |
| Debt securities | 195,931 | 209,080 |
| Equity shares | 17,603 | 15,183 |
| Settlement balances | 20,970 | 7,771 |
| Derivatives | 453,354 | 529,618 |
| Intangible assets | 14,771 | 14,858 |
| Property, plant and equipment | 11,442 | 11,868 |
| Deferred tax | 3,849 | 3,878 |
| Prepayments, accrued income and other assets | 10,079 | 10,976 |
| Assets of disposal groups | 25,060 | 25,450 |
| Total assets | 1,403,021 | 1,506,867 |
| Liabilities | | |
| Bank deposits | 65,735 | 69,113 |
| Repurchase agreements and stock lending | 41,415 | 39,691 |
| Deposits by banks | 107,150 | 108,804 |
| Customer deposits | 410,207 | 414,143 |

Edgar Filing: ROYAL BANK OF SCOTLAND GROUP PLC - Form 6-K

| | | |
|---|------------------|------------------|
| Repurchase agreements and stock lending | 87,303 | 88,812 |
| Customer accounts | 497,510 | 502,955 |
| Debt securities in issue | 142,943 | 162,621 |
| Settlement balances | 17,597 | 7,477 |
| Short positions | 37,322 | 41,039 |
| Derivatives | 446,534 | 523,983 |
| Accruals, deferred income and other liabilities | 20,278 | 23,125 |
| Retirement benefit liabilities | 1,840 | 2,239 |
| Deferred tax | 1,788 | 1,945 |
| Insurance liabilities | 6,251 | 6,312 |
| Subordinated liabilities | 25,513 | 26,319 |
| Liabilities of disposal groups | 23,664 | 23,995 |
| Total liabilities | 1,328,390 | 1,430,814 |
| Equity | | |
| Non-controlling interests | 1,215 | 1,234 |
| Owners' equity* | | |
| Called up share capital | 15,397 | 15,318 |
| Reserves | 58,019 | 59,501 |
| Total equity | 74,631 | 76,053 |
| Total liabilities and equity | 1,403,021 | 1,506,867 |
| * Owners' equity attributable to: | | |
| Ordinary and B shareholders | 68,672 | 70,075 |
| Other equity owners | 4,744 | 4,744 |
| | 73,416 | 74,819 |

Commentary on condensed consolidated balance sheet

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

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

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

Loans and advances to customers declined £18.7 billion, 4%, to £496.9 billion. Within this, reverse repurchase agreements were down £5.0 billion, 8%, to £56.5 billion. Customer lending decreased by £13.7 billion, 3%, to £440.4 billion, or £13.4 billion, 3%, to £460.5 billion before impairments. This reflected planned reductions in Non-Core of £6.1 billion, along with declines in International Banking, £4.0 billion, Markets, £2.3 billion, UK Corporate, £0.9

billion, and Ulster Bank, £0.1 billion, together with the effect of exchange rate and other movements, £2.9 billion. These were partially offset by growth in UK Retail, £1.8 billion, US Retail & Commercial, £1.0 billion and Wealth, £0.1 billion.

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

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

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

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

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

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

Commentary on condensed consolidated balance sheet (continued)

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

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

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

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

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

Average balance sheet

| | Quarter ended | |
|---|-----------------------|--------------------------|
| | 31 March 2012 % | 31 December 2011 % |
| Average yields, spreads and margins of the banking business | | |
| Gross yield on interest-earning assets of banking business | 3.15 | 3.13 |
| Cost of interest-bearing liabilities of banking business | (1.57) | (1.64) |
| Interest spread of banking business | 1.58 | 1.49 |
| Benefit from interest-free funds | 0.31 | 0.35 |
| Net interest margin of banking business | 1.89 | 1.84 |
| Average interest rates | | |
| The Group's base rate | 0.50 | 0.50 |
| London inter-bank three month offered rates | | |
| - Sterling | 1.06 | 0.99 |
| - Eurodollar | 0.51 | 0.43 |
| - Euro | 0.97 | 1.50 |

Average balance sheet (continued)

| | Quarter ended 31 March 2012 | | | Quarter ended 31 December 2011 | | |
|---------------------------------------|--------------------------------|----------------|-----------|-----------------------------------|----------------|-----------|
| | Average balance £m | Interest £m | Rate % | Average balance £m | Interest £m | Rate % |
| Assets | | | | | | |
| Loans and advances to banks | 87,025 | 148 | 0.68 | 91,359 | 207 | 0.90 |
| Loans and advances to customers | 443,418 | 4,252 | 3.86 | 453,051 | 4,335 | 3.80 |
| Debt securities | 110,926 | 625 | 2.27 | 120,203 | 693 | 2.29 |

Edgar Filing: ROYAL BANK OF SCOTLAND GROUP PLC - Form 6-K

| | | | | | | |
|--------------------------------------|-----------|-------|--------|-----------|-------|--------|
| Interest-earning assets - | | | | | | |
| banking business | 641,369 | 5,025 | 3.15 | 664,613 | 5,235 | 3.13 |
| Trading business | 251,081 | | | 271,183 | | |
| Non-interest earning assets | 633,284 | | | 655,374 | | |
| Total assets | 1,525,734 | | | 1,591,170 | | |
| Memo: Funded assets | 1,012,285 | | | 1,058,372 | | |
| Liabilities | | | | | | |
| Deposits by banks | 44,387 | 180 | 1.63 | 60,526 | 228 | 1.49 |
| Customer accounts | 333,915 | 917 | 1.10 | 340,742 | 922 | 1.07 |
| Debt securities in issue | 122,891 | 749 | 2.45 | 140,208 | 833 | 2.36 |
| Subordinated liabilities | 22,530 | 146 | 2.61 | 22,906 | 146 | 2.53 |
| Internal funding of trading business | (6,432) | 25 | (1.56) | (44,408) | 24 | (0.21) |
| Interest-bearing liabilities - | | | | | | |
| banking business | 517,291 | 2,017 | 1.57 | 519,974 | 2,153 | 1.64 |
| Trading business | 262,047 | | | 299,789 | | |
| Non-interest-bearing liabilities | | | | | | |
| - demand deposits | 72,370 | | | 70,538 | | |
| - other liabilities | 600,226 | | | 625,702 | | |
| Owners' equity | 73,800 | | | 75,167 | | |
| Total liabilities and owners' equity | 1,525,734 | | | 1,591,170 | | |

Notes:

- (1) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.
- (2) Interest payable has been decreased by £8 million (Q4 2011 - £2 million) to exclude RFS Holdings minority interest. Related interest-bearing liabilities have also been adjusted.
- (3) Interest receivable has been increased by £8 million (Q4 2011 - £1 million) and interest payable has been increased by £52 million (Q4 2011 - £40 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.
- (4)

Interest payable has been decreased by £45 million (Q4 2011 - £45 million) in respect of non-recurring adjustments.

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

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

Note:

(1) Analysis provided on page 87.

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

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

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

| | Quarter ended | | 31 March 2011 |
|--|------------------|---------------------|------------------|
| | 31 March 2012 | 31 December 2011 | |

Edgar Filing: ROYAL BANK OF SCOTLAND GROUP PLC - Form 6-K

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

Notes

1. Basis of preparation

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. Accordingly, the Interim Management Statement for the quarter ended 31 March 2012 has been prepared on a going concern basis.

2. Accounting policies

The annual accounts are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (IASB) and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the European Union (EU) (together IFRS). There have been no significant changes to the Group's principal accounting policies as set out on pages 314 to 323 of the 2011 Annual Report and Accounts.

Notes (continued)

3. Analysis of income, expenses and impairment losses

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

| | | | |
|--|-------|------|------|
| Changes in the fair value of securities and other financial assets and liabilities | 81 | 6 | 68 |
| Changes in the fair value of investment properties | 32 | (65) | (25) |
| Profit on sale of securities | 223 | 179 | 236 |
| Profit/(loss) on sale of property, plant and equipment | 5 | (5) | 11 |
| Loss on sale of subsidiaries and associates | (12) | (15) | (29) |
| Life business losses | (2) | - | (2) |
| Dividend income | 16 | 15 | 15 |
| Share of (losses)/profits less losses of associated entities | (4) | 6 | 7 |
| Other income/(loss) | 60 | (24) | 82 |
| Other operating (loss)/income | (747) | 205 | 391 |

Refer to Appendix 1 for a reconciliation between the managed and statutory bases for key line items.

Notes (continued)

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

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

| | | | |
|--|-------|-------|-------|
| - sovereign debt impairment and related interest rate hedge adjustments | | | |
| - other | 19 | 40 | 49 |
| Impairment losses | 1,314 | 1,918 | 1,947 |

Refer to Appendix 1 for a reconciliation between the managed and statutory bases for key line items.

Payment Protection Insurance (PPI)

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

| | Quarter ended 31 March 2012 £m | Year ended 31 December 2011 £m |
|---|--|---|
| At beginning of period | 745 | - |
| Transfers from accruals and other liabilities | - | 215 |
| Charge to income statement | 125 | 850 |
| Utilisations | (181) | (320) |
| At end of period | 689 | 745 |

Notes (continued)

4. Loan impairment provisions

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

| | 31 March 2012 | | | Quarter ended 31 December 2011 | | | | 31 March 2011 | | |
|---------------------------|---------------|--------------------|-------------|-----------------------------------|--------------------|-----------------|-------------|---------------|--------------------|-------------|
| | Core £m | Non- Core £m | Total £m | Core £m | Non- Core £m | RFS MI £m | Total £m | Core £m | Non- Core £m | Total £m |
| At beginning of period | 8,414 | 11,469 | 19,883 | 8,873 | 11,850 | - | 20,723 | 7,866 | 10,316 | 18,182 |
| | - | - | - | (773) | - | - | (773) | - | (9) | (9) |

| | | | | | | | | | | |
|--|-------|--------|--------|-------|--------|-----|---------|-------|--------|--------|
| Transfers to disposal groups | | | | | | | | | | |
| Intra-group transfers | - | - | - | - | - | - | - | 177 | (177) | - |
| Currency translation and other adjustments | (8) | (80) | (88) | (75) | (162) | - | (237) | 56 | 95 | 151 |
| Disposals | - | - | - | - | - | (3) | (3) | - | - | - |
| Amounts written-off | (405) | (440) | (845) | (526) | (981) | - | (1,507) | (514) | (438) | (952) |
| Recoveries of amounts previously written-off | 62 | 33 | 95 | 48 | 99 | - | 147 | 39 | 80 | 119 |
| Charge to income statement | | | | | | | | | | |
| - continuing | 796 | 499 | 1,295 | 924 | 730 | - | 1,654 | 852 | 1,046 | 1,898 |
| - discontinued | - | - | - | - | - | 3 | 3 | - | - | - |
| Unwind of discount (recognised in interest income) | (62) | (67) | (129) | (57) | (67) | - | (124) | (60) | (71) | (131) |
| At end of period | 8,797 | 11,414 | 20,211 | 8,414 | 11,469 | - | 19,883 | 8,416 | 10,842 | 19,258 |

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

The table above excludes impairments relating to securities (see page 106).

Notes (continued)

5. Tax

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

| | Quarter ended | | |
|--|---------------|----------|----------|
| | 31 | | |
| | 31 March | December | 31 March |
| | 2012 | 2011 | 2011 |
| | £m | £m | £m |
| Loss before tax | (1,404) | (1,976) | (116) |
| Expected tax credit | 344 | 524 | 31 |
| Sovereign debt impairment where no deferred tax asset recognised | - | (56) | - |

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

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

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

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

Notes (continued)

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

| Quarter ended | | |
|---------------|----------|----------|
| 31 | | |
| 31 March | December | 31 March |
| 2012 | 2011 | 2011 |

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

7. Dividends

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

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

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

Notes (continued)

8. Earnings per ordinary and B share

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

| Quarter ended | | |
|---------------|----------|----------|
| 31 | | |
| 31 March | December | 31 March |
| 2012 | 2011 | 2011 |

Earnings

| | | | |
|---|---------|---------|---------|
| Loss from continuing operations attributable to ordinary and B shareholders (£m) | (1,524) | (1,798) | (530) |
| Profit from discontinued operations attributable to ordinary and B shareholders (£m) | - | - | 2 |
| Ordinary shares in issue during the period (millions) | 57,704 | 57,552 | 56,798 |
| B shares in issue during the period (millions) | 51,000 | 51,000 | 51,000 |
| Weighted average number of ordinary and B shares in issue during the period (millions) | 108,704 | 108,552 | 107,798 |
| Basic loss per ordinary and B share from continuing operations | (1.4p) | (1.7p) | (0.5p) |
| Own credit adjustments | 1.7p | 0.2p | 0.4p |
| Asset Protection Scheme | - | 0.1p | 0.3p |
| Payment Protection Insurance costs | 0.1p | - | - |
| Sovereign debt impairment | - | 0.2p | - |
| Integration and restructuring costs | 0.4p | 0.5p | 0.2p |
| Gain on redemption of own debt | (0.4p) | - | - |
| Strategic disposals | - | 0.1p | - |
| Bank levy | - | 0.3p | - |
| Adjusted earnings/(loss) per ordinary and B share from continuing operations | 0.4p | (0.3p) | 0.4p |
| Loss/(earnings) from Non-Core attributable to ordinary and B shareholders | 0.2p | (0.2p) | 0.3p |
| Core adjusted earnings/(loss) per ordinary and B share from continuing operations | 0.6p | (0.5p) | 0.7p |
| Core impairment losses | 0.3p | (0.3p) | 0.3p |
| Pre-impairment Core adjusted earnings/(loss) per ordinary and B share | 0.9p | (0.8p) | 1.0p |
| Memo: Core adjusted earnings per ordinary and B share from continuing operations assuming normalised tax rate of 24.5% (2011 - 26.5%) | 1.2p | 0.8p | 1.5p |
| Diluted loss per ordinary and B share from continuing operations | (1.4p) | (1.7p) | (0.5p) |

Notes (continued)

9. Segmental analysis

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

Analysis of divisional operating profit/(loss)

The following tables provide an analysis of divisional operating profit/(loss) for the quarters ended 31 March 2012, 31 December 2011 and 31 March 2011 by main income statement captions. The divisional income statements on pages 20 to 62 reflect certain presentational reallocations as described in the notes below. These do not affect the overall operating profit/(loss).

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

Edgar Filing: ROYAL BANK OF SCOTLAND GROUP PLC - Form 6-K

| | | | | | | | |
|-----------------|-------|-------|-------|---------|-------|---------|---------|
| Statutory basis | 2,999 | 2,177 | 5,176 | (4,617) | (649) | (1,314) | (1,404) |
|-----------------|-------|-------|-------|---------|-------|---------|---------|

Notes:

- (1) Reallocation of £9 million between net interest income and non-interest income in respect of funding costs of rental assets.
- (2) Reallocation of £8 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.
- (3) Total income includes £90 million investment income of which £53 million is included in net interest income and £37 million in non-interest income. Reallocation of £31 million between non-interest income and net interest income in respect of instalment income.
- (4) Reallocation of £51 million between net interest income and non-interest income in respect of funding costs of rental assets.
- (5) Comprises £1,009 million loss included in 'Income from trading activities' and £1,447 million loss included in 'Other operating income' on a statutory basis.
- (6) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

9. Segmental analysis (continued)

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

| | Net interest income | Non- interest income | Total income | Operating expenses | Insurance net claims | Impairment losses | Operating profit/(loss) |
|---------------------------------------|---------------------------|----------------------------|-----------------|-----------------------|-------------------------|----------------------|----------------------------|
| Quarter ended 31 December 2011 | £m | £m | £m | £m | £m | £m | £m |
| UK Retail | 1,032 | 277 | 1,309 | (660) | - | (191) | 458 |
| UK Corporate Wealth | 758 | 419 | 1,177 | (535) | - | (236) | 406 |
| International Banking (1) | 168 | 112 | 280 | (194) | - | (13) | 73 |
| Ulster Bank | 281 | 312 | 593 | (385) | - | (56) | 152 |
| US Retail & Commercial Markets (2) | 177 | 49 | 226 | (132) | - | (327) | (233) |
| Direct Line Group (3) | 496 | 294 | 790 | (548) | - | (65) | 177 |
| Central items | 20 | 672 | 692 | (744) | - | (57) | (109) |
| | 82 | 841 | 923 | (209) | (589) | - | 125 |
| | (37) | 46 | 9 | 77 | (1) | 4 | 89 |
| Core | 2,977 | 3,022 | 5,999 | (3,330) | (590) | (941) | 1,138 |
| Non-Core (4) | 99 | (377) | (278) | (314) | 61 | (751) | (1,282) |
| Managed basis | 3,076 | 2,645 | 5,721 | (3,644) | (529) | (1,692) | (144) |
| Reconciling items | | | | | | | |
| Own credit adjustments (5) | - | (472) | (472) | - | - | - | (472) |
| | - | (209) | (209) | - | - | - | (209) |

| | | | | | | | |
|--|-------|-------|-------|---------|-------|---------|---------|
| Asset Protection Scheme (6) | | | | | | | |
| Sovereign debt impairment | - | - | - | - | - | (224) | (224) |
| Amortisation of purchased intangible assets | - | - | - | (53) | - | - | (53) |
| Integration and restructuring costs | - | - | - | (478) | - | - | (478) |
| Loss on redemption of own debt | - | (1) | (1) | - | - | - | (1) |
| Strategic disposals | - | (2) | (2) | (80) | - | - | (82) |
| Bank levy | - | - | - | (300) | - | - | (300) |
| Write-down of goodwill and other intangible assets | - | - | - | (11) | - | - | (11) |
| RFS Holdings minority interest | (2) | 3 | 1 | (1) | - | (2) | (2) |
| Statutory basis | 3,074 | 1,964 | 5,038 | (4,567) | (529) | (1,918) | (1,976) |

Notes:

- (1) Reallocation of £12 million between net interest income and non-interest income in respect of funding costs of rental assets.
- (2) Reallocation of £3 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.
- (3) Total income includes £60 million investment income of which £49 million is included in net interest income and £11 million in non-interest income. Reallocation of £33 million between non-interest income and net interest income in respect of instalment income.
- (4) Reallocation of £56 million between net interest income and non-interest income in respect of funding costs of rental assets, £55 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £1 million.
- (5) Comprises £272 million loss included in 'Income from trading activities' and £200 million loss included in 'Other operating income' on a statutory basis.
- (6) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

9. Segmental analysis (continued)

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

| Net interest income | Non- interest income | Total income | Operating expenses | Insurance net claims | Impairment losses | Operating profit/(loss) |
|---------------------------|----------------------------|-----------------|-----------------------|-------------------------|----------------------|----------------------------|
| £m | £m | £m | £m | £m | £m | £m |

Edgar Filing: ROYAL BANK OF SCOTLAND GROUP PLC - Form 6-K

Quarter ended 31 March
2011

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

Notes:

- (1) Reallocation of £10 million between net interest income and non-interest income in respect of funding costs of rental assets.
- (2) Reallocation of £3 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.
- (3) Total income includes £64 million investment income, £53 million in net interest income and £11 million in non-interest income. Reallocation of £35 million between non-interest income and net interest income in respect of instalment income.
- (4) Reallocation of £53 million between net interest income and non-interest income in respect of funding costs of rental assets, £51 million and to record interest on financial assets and liabilities designated as at fair value through profit or loss, £2 million.
- (5) Comprises £266 million loss included in 'Income from trading activities' and £294 million loss included in 'Other operating income' on a statutory basis.
- (6) Included in 'Income from trading activities' on a statutory basis.

Notes (continued)

10. Discontinued operations and assets and liabilities of disposal groups

Profit from discontinued operations, net of tax

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

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

Notes (continued)

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

| | 31 March 2012 | | | |
|------------------------------------|--------------------------------------|-------|-------|------------------------|
| | UK branch- based businesses | Other | Total | 31 December 2011 |
| | £m | £m | £m | £m |
| Assets of disposal groups | | | | |
| Cash and balances at central banks | 63 | 24 | 87 | 127 |

Edgar Filing: ROYAL BANK OF SCOTLAND GROUP PLC - Form 6-K

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

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

UK branch-based businesses

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

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

Notes (continued)

11. Valuation reserves

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

Credit valuation adjustments and other adjustments

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

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

Key points

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

Notes (continued)

11. Valuation reserves (continued)

Own credit

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

| Cumulative own credit adjustment (1) | Debt securities in issue (2) | | | Subordinated liabilities | | Derivatives | Total (3) |
|---|------------------------------|-----------|-------------|--------------------------|-------------|-------------|-----------|
| | HFT £m | DFV £m | Total £m | DFV £m | Total £m | | |
| 31 March 2012 | 91 | 1,207 | 1,298 | 520 | 1,818 | 466 | 2,284 |
| 31 December 2011 | 882 | 2,647 | 3,529 | 679 | 4,208 | 602 | 4,810 |
| Carrying values of underlying liabilities | £bn | £bn | £bn | £bn | £bn | | |
| 31 March 2012 | 10.7 | 33.3 | 44.0 | 1.0 | 45.0 | | |
| 31 December 2011 | 11.5 | 35.7 | 47.2 | 0.9 | 48.1 | | |

Notes:

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

Key points

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

Notes (continued)

12. Available-for-sale financial assets

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

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

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

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

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

13. Contingent liabilities and commitments

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

| | | | | | | |
|---|---------|--------|---------|---------|--------|---------|
| lines and other commitments to lend | | | | | | |
| Other commitments | 666 | 1,919 | 2,585 | 301 | 2,611 | 2,912 |
| | 225,903 | 13,494 | 239,397 | 227,720 | 15,155 | 242,875 |
| Total contingent liabilities and commitments | 260,145 | 14,638 | 274,783 | 262,089 | 16,730 | 278,819 |

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

Notes (continued)

14. Litigation, investigations, reviews and proceedings

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

Litigation

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

Investigations, reviews and proceedings

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

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

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

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

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

Notes (continued)

15. Other developments

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

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

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

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

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

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

Rating agencies

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

Notes (continued)

15. Other developments (continued)

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

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

16. Date of approval

This announcement was approved by the Board of directors on 3 May 2012.

17. Post balance sheet events

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

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: 4 May 2012

THE ROYAL BANK OF
SCOTLAND GROUP plc
(Registrant)

By: /s/ Jan Cargill

Name: Jan Cargill
Title: Deputy Secretary