ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
March 05, 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

5 March 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on Form F-3 (File No. 333-162219) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

RBS Group - 2009 Annual results

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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. Such statements are subject to risks and uncertainties. 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 economic conditions in the UK and in other countries in which RBS has significant business activities or investments, including the United States; developments in the current crisis in the global financial markets, and their impact on the financial industry in general and on RBS in particular; the full nationalisation of RBS 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, commodity prices and equity prices; changes in UK and foreign laws, regulations and taxes, including changes in regulatory capital regulations; a change of UK Government or changes to UK Government policy; changes in RBS’s credit ratings; RBS’s participation in the Asset Protection Scheme (APS) and the effect of such Scheme on RBS’s financial and capital position; the conversion of the B Shares in accordance with their terms; the ability to access the contingent capital from HM Treasury; limitations on, or additional requirements imposed on, RBS’s activities as a result of HM Treasury’s investment in RBS; changes in competition and pricing environments; the financial stability of other financial institutions, and RBS’s counterparties and borrowers; the value and effectiveness of any credit protection purchased by RBS; 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 ABN AMRO’s businesses and assets; natural and other disasters; 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 RBS in managing the risks involved in the foregoing.

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

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

Presentation of information

Acquisition of ABN AMRO

On 17 October 2007, RFS Holdings B.V. ('RFS Holdings'), a company jointly owned by The Royal Bank of Scotland Group plc (‘RBS’), Fortis Bank Nederland (Holding) N.V. ('Fortis') and Banco Santander S.A. ('Santander') (together, the 'Consortium Members'), completed the acquisition of ABN AMRO Holding N.V. ('ABN AMRO').

The Consortium Members have implemented an orderly separation of the business units of ABN AMRO with RBS retaining the following former ABN AMRO business units:

Continuing businesses of Business Unit North America;

Business Unit Global Clients and wholesale clients in the Netherlands (including former Dutch wholesale clients) and Latin America (excluding Brazil);

Business Unit Asia (excluding Saudi Hollandi); and

Business Unit Europe (excluding Antonveneta).

Some other remaining assets will continue to be shared by the Consortium Members until their orderly disposal or transfer.

On 3 October 2008, the State of the Netherlands acquired Fortis Bank Nederland (Holding) N.V. including Fortis's participation in RFS Holdings that represented the acquired activities of ABN AMRO.

The separation of the main platform shared between RBS and its Dutch state-owned partner was completed in 2009 and in February 2010 the majority of the businesses of ABN AMRO acquired by Dutch State were legally demerged from the RBS-acquired businesses. The Group expects that, subject to legal process and regulatory approvals, the full legal separation of the constituent parts of ABN AMRO will be completed in April. From that point RBS will cease to consolidate the Consortium Members’ interests in ABN AMRO in its results.

Statutory results

RFS Holdings is jointly owned by the Consortium Members. It is controlled by RBS and is therefore fully consolidated in its audited financial statements. The interests of the State of the Netherlands and Santander in RFS Holdings are included in minority interests.

Presentation of information (continued)

Non-GAAP financial information

The financial statements are prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the IASB and IFRS as adopted by the European Union. 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.

As described in section "Business and strategic update, 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.

Restatements

Divisional results for 2008 have been restated to reflect the Group's new organisational structure that includes a Non-Core division comprising individual assets, portfolios and lines of business that the Group intends to run off or dispose. The Non-Core division is reported separately from the divisions which form the Core Group. In addition, separate reporting of Business Services (formerly Group Manufacturing) and Centre results has changed and, with the exception of certain items of a one off nature, costs incurred are now allocated to the customer-facing divisions and shown as 'indirect expenses' and are included in the measurement of the returns which they generate. These changes do not affect the Group's results. Comparatives have been restated accordingly.

Condensed consolidated income statement
for the year ended 31 December 2009

	2009 £m	2008 £m
Interest receivable	33,836	49,522
Interest payable	(17,332)	(30,847)
Net interest income	16,504	18,675
Fees and commissions receivable	9,831	9,831
Fees and commissions payable	(2,822)	(2,386)
Income/(loss) from trading activities	3,881	(8,477)
Gain on redemption of own debt	3,790	-
Other operating income (excluding insurance premium income)	1,962	1,899
Insurance net premium income	5,544	6,326
Non-interest income	22,186	7,193
Total income	38,690	25,868
Staff costs		
- excluding pension schemes curtailment gains	(11,783)	(10,410)
- pension schemes curtailment gains	2,148	-
Premises and equipment	(3,087)	(2,593)
Other administrative expenses	(5,584)	(5,464)
Depreciation and amortisation	(2,809)	(3,154)
Write-down of goodwill and other intangible assets	(363)	(32,581)
Operating expenses*	(21,478)	(54,202)
Profit/(loss) before other operating charges and impairment losses	17,212	(28,334)
Insurance net claims	(4,857)	(4,430)
Impairment losses	(14,950)	(8,072)
Operating loss before tax	(2,595)	(40,836)
Tax credit	371	2,323
Loss from continuing operations	(2,224)	(38,513)
(Loss)/profit from discontinued operations, net of tax	(99)	3,971
Loss for the year	(2,323)	(34,542)
Minority interests	(349)	10,832
Preference shareholders	(878)	(536)
Paid-in equity holders	(57)	(60)

Loss attributable to ordinary and B shareholders	(3,607)	(24,306)
*Operating expenses include:		
Integration and restructuring costs		
- administrative expenses	1,268	1,321
- depreciation and amortisation	18	36
	1,286	1,357
Amortisation of purchased intangible assets	272	443
	1,558	1,800

2009 results summary

The Royal Bank of Scotland Group (RBS) reported a 2009 net attributable loss of £3,607 million, compared with a loss of £24,306 million in 2008. The Group reported a 2009 operating loss before tax of £2,595 million, compared with a loss of £40,836 million in 2008. Excluding RFS Holdings minority interest, the Group reported a non-GAAP 2009 operating loss of £6,232 million, compared with a loss of £6,938 million in 2008.

Core bank operating profit rose to £8,325 million from £4,413 million in 2008. The improvement largely reflected the turnaround in Global Banking & Markets (GBM) trading profits, with a very strong first quarter and more sustainable levels of revenue over the remainder of the year. Pre-impairment profits in the Core retail and commercial banking businesses remained robust with margins improving in the second half, but impairments increased markedly from 2008. US Retail & Commercial recorded an operating loss, but has successfully refocused on its core customer franchises, with an improvement in margins and stable impairments in the second half. RBS Insurance operating profit was severely affected by rising bodily injury claims.

Non-Core achieved a reduction of £57 billion in third party assets, excluding derivatives, ahead of its announced targets, by running down exposures and pursuing opportunities to dispose of loan portfolios. Losses on trading activities declined as underlying asset prices rallied, but impairment losses increased to £9,221 million.

Integration and restructuring costs of £1,286 million were offset by a £3,790 million gain on the redemption of the Group's own debt and by gains of £2,148 million arising from the curtailment of prospective pension benefits, leaving operating loss before tax of £2,595 million, compared with £40,836 million in 2008, which included a £32,581 million write-down of goodwill and other intangible assets. The loss attributable to ordinary and B shareholders was £3,607 million, compared with £24,306 million in 2008.

Net tangible equity amounted to 48.5p per ordinary and B share at 31 December 2009, compared with 64.6p at 31 December 2008, primarily reflecting the issuance of B shares, the conversion of preference shares to ordinary shares and attributable losses over the course of the year. Excluding RFS Holdings minority interest, the non-GAAP net tangible equity amounted to 51.3p per ordinary and B share at 31 December 2009, compared with 73.8p at 31 December 2008.

No Asset Protection Scheme fees have been charged to income in 2009. The APS is structured as a derivative, with movements in the fair value of the contract (including £1.4 billion of fees paid in 2009) netting to zero at the year end. Changes in the fair value of the contract will be reflected in the income statement in future periods.

Net interest income
Net interest income declined by 12% as Group net interest margin narrowed by 26 basis points to 1.79%. Deposit margins have remained under pressure, with strong competition particularly for longer term deposits and rates on many products already at floors in the current low interest rate environment. Asset margins have been gradually rebuilt over the course of the year, helping to stem the erosion of net interest margin experienced over recent years, and overall net interest margins in the Core retail and commercial banking divisions started to recover in the second half. Excluding RFS Holdings minority interest, the non-GAAP net interest margin declined by 14% as Group net interest margin narrowed by 32 basis points to 1.76%

Non-interest income
Non-interest income increased to £22,186 million from £7,193 million in 2008, largely reflecting the sharp improvement in income from trading activities, as improved asset valuations led to lower credit market losses and GBM benefited from the restructuring of its business to focus on core customer franchises. The Group also recorded a gain of £3,790 million on a liability management exercise to redeem a number of Tier 1 and upper Tier 2 securities. Fees and commissions receivable were as a result of the withdrawal of the single premium payment protection insurance product and the restructuring of UK current account overdraft fees, being offset by higher fees in businesses attributable to RFS Holdings minority interest. Excluding RFS Holdings minority interest, the non-GAAP non-interest income increased to £15,858 million from £4,835 million in 2008.

Efficiency
The Group cost:income ratio improved to 55.5% from 209.5% in 2008. The Group has launched a substantial investment programme, targeting cost efficiencies across the Core divisions, enhanced customer service platforms and improved control systems.

Impairments
Impairment losses increased to £14,950 million from £8,072 million in 2008, with Core bank impairments rising by £2,182 million; Non-Core by £4,285 million and RFS Holdings minority interest by £411 million. Signs that impairments might have peaked appear to have been borne out in the fourth quarter, and there are indications that the pace of downwards credit rating migration for corporates is slowing. Nonetheless, the financial circumstances of many consumers and businesses remain fragile, and rising refinancing costs, whether as a result of monetary tightening or of increased regulatory capital requirements, could expose some customers to further difficulty.

Balance sheet
Significant progress has been achieved in reducing the Group balance sheet to a sustainable scale. Total assets have been cut by £705 billion over the course of 2009 to £1,696 billion at 31 December 2009. Funded assets have declined by £154 billion, with both the Non-Core division and Global Banking & Markets making good progress in reducing exposures. Non-Core has exceeded its previously announced target for third party asset run-off in 2009 by £15 billion. Group risk-weighted assets have been reduced by £155 billion during the year, including £128 billion benefit from the Asset Protection Scheme (APS). For further details on the APS see Appendix 2.

Capital
Following the issue of B shares to the UK Government and accession to the Asset Protection Scheme in December 2009, the Group's core tier 1 capital ratio has increased to 11.0%, from 6.6% at 31 December 2008. The year-end core tier 1 ratio benefits by 130 basis points from the APS, with risk-weighted asset relief provided by the Scheme partially offset by related core tier 1 deductions. Excluding RFS Holdings minority interest, the Group's Core Tier 1 ratio has increased to 11.0% from 5.9% at 31 December 2008.

Key metrics

	Year ended	
	31 December 2009 £m	31 December 2008 £m
Performance ratios		
Net interest margin	1.79%	2.05%
Core cost:income ratio	47.7%	57.1%
Group cost:income ratio	55.5%	209.5%
Continuing operations:		
Basic loss per ordinary and B share (1)	(6.3p)	(146.2p)

	31 December 2009	31 December 2008
Capital and balance sheet		
Total assets	£1,696.5bn	£2,401.7bn
Funded balance sheet (2)	£1,255.0bn	£1,409.1bn
Loan:deposit ratio (net of provisions)	126%	144%
Risk-weighted assets – gross	£668.6bn	£695.8bn
Benefit of APS	(£127.6bn)	-
Risk-weighted assets (RWAs)	£541.0bn	£695.8bn
Total equity	£94.6bn	£80.5bn
Core Tier 1 ratio	11.0%	6.6%
Tier 1 ratio	14.1%	10.0%
Tangible equity leverage ratio (3)	4.2%	1.8%
Net tangible equity per share	48.5p	64.6p

For definitions of the notes see page 20.

Business and strategic update (continued)

Strategic plan

RBS has made a strong start on the implementation of the strategic plan first announced in February 2009, with good progress made against the targets set out for the Group. The Group has sharply reduced risk in its balance sheet through rapid run-off of Non-Core exposures, disposals both of asset portfolios and of whole businesses, and enhancements to its risk control framework. At the same time, the core business franchises have shown resilience through difficult economic conditions, and are increasingly well positioned as the major economies in which they operate start to recover. Detailed plans for further improvements to the efficiency of these core businesses have been developed and are expected to yield both cost reductions and enhanced customer service over the next three years.

There remain, however, many uncertainties in the economic environment and the Group expects the process of rebuilding standalone strength and shareholder value to take several years.

Balance sheet management

Significant progress has been achieved in reducing the Group balance sheet to a sustainable scale. Total assets have been cut by £705 billion over the course of 2009 to £1,696 billion at 31 December 2009. Funded assets have declined by £155 billion, with both the Non-Core division and Global Banking & Markets (GBM) making good progress in reducing exposures. Excluding Sempra, Non-Core has exceeded its previously announced target for third party asset run-off in 2009 by £15 billion. Group risk-weighted assets have decreased by £155 billion during the year, including a £128 billion benefit from the Asset Protection Scheme.

Following accession to the APS and the issue of B shares to the UK Government in December 2009, the Group's core tier 1 capital ratio has increased to 11.0%, from 6.6% at 31 December 2008 and 6.5% at 30 September 2009. The year-end core tier 1 ratio benefits by 130 basis points from the APS, with risk-weighted asset relief provided by the Scheme partially offset by related core tier 1 deductions.

The Group's loan deposit ratio, net of provisions, has improved to 126%, compared with 144% at the end of 2008. The Group's loan:deposit ratio, excluding RFS Holdings minority interest and net of provisions (non-GAAP measure), has improved to 135%, compared with 151% at the end of 2008, with loans and advances sharply lower (principally in the GBM and Non-Core divisions) and good balance growth in the core deposit-gathering franchises. The Core loan:deposit ratio at 31 December 2009 was 104%, compared with 118% at the end of 2008.

Wholesale unsecured funding of less than one year duration, excluding RFS Holdings minority interest (non-GAAP measure), has declined to £250 billion, (including £109 billion of bank deposits) compared with £343 billion at the end of 2008 and £294 billion at the end of the third quarter of 2009.

Liquidity reserves, excluding RFS Holdings minority interest (non-GAAP measure), have increased to £171 billion, compared with £90 billion at the end of 2008 and £140 billion at 30 September 2009.

Core Bank

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

UK Retail added 60,000 current accounts customers during the fourth quarter, with current account numbers rising by 3% over the last year to 12.8 million at 31 December 2009. Over 1 million savings accounts have been added over the year.

UK Retail added 19,000 mortgage accounts during the fourth quarter, taking mortgage account numbers to 845,000, 10% up on December 2008.

UK Corporate and Commercial customer numbers held stable, including over 1.1 million SMEs.

GBM maintained its market position in core franchise areas through 2009, with top tier market rankings in foreign exchange, options, rates, equities and debt capital markets.

Ulster Bank held SME and corporate customer numbers stable over the last year and increased consumer accounts by 3%, compared with December 2008.

US Retail and Commercial's consumer and commercial customer bases held steady in its core New England, mid-Atlantic and Midwest regional footprint during the quarter, with 58,000 personal checking accounts added over the course of the year. The division substantially improved its position in the mortgage origination market.

RBS Insurance has achieved good growth in policy numbers, driven by the success of its own brands. Churchill's motor policy numbers grew by 19% and its home policies by 32% over the course of 2009, with Direct Line, which is not available on price comparison websites, achieving steadier growth – up 4% in motor and 2% in home over the same period.

The Core Bank performed strongly in 2009, with operating profit rebounding from 2008's weak levels to £8,325 million, despite an 87% increase in impairments to £4,678 million.

The principal driver of the Core Bank performance was the turnaround in the performance of GBM, which was loss-making in 2008. Although the exceptionally buoyant market conditions experienced in the first quarter levelled off over the course of the year, the restructuring of the business to focus on core customer franchises has been successful, with returns improving as a result of disciplined use of capital to support targeted clients.

The retail and commercial banking divisions also made good progress in reshaping their businesses to benefit from economic recovery, with improvements to product offerings and customer service contributing to their performance. Each business has taken steps to stem the erosion of net interest margin experienced over recent years, and although the strong competition for deposits has substantially reduced liability margins, efforts to rebuild asset pricing have begun to bear fruit. Net interest margin for the Core retail and commercial banking divisions recovered to 3.04% in the fourth quarter, significantly better than 2.70% in the first quarter.

Core Bank (continued)

Signs that impairments might have peaked appear to have been borne out in the fourth quarter, and there are indications that the pace of downwards credit rating migration for corporates is slowing. Nonetheless, the financial circumstances of many consumers and businesses remain fragile, and rising refinancing costs, whether as a result of monetary tightening or of increased regulatory capital requirements, could expose some customers to further difficulty.

Efficiency has improved substantially, with the Core Bank cost:income ratio, net of insurance claims, improving to 53.5% from 66.2% in 2008. The Group has launched a substantial investment programme, targeting cost efficiencies across the Core divisions, enhanced customer service platforms and improved control systems. A Core Bank cost:income ratio, net of insurance claims, below 50% is the target for 2013.

Group and detailed divisional targets, published in August 2009, have been reviewed and updated in the light of the APS and the EU-mandated disposals, although the impact of the Basel Committee's proposals for changes to the bank capital regime has yet to be fully assessed, as has the effect of further changes to the regulatory environment. The targets are generally unchanged, except for the 2011 cost:income ratio target for Global Transaction Services, which has been revised in view of the planned disposal of Global Merchant Services, the Group's leading card acquisition business.

These targets do not constitute forecasts, but it is the Group's intention to make measurable progress towards these goals in the period covered.

EU restructuring remedies

To comply with the state aid requirements of the European Commission (EC), RBS has agreed to undertake a further set of restructuring measures, in addition to those set out in its original strategic plan.

These measures include a number of divestments by the end of 2013:

RBS Sempra Commodities, in which the Group has a 51% interest, has been moved into Non-Core. On 16 February 2010 an agreement to sell RBS Sempra Commodities' metals, oil and European energy businesses to J.P.Morgan Chase for $1.7 billion was announced. RBS and its joint venture partner, Sempra Energy, are continuing to consider ownership alternatives for the remaining business lines.

A retail and business banking operation, whose principal components are the RBS branch network in England and Wales together with NatWest's Scottish branches, is in the process of being prepared for sale. An information memorandum is being issued to potential buyers. An agreement on a sale is targeted for 2010, but there are complex separation issues and completion is not expected until 2011.

Global Merchant Services, the Group's card payment acquiring business, has attracted considerable buyer interest and an information memorandum will be issued shortly. Closing is expected in the second half of 2010.

RBS Insurance is being prepared for eventual sale or flotation. The divestment will be timed to maximise value, but the current target date is 2012.

Other measures required by the EC include:

Prohibition of the payment of dividends or coupons on existing hybrid capital instruments until 2012, unless there is a legal obligation to pay them.

GBM to rank no higher than fifth in the combined global all debt league table for three years.

Accomplishment of balance sheet reduction targets implicit in the RBS Strategic Plan. (1)

In addition to the disposals required by the EC, RBS disposed of a number of holdings in 2009, despite difficult market conditions, including its equity stake in Bank of China, the 50% shareholding in Linea Directa, and parts of its retail and commercial banking operations in a number of Asian markets.

Since the end of the year, agreement has been reached on the sale of parts of RBS Asset Management to Aberdeen Asset Management.

Refer to Appendix 1 for further information on how the divestments of these businesses, to meet the European Commission's State Aid requirements, will impact the Group.

Note:
(1) Subject to adjustments. If RBS misses 2013 targeted reduction, further divestments will be required. For further details see Appendix 3.

Remuneration policy

The Group Remuneration Committee has approved remuneration proposals in respect of 2009. Following its right under the Remuneration Commitments and the Accession Agreement of the Asset Protection Scheme, UK Financial Investments (UKFI) has given its consent to these proposals.

These proposals are consistent with the framework the Board has established to put RBS at the leading edge of pay reform. The basis of the framework is:

- No reward for failure: pay awards are subject to challenging and measurable performance criteria directly linked to results and to RBS's strategic plan. Senior executives responsible for the overall losses have left the Group.

- Deferral: an extensive deferral policy, in line with G20 principles, has been introduced and agreed with the Financial Services Authority.
  - Executive directors have deferred the entirety of any 2009 bonus until 2012.
  - Holding periods have been extended to five years for shares forming part of the pay of the highest earners in the investment bank.
  - All 2009 bonuses awarded to those earning over £39,000 will be deferred and paid in three tranches over the period to June 2012.

- Clawback: a robust clawback mechanism has been introduced for all discretionary bonus payments.

The pay awards agreed result in a compensation ratio of 27% for GBM, or 28% if adjusted for past and current year deferral accounting.

UK Lending Commitments

RBS is unambiguously open for business and the Group has many initiatives under way to promote this to its customers, many of whom are understandably nervous about financial matters in these challenging economic times. In February 2009, as a pre-requisite to participation in the APS, the Group agreed to make available an additional £25 billion of UK lending (£9 billion of mortgage lending and £16 billion of business lending) to creditworthy customers on commercial terms, and subject to market demand, over the ensuing 12 months. Potential adjustments to the lending commitments to reflect economic circumstances over the 12 months from March 2010 are currently under discussion with the UK Government.The Group has the funding, the capital and the desire to make this lending available to customers, subject necessarily to their credit profile and to market pricing.

RBS believes that the lending commitments are being met. However, their impact is currently masked by the fact that, in the current economic environment, many customers are reducing their borrowings. As a result, demand for lending is subdued, especially from business customers. This phenomenon is being seen across most industrialised countries.

UK Lending Commitments (continued)

Since entering into this commitment, RBS has achieved strong results in the UK mortgage market:

- Gross lending in 2009 totalled £19.3 billion, including over £3.8 billion to first time buyers.

- UK mortgage balances totalled £91.9 billion at 31 December 2009, 15% higher than at the end of 2008. Net mortgage lending over the year was £11.8 billion and the Group is on target to surpass the £9 billion mortgage lending commitment.

- Acceptance rates for mortgage lending, at over 88%, remain high.

In business markets, RBS has achieved gross new lending of £60.2 billion in 2009. However, after taking account of loan repayments and overdraft movements, RBS's business lending balances at 31 December 2009 totalled £151.2 billion, a decline of 8% since the end of 2008.

In the SME segment, gross lending in 2009 was £38.6 billion. Demand remains subdued, with term loan applications down 23% by value. In addition, repayments increased significantly in the year (term loan repayments were 53% higher than in 2008) with businesses accelerating their repayments of existing borrowings.

The acceptance rate across all categories of SME credit remains stable at over 85%. The average interest rate on new lending to SMEs has fallen to 3.04% in the fourth quarter, compared with 5.86% in the fourth quarter of 2008. Overdraft utilisation rates across the SME and mid-corporate segments have reduced to 41% at the end of December 2009 from 43% at the end of June, providing further evidence that businesses are voluntarily reducing borrowings.

Among larger corporates, RBS advanced £21.6 billion of gross new lending in 2009. Demand continues to be impacted by the macroeconomic environment and many larger corporates are actively deleveraging to repair their balance sheets. Larger corporate customers had access to undrawn committed facilities of more than £42 billion at the end of 2009.

Business and strategic update (continued)

UK Lending Commitments (continued)

Within this context, RBS has been a significant player in facilitating access to the debt and equity markets for its larger clients. During the year, RBS was bookrunner for more debt issues by UK corporates than any other bank and participated in over 80% of the equity issues by UK corporates. Much of this finance raised has been used to pay back bank borrowing.

	31 December 2008 £bn	31 December 2009 £bn	Gross lending during 2009 £bn	Net lending during 2009 £bn
Mortgages	80.1	91.9	19.3	11.8
Total Business	163.4	151.2	60.2	(12.2)
- SME	68.0	67.0	38.6	(1.0)
- Mid-corporate	49.3	44.4	15.2	(4.9)
- Large Corporate	46.1	39.8	6.4	(6.3)
Total lending	243.5	243.1	79.5	(0.4)

Condensed consolidated balance sheet
at 31 December 2009

	2009 £m	2008 £m
Assets		
Cash and balances at central banks	52,261	12,400
Net loans and advances to banks	56,656	79,426
Reverse repurchase agreements and stock borrowing	35,097	58,771
Loans and advances to banks	91,753	138,197
Net loans and advances to customers	687,353	835,409
Reverse repurchase agreements and stock borrowing	41,040	39,313
Loans and advances to customers	728,393	874,722
Debt securities	267,254	267,549
Equity shares	19,528	26,330
Settlement balances	12,033	17,832
Derivatives	441,454	992,559
Intangible assets	17,847	20,049
Property, plant and equipment	19,397	18,949
Deferred taxation	7,039	7,082
Prepayments, accrued income and other assets	20,985	24,402
Assets of disposal groups	18,542	1,581
Total assets	1,696,486	2,401,652
Liabilities		
Bank deposits	104,138	174,378
Repurchase agreements and stock lending	38,006	83,666
Deposits by banks	142,144	258,044
Customer deposits	545,849	581,369
Repurchase agreements and stock lending	68,353	58,143
Customer accounts	614,202	639,512
Debt securities in issue	267,568	300,289
Settlement balances and short positions	50,876	54,277
Derivatives	424,141	971,364
Accruals, deferred income and other liabilities	30,327	31,482
Retirement benefit liabilities	2,963	2,032
Deferred taxation	2,811	4,165
Insurance liabilities	10,281	9,976
Subordinated liabilities	37,652	49,154
Liabilities of disposal groups	18,890	859
Total liabilities	1,601,855	2,321,154
Equity		
Minority interests	16,895	21,619
Owners' equity*		

Called up share capital	14,630	9,898
Reserves	63,106	48,981
Total equity	94,631	80,498
Total liabilities and equity	1,696,486	2,401,652
*Owners' equity attributable to:		
Ordinary and B shareholders	69,890	45,525
Other equity owners	7,846	13,354
	77,736	58,879

Commentary on condensed consolidated balance sheet

Total assets of £1,696.5 billion at 31 December 2009 were down £705.2 billion, 29%, compared with 31 December 2008, principally reflecting substantial repayments of customer loans and advances as corporate customer demand fell and corporates looked to deleverage their balance sheets. Lending to banks also fell in line with significantly reduced wholesale funding activity. There were also significant falls in the value of derivative assets, with a corresponding fall in derivative liabilities.

Cash and balances at central banks were up £39.9 billion to £52.3 billion due to the placing of short-term cash surpluses, including the proceeds from the issue of B shares in December, with central banks.

Loans and advances to banks decreased by £46.4 billion, 34%, to £91.8 billion with reverse repurchase agreements and stock borrowing (‘reverse repos’) down by £23.7 billion, 40% to £35.1 billion and lower bank placings, down £22.7 billion, 29%, to £56.7 billion largely as a result of reduced wholesale funding activity in Global Banking & Markets.

Loans and advances to customers were down £146.3 billion, 17%, at £728.4 billion. Within this, reverse repos increased by 4%, £1.7 billion to £41.0 billion. Excluding reverse repos, lending decreased by £148.0 billion, 18%, to £687.4 billion or by £141.8 billion, 17%, before impairment provisions. This reflected reductions in Global Banking & Markets of £71.4 billion, and planned reductions in Non-Core of £30.1 billion, including a £3.2 billion transfer to disposal groups in respect of RBS Sempra Commodities and the Asian and Latin American businesses. Reductions were also experienced in US Retail & Commercial, £7.4 billion; UK Corporate & Commercial, £5.4 billion; Ulster Bank, £1.8 billion; and the effect of exchange rate movements, £33.1 billion, following the strengthening of sterling during the year, partially offset by growth in UK Retail of £9.2 billion, and in Wealth of £1.4 billion.

Debt securities were flat at £267.3 billion and equity shares decreased by £6.8 billion, 26%, to £19.5 billion, principally due to the sale of the Bank of China investment and lower holdings in Global Banking & Markets and Non-Core, largely offset by growth in Group Treasury, in part reflecting an £18.0 billion increase in the gilt liquidity portfolio, and in the RFS Holdings minority interest.

Settlement balances were down £5.8 billion, 33%, at £12.0 billion as a result of lower customer activity.

Movements in the value of derivative assets, down £551.1 billion, 56%, to £441.5 billion, and liabilities, down £547.2 billion, 56%, to £424.1 billion, reflect the easing of market volatility, the strengthening of sterling and significant tightening in credit spreads in the continuing low interest rate environment.

Increases in assets and liabilities of disposal groups reflect the inclusion of the RBS Sempra Commodities business and the planned sale of a number of the Group’s retail and commercial activities in Asia and Latin America.

Deposits by banks declined by £115.9 billion, 45%, to £142.1 billion due to a decrease in repurchase agreements and stock lending (‘repos’), down £45.7 billion, 55%, to £38.0 billion and reduced inter-bank deposits, down £70.2 billion, 40% to £104.1 billion principally in Global Banking & Markets, reflecting reduced reliance on wholesale funding, and in the RFS Holdings minority interest.

Customer accounts were down £25.3 billion, 4%, to £614.2 billion. Within this, repos increased £10.2 billion, 18%, to £68.4 billion. Excluding repos, deposits were down £35.5 billion, 6%, to £545.8 billion, primarily due to; reductions in Global Banking & Markets, down £38.0 billion; Non-Core, £13.0 billion; including the transfer of £8.9 billion to disposal groups; and Ulster Bank, £1.2 billion; together with exchange rate movements, £26.9 billion, offset in part by growth across all other divisions, up £23.0 billion, and in the RFS Holdings minority interest, up £20.6 billion.

Debt securities in issue were down £32.7 billion, 11% to £267.6 billion mainly as a result of movements in exchange rates, together with reductions in Global Banking & Markets, Non-Core and the RFS Holdings minority interest.

Retirement benefit liabilities increased by £0.9 billion, 46%, to £3.0 billion, with net actuarial losses of £3.7 billion, arising from lower discount rates and higher assumed inflation, partially offset by curtailment gains of £2.1 billion due to changes in prospective pension benefits.

Subordinated liabilities were down £11.5 billion, 23% to £37.7 billion, reflecting the redemption of £5.0 billion undated loan capital, £1.5 billion trust preferred securities and £2.7 billion dated loan capital, together with the effect of exchange rate movements and other adjustments, £2.9 billion, partly offset by the issue of £2.3 billion undated loan capital within the RFS Holdings minority interest.

Equity minority interests decreased by £4.7 billion, 22%, to £16.9 billion. Equity withdrawals of £3.1 billion, due to the disposal of the investment in the Bank of China attributable to minority shareholders and the redemption, in part, of certain trust preferred securities, exchange rate movements of £1.4 billion, the recycling of related available-for-sale reserves to income, £0.5 billion, and dividends paid of £0.3 billion, were partially offset by attributable profits of £0.3 billion.

Owners' equity increased by £18.9 billion, 32% to £77.7 billion. The issue of B shares to HM Treasury in December 2009 raised £25.1 billion, net of expenses, and was offset in part by the creation of a £1.2 billion reserve in respect of contingent capital B shares. The placing and open offer in April 2009 raised £5.3 billion to fund the redemption of the £5.0 billion preference shares issued to HM Treasury in December 2008. Actuarial losses, net of tax, of £2.7 billion; the attributable loss for the period, £2.7 billion; exchange rate movements of £1.9 billion; the payment of other owners dividends of £0.9 billion including £0.3 billion to HM Treasury on the redemption of preference shares, and partial redemption of paid-in equity £0.3 billion were partly offset by increases in available-for-sale reserves, £1.8 billion; cash flow hedging reserves, £0.6 billion; and the equity owners gain on withdrawal of minority interests, net of tax, of £0.5 billion arising from the redemption of trust preferred securities.

Results summary

	Year ended 31 December 2009	Year ended 31 December 2008
Performance ratios		
Net interest margin	1.79%	2.05%
Core cost:income ratio	47.7%	57.1%
Group cost:income ratio	55.5%	209.5%
Continuing operations:		
Basic loss per ordinary and B share (1)	(6.3p)	(146.2p)

	31 December 2009	31 December 2008
Capital and balance sheet		
Funded balance sheet (2)	£1,255.0bn	£1,409.1bn
Total assets	£1,696.5bn	£2,401.7bn
Risk-weighted assets - gross	£668.6bn	£695.8bn
Benefit of APS	(£127.6bn)	-
Risk-weighted assets	£541.0bn	£695.8bn
Core Tier 1 ratio	11.0%	6.6%
Tier 1 ratio	14.1%	10.0%
Risk elements in lending (REIL)	£38.2bn	£21.3bn
Risk elements in lending as a % of loans and advances	5.40%	2.51%
Provision balance as % of REIL/PPL	45%	51%
Loan:deposit ratio (net of provisions)	126%	144%
Tangible equity leverage ratio (3)	4.2%	1.8%
Net tangible equity per share	48.5p	64.6p

Notes:

(1) Loss from continuing operations attributable to ordinary and B shareholders divided by weighted average number of shares in issue.

(2) Funded balance sheet is defined as total assets less derivatives.

(3) The tangible equity leverage ratio is based on total tangible equity divided by total tangible assets (after netting derivatives).

Results summary (continued)

Net interest income	Year ended 31 December 2009 £m	31 December 2008 £m
Net interest income (1)	16,220	18,231
Net interest margin		
- Group	1.79%	2.05%
- Global Banking & Markets	1.38%	1.34%
- Rest of Core Group	2.41%	2.97%
- Non-Core	0.69%	0.87%
Selected average balances		
Loans and advances to banks	53,747	50,589
Loans and advances to customers	710,726	714,790
Debt securities	139,365	121,815
Interest earning assets	903,838	887,194
Deposits by banks	129,233	159,809
Customer accounts	472,207	487,081
Subordinated liabilities	39,862	39,818
Interest bearing liabilities	818,422	832,350
Non-interest bearing deposits	43,605	37,421
Selected average yields (%)		
Loans and advances to banks	1.72	4.76
Loans and advances to customers	3.98	5.87
Debt securities	3.36	4.57
Interest earning assets	3.75	5.63
Deposits by banks	2.35	4.11
Customer accounts	1.69	3.36
Subordinated liabilities	3.78	5.42
Interest bearing deposits	2.16	3.81
Non-interest bearing deposits as a percentage of interest earning assets	4.82	4.22

Note:
(1) Refer to notes on page 66.

Results summary (continued)

Key points

2009 compared with 2008

Net interest margin declined by 26 basis points compared with 2008 primarily reflecting the pressure on liability margins, given rates on many deposit products at floors in the low interest rate environment and strong competition, particularly for longer term deposits and the build up of the Group's liquidity portfolio. Excluding RFS Holdings minority interest, the non-GAAP net interest margin declined by 32 basis points to 1.76% compared with 2008.

Asset margins have been gradually rebuilt over the course of the year helping to stem the erosion of net interest margin experienced over recent years, with the overall retail and commercial asset margin improving from c.1.4% in 2008 to c.1.75% in 2009. Improvement has been noted across all retail and commercial divisions.

GBM net interest margin increased modestly, reflecting higher margins on GBM banking assets, partially offset by lower money market income.

UK Corporate net interest margin declined, reflecting higher funding costs and continued competitive pricing due to strong demand for deposits. UK Retail held its net interest margin in line with 2008 as wider asset margins offset decreasing liability margins in a competitive deposit market.

Results summary (continued)

Non-interest income	Year ended 31 December 2009 £m	31 December 2008 £m
Net fees and commissions	7,009	7,445
Income/(loss) from trading activities	3,881	(8,477)
Gain on redemption of own debt	3,790	-
Other operating income	1,962	1,899
Non-interest income (excluding insurance premiums)	16,642	867
Insurance net premium income	5,544	6,326
Total non-interest income	22,186	7,193

Key points

2009 compared with 2008

Non-interest income increased to £22,186 million from £7,193 million in 2008. Excluding RFS Holdings minority interest, the non-GAAP non-interest income increased to £15,858 from £4,835 million in 2008.

Net fees and commissions fell by £436 million primarily due to the withdrawal of the single premium payment protection insurance product and the restructuring of current account overdraft fees within UK Retail during the year, as well as to reduced fees received in Non-Core. This was partially offset by improved performance in GBM (£112 million) and US Retail & Commercial (£50 million).

Income from trading activities rose substantially during the year by £12,358 million, principally due to lower credit market losses reflecting improved underlying asset prices compared with 2008. Increased market volatility and strong customer demand in a positive trading environment also contributed to this improvement.

In the second quarter of 2009 the Group recorded a gain of £3,790 million on a liability management exercise to redeem a number of Tier 1 and upper Tier 2 securities.

Other operating income increased by £63 million. This improvement reflected a small gain in the fair value of securities and other assets and liabilities compared with a loss of £1.7 billion in 2008. This was partially offset by lower profits on sales of securities and properties and reduced dividend income, together with a loss on sale of subsidiaries and associates of £0.1 billion compared with a profit of £0.9 billion in 2008, which included a gain of £600 million on the sale of Angel Trains.

Insurance net premium income fell by £782 million principally reflecting lower bancassurance fees and lower general insurance premiums.

Results summary (continued)

Operating expenses	Year ended 31 December 2009 £m	31 December 2008 £m
Staff costs		
- excluding pension schemes curtailment gains	11,783	10,410
- pension schemes curtailment gains	(2,148)	-
Premises and equipment	3,087	2,593
Other	5,584	5,464
Administrative expenses	18,306	18,467
Depreciation and amortisation	2,809	3,154
Write-down of goodwill and other intangible assets	363	32,581
Operating expenses	21,478	54,202
General insurance	4,223	3,733
Bancassurance	634	697
Insurance net claims	4,857	4,430
Staff costs as a percentage of total income	24.9%	40.2%

Key points

2009 compared with 2008

Operating expenses declined by 60% to £21,478 million largely reflecting a substantial decrease in the write-down of goodwill and other intangible assets. Excluding RFS Holdings minority interest, the non-GAAP operating expenses increased by 7% to £17,401 million.

Staff costs, excluding pension schemes curtailment gains, were up £1,373 million with most of the movement relating to adverse movements in foreign exchange rates and some salary inflation. Changes in incentive compensation, primarily in Global Banking & Markets, represented most of the remaining change.

Pension curtailment gains of £2,148 million were recognised during the fourth quarter of 2009 arising from changes to prospective pension benefits in the defined benefit scheme and certain other subsidiary schemes.

Premises and equipment costs rose by £494 million primarily due to the impact of expanded Group premises in London and the US.

Other expenses fell by £120 million due to integration benefits in GBM partially offset by increased deposit insurance levies in the US.

General insurance claims rose by £490 million primarily as a result of the rise in estimated costs of bodily injury claims within the motor lines of business.

Bancassurance claims fell by £63 million reflecting lower business volumes offset by improved returns on investment products being passed onto customers.

Results summary (continued)

	Year ended	
	31 December 2009	31 December 2008
Impairment losses	£m	£m
Impairment losses by division		
UK Retail	1,679	1,019
UK Corporate	927	319
Wealth	33	16
Global Banking & Markets	640	522
Global Transaction Services	39	54
Ulster Bank	649	106
US Retail & Commercial	702	437
RBS Insurance	8	42
Central items	1	(19)
Core	4,678	2,496
Non-Core	9,221	4,936
	13,899	7,432
RFS Holdings minority interest	1,051	640
	14,950	8,072
Impairment losses by asset category		
Loans and advances	14,134	7,091
Available-for-sale securities	816	981
	14,950	8,072
Loan impairment charge as % of gross loans and advances excluding reverse repurchase agreements	2.01%	0.84%

Key points

2009 compared with 2008

Impairment losses were £14,950 million compared with £8,072 million. Impairment losses in the Core divisions increased by £2,182 million, Non-Core losses increased by £4,285 million and RFS Holdings minority interest losses increased by £411 million.

In the Core business, the biggest increases were in UK Retail, UK Corporate and Ulster Bank, reflecting the difficult economic environment.

Non-Core losses also increased substantially, particularly across the corporate and property sectors.

Results summary (continued)

Credit and other market losses (1)	Year ended 31 December 2009 £m	31 December 2008 £m
Monoline exposures	2,387	3,093
CDPCs	957	615
Asset-backed products (2)	288	4,778
Other credit exotics	558	947
Equities	47	948
Leveraged finance	-	1,088
Banking book hedges	1,727	(1,642)
Other	188	268
	6,152	10,095

Notes:
(1) Included in 'Income/(loss) from trading activities'
(2) Includes super senior asset-backed structures and other asset-backed products.

Key points

2009 compared with 2008

Losses relating to monoline exposures were £2,387 million in 2009 compared with £3,093 million in 2008.

The credit quality of the monolines has continued to deteriorate and the level of CVA held against exposures to monoline counterparties has increased from 52% to 62% during the year. This was driven by a combination of wider credit spreads and lower recovery rates.

The gross exposure to monoline counterparties has decreased primarily due to a combination of higher prices of underlying reference instruments and restructuring certain exposures.

The increase in CVA resulting from the credit quality deterioration was partially offset by the decrease in CVA requirement following the reduction in gross exposure due to higher prices of underlying reference instruments. Consequently the net losses incurred in this regard were lower than in 2008 when there was both an increase in gross exposure and deterioration in credit quality.

Losses relating to CDPC exposures were £957 million in 2009 compared with £615 million in 2008.

The credit quality of the CDPCs has continued to deteriorate and the level of CVA held against exposures to CDPC counterparties has increased from 27% to 39% during the year.

The gross exposure to CDPC counterparties has reduced primarily due to a combination of tighter credit spreads of the underlying reference loans and bonds, and a decrease in the relative value of senior tranches compared with the underlying reference portfolios.

Results summary (continued)

Key points

2009 compared with 2008 (continued)

The decrease in CVA requirement following the reduction in gross exposure was partially offset by the increase in CVA requirement resulting from the credit quality deterioration. Consequently there were net gains in this regard in 2009 compared with losses in 2008 when there was both an increase in gross exposure and deterioration in credit quality.

Net losses were incurred in 2009 due to hedges put in place at the end of 2008 and during 2009 which effectively cap the exposure to certain CDPCs. As the exposure to these CDPCs has reduced, losses have been incurred on the hedges.

Losses relating to asset-backed products were £288m in 2009 compared with £4,778 million in 2008.

Losses reported in 2009 primarily relate to super senior CDOs. The significant price declines of the underlying predominantly mortgage-backed securities seen in 2008 were not repeated in 2009.

Losses on other mortgage backed securities were greatly reduced in 2009 as many of these positions were sold or substantially written down in 2008 resulting in reduced net exposure in 2009.

Losses relating to Credit exotics were £558 million in 2009 compared with £947 million in 2008. These losses were reduced in 2009 as hedges were put in place to mitigate the risk.

Leveraged finance assets were reclassified on 1 July 2009. Changes in the fair value of these assets are only recognised in the income statement to the extent that they are considered impairments.

Losses relating to banking book hedges were £1,727 million in 2009 compared with profits of £1,642 million in 2008. These trades hedge counterparty risk that arises from loans and bonds on the regulatory banking book. As credit spreads have generally tightened in 2009 the value of these hedges has decreased resulting in losses. These hedges gave rise to gains in 2008 due to credit spreads generally widening.

Results summary (continued)

Capital resources and ratios	31 December 2009	31 December 2008
Core Tier 1 capital	£59.5bn	£46.2bn
Tier 1 capital	£76.4bn	£69.8bn
Total capital	£87.2bn	£98.2bn
Risk-weighted assets – Gross	£668.6bn	£695.8bn
Benefit of APS	(£127.6bn)	-
Risk-weighted assets	£541.0bn	£695.8bn
Core Tier 1 ratio	11.0%	6.6%
Tier 1 ratio	14.1%	10.0%
Total capital ratio	16.1%	14.1%

Key points

2009 compared with 2008

The significant increase in the Core Tier 1 Capital and ratio reflects the impact of the accession to the Asset Protection Scheme and issue of B shares to the UK Government in December.

Risk-weighted assets (RWAs) have decreased by £155 billion from the end of 2008 with reductions due to APS of £128 billion, de-leveraging of £84 billion and movements in exchange rates of £20 billion partially offset by impacts of procyclicality, £75 billion and market risk volatility, £18 billion. There was a further reduction due to a decrease in the RWAs of RFS Holdings minority interest of £16 billion.

Results summary (continued)

Balance sheet	31 December 2009 £bn	31 December 2008 £bn
Funded balance sheet	1,255.0	1,409.1
Total assets	1,696.5	2,401.7
Loans and advances to customers (excluding reverse repurchase agreements and stock borrowing)	687.4	835.4
Customer accounts (excluding repurchase agreements and stock lending)	545.8	581.4
Loan:deposit ratio (Core - net of provisions)	104%	118%
Loan:deposit ratio (Non-Core - net of provisions)	1,121%	683%
Loan:deposit ratio (Group-net of provisions)	126 %	144%
Loan:deposit ratio (Group excluding RFS Holdings minority interest - net of provisions)	135%	151%

Key points

2009 compared with 2008

Total assets were down significantly, ahead of the targets set out in the Group's strategic plan.

Funded balance sheet was down 11% principally reflecting the substantial repayment of loans to banks and customers.

Total assets were down 29% principally reflecting substantial repayments of loans to banks and customers and a fall in mark-to-market derivative assets, with a corresponding fall in derivative liabilities.

The loan:deposit ratio (net of provisions) has improved to 126% from 144%. The loan:deposit ratio, excluding RFS Holdings minority interest, (net of provisions) has improved to 135%, as loans to customers, excluding reverse repos, fell by £148 billion, while deposits, excluding repos, fell by just £36 billion. The principal drivers were reduced loans and advances in GBM (down £96 billion) and Non-Core (down £42 billion), with UK Retail growing balances but reduced loan demand in other Core divisions. Good customer deposit growth was achieved in most Core divisions, with a particularly strong performance from UK Retail. GBM achieved a targeted reduction in short-term wholesale deposits.

A further analysis of the Group's funding and liquidity positions is included on pages 131 to 136.

Description of business

Following a comprehensive strategic review, changes were made to the Group's operating segments in 2009. A Non-Core division was created comprising those lines of business, portfolios and individual assets that the Group intends to run off or sell. Furthermore, Business Services (formerly Group Manufacturing) is no longer reported as a separate division and its costs are now allocated to the customer-facing divisions along with certain central costs. UK Retail & Commercial Banking has been split into three segments (UK Retail, UK Corporate and Wealth). Ulster Bank has become a specific segment. The remaining elements of Europe & Middle East Retail & Commercial Banking, Asia Retail & Commercial Banking and RBS's portion of shared ABN AMRO assets form part of Non-Core. The segmental measure is now Operating profit/(loss) before tax which differs from Contribution (used previously) and which excludes strategic disposals. Comparative data have been restated accordingly.

UK Retail offers a comprehensive range of banking products and related financial services to the personal market. It serves customers through the RBS and NatWest networks of branches and ATMs in the United Kingdom, and also through telephone and internet channels.

UK Corporate is a leading provider of banking, finance, and risk management services to the corporate and SME sector in the United Kingdom. It offers a full range of banking products and related financial services through a nationwide network of relationship managers, and also through telephone and internet channels. The product range includes asset finance through the Lombard brand.

Wealth provides private banking and investment services in the UK through Coutts & Co and Adam & Company; offshore banking through RBS International, NatWest Offshore and Isle of Man Bank; and international private banking through RBS Coutts.

Global Banking & Markets (GBM) is a leading banking partner to major corporations and financial institutions around the world, providing an extensive range of debt and equity financing, risk management and investment services to its customers. The division is organised along six principal business lines: money markets; rates flow trading; currencies and commodities; equities; credit markets and portfolio management & origination.

Global Transaction Services ranks among the top five global transaction services providers, offering global payments, cash and liquidity management, and trade finance and commercial card products and services. It includes the Group's corporate money transmission activities in the United Kingdom and the United States as well as Global Merchant Services, the Group's United Kingdom and international merchant acquiring business.

Ulster Bank is the leading retail and commercial bank in Northern Ireland and the third largest banking group on the island of Ireland. It provides a comprehensive range of financial services through both its Retail Markets division, which has a network of branches and operates in the personal and bancassurance sectors, and its Corporate Markets division, which provides services to SME business customers, corporates and institutional markets.

Description of business (continued)

US Retail & Commercial provides financial services primarily through the Citizens and Charter One brands. US Retail & Commercial is engaged in retail and corporate banking activities through its branch network in 12 states in the United States and through non-branch offices in other states. It ranks among the top five banks in New England.

RBS Insurance sells and underwrites retail and SME insurance over the telephone and internet, as well as through brokers and partnerships. Its brands include Direct Line, Churchill and Privilege, which sell general insurance products direct to the customer, as well as Green Flag and NIG. Through its international division, RBS Insurance sells general insurance, mainly motor, in Germany and Italy. The Intermediary and Broker division sells general insurance products through independent brokers.

Business Services (formerly Group Manufacturing) supports the customer-facing businesses and provides operational technology, customer support in telephony, account management, lending and money transmission, global purchasing, property and other services. Business Services drives efficiencies and supports income growth across multiple brands and channels by using a single, scalable platform and common processes wherever possible. It also leverages the Group's purchasing power and is the Group's centre of excellence for managing large-scale and complex change.

Central Functions comprises group and corporate functions, such as treasury, funding and finance, risk management, legal, communications and human resources. The Centre manages the Group's capital resources and Group-wide regulatory projects and provides services to the operating divisions.

Non-Core Division manages separately assets that the Group intends to run off or dispose. The division contains a range of businesses and asset portfolios primarily from the GBM division, including RBS Sempra Commodities, linked to proprietary trading, higher risk profile asset portfolios including excess risk concentrations, and other illiquid portfolios. It also includes a number of other portfolios and businesses, including regional markets businesses, that the Group has concluded are no longer strategic.

Divisional performance

	Year ended 31 December 2009 £m	31 December 2008 £m
Operating profit/(loss) by division		
UK Retail	229	723
UK Corporate	1,125	1,781
Wealth	420	348
Global Banking & Markets	5,709	(1,796)
Global Transaction Services	973	1,002
Ulster Bank	(368)	218
US Retail & Commercial	(113)	528
RBS Insurance	58	584
Central items	292	1,025
Core	8,325	4,413
Non-Core	(14,557)	(11,351)
Reconciling items:	(6,232)	(6,938)
RFS Holdings minority interest	(304)	41
Amortisation of purchased intangible assets	(272)	(443)
Write-down of goodwill	(363)	(32,581)
Integration and restructuring costs	(1,286)	(1,357)
Gain on redemption of own debt	3,790	-
Strategic disposals	132	442
Gains on pensions curtailment	2,148	-
Bonus tax	(208)	-
Group operating loss	(2,595)	(40,836)

	Year ended 31 December 2009 %	31 December 2008 %
Net interest margin by division		
UK Retail	3.59	3.58
UK Corporate	2.22	2.40
Wealth	4.38	4.51
Global Banking & Markets	1.38	1.34
Global Transaction Services	9.22	8.25
Ulster Bank	1.87	1.89
US Retail & Commercial	2.37	2.68
Non-Core	0.69	0.87

Group	1.76	2.08

Divisional performance (continued)

	Year ended	
	31 December 2009 £bn	31 December 2008 £bn
Risk-weighted assets by division		
UK Retail	51.3	45.7
UK Corporate	90.2	85.7
Wealth	11.2	10.8
Global Banking & Markets	123.7	151.8
Global Transaction Services	19.1	17.4
Ulster Bank	29.9	24.5
US Retail & Commercial	59.7	63.9
Other	9.4	7.1
Core	394.5	406.9
Non-Core	171.3	170.9
	565.8	577.8
Benefit of APS	(127.6)	-
	438.2	577.8
RFS Holdings minority interest	102.8	118.0
Total	541.0	695.8

UK Retail

	Year ended 31 December 2009 £m	31 December 2008 £m
Income statement		
Net interest income	3,452	3,187
Net fees and commissions	1,320	1,577
Other non-interest income	309	358
Non-interest income	1,629	1,935
Total income	5,081	5,122
Direct expenses		
- staff	(845)	(924)
- other	(421)	(421)
Indirect expenses	(1,773)	(1,851)
	(3,039)	(3,196)
	2,042	1926
Insurance net claims	(134)	(184)
Impairment losses	(1,679)	(1,019)
Operating profit	229	723
Analysis of income by product		
Personal advances	1,192	1,244
Personal deposits	1,349	2,037
Mortgages	1,214	500
Bancassurance	380	401
Cards	869	831
Other	77	109
Total income	5,081	5,122
Analysis of impairment by sector		
Mortgages	124	31
Personal	1,023	568
Cards	532	420
Total impairment	1,679	1,019

Loan impairment charge as % of gross customer loans and advances by sector		
Mortgages	0.15%	0.04%
Personal	7.52%	3.71%
Cards	8.58%	6.67%
	1.63%	1.09%

UK Retail (continued)

Key metrics

	Year ended 31 December 2009	31 December 2008
Performance ratios		
Return on equity (1)	4.2%	13.1%
Net interest margin	3.59%	3.58%
Cost:income ratio	59.8%	62.4%

	31 December 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Loans and advances to customers – gross		
- mortgages	83.2	72.2
- personal	13.6	15.3
- cards	6.2	6.3
Customer deposits (excluding bancassurance)	87.2	78.9
Assets under management – excluding deposits	5.3	5.7
Risk elements in lending	4.6	3.8
Loan:deposit ratio (excluding repos)	115%	116%
Risk-weighted assets	51.3	45.7

Note:

(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 7% of divisional risk-weighted assets, adjusted for capital deductions).

Key points

2009 compared with 2008

- Operating profit of £229 million was £494 million lower than in 2008. Profit before impairments was up £166 million or 10%, but impairments rose by £660 million as the economic environment deteriorated, albeit with signs of conditions stabilising in the second half of the year.

- The division has focused in 2009 on growing secured lending to meet its Government targets while at the same time building customer deposits, thereby reducing the Group's reliance on wholesale funding. Loans and advances to customers grew 10%, with a change in mix from unsecured to secured as the Group sought actively to reduce its risk profile, with 15% growth in mortgage lending and an 8% reduction in unsecured lending.

Mortgage growth was due to good retention of existing customers and new business sourced predominantly from the existing customer base. Gross mortgage lending market share increased to 12% from 7% in 2008, with the Group on track to exceed its Government targets on net lending by £3 billion.

Customer deposits grew 11% on 2008 reflecting the strength of the UK Retail customer franchise, which outperformed the market in an increasingly competitive environment. Savings balances grew by £6 billion or 11% and account acquisition saw a 20% increase, with 2.2 million accounts opened. Personal current account balances increased by 12% on 2008 with a 3% growth in accounts to 12.8 million.

UK Retail (continued)

Key points (continued)

2009 compared with 2008 (continued)

· Net interest income increased significantly by 8% to £3,452 million, driven by strong balance sheet growth. Net interest margin was flat at 3.59%, with decreasing liability margins in the face of stiff competition for deposits offsetting wider asset margins. The growth in mortgages and the reduction in higher margin unsecured balances also had a negative impact on the blended net interest margin.

· Non-interest income declined 16% to £1,629 million, principally reflecting the withdrawal of the single premium payment protection insurance product and the restructuring of current account overdraft fees in the final quarter of 2009, with the annualised impact of the overdraft fee restructuring further affecting income in 2010. The weak economic environment presented little opportunity in 2009 to grow credit card, private banking and bancassurance fees.

· Expenses decreased by 5%, with the cost:income ratio improving from 62% to 60%.

Direct staff costs declined by 9%, as the division benefited from strong cost control, a focus on process re-engineering and a 10% reduction in headcount.

RBS continues to progress towards a more convenient, lower cost operating model, with over 4 million active users of online banking and a record share of new sales achieved through direct channels. More than 5.5 million accounts have switched to paperless statements and 254 branches now utilise automated cash deposit machines.

· Impairment losses increased 65% to £1,679 million reflecting the deterioration in the economic environment, and its impact on customer finances.

The mortgage impairment charge was £124 million (2008 - £31 million) on a total book of £83.2 billion. Mortgage arrears rates stabilised in the second half of 2009 and remain well below the industry average, as reported by the Council of Mortgage Lenders. Repossessions show only a small increase on 2008, as the Group continues to support customers facing financial difficulties.

The unsecured lending impairment charge was £1,555 million (2008 - £988 million) on a book of £19.8 billion. Industry benchmarks for cards arrears showed a slightly improving trend in the final quarter of 2009, which is consistent with the Group's experience. RBS continues to perform better than the market on arrears.

Risk weighted assets increased by 12% to £51.3 billion due to higher lending and the upward pressure from procyclicality, more than offsetting the adoption of a through-the-cycle loss given default approach for mortgages.

UK Corporate

	Year ended 31 December 2009 £m	31 December 2008 £m
Income statement		
Net interest income	2,292	2,448
Net fees and commissions	858	829
Other non-interest income	432	460
Non-interest income	1,290	1,289
Total income	3,582	3,737
Direct expenses		
- staff	(753)	(801)
- other	(268)	(318)
Indirect expenses	(509)	(518)
	(1,530)	(1,637)
	2,052	2,100
Impairment losses	(927)	(319)
Operating profit	1,125	1,781
Analysis of income by business		
Corporate and commercial lending	2,401	2,166
Asset and invoice finance	232	241
Corporate deposits	985	1,266
Other	(36)	64
Total income	3,582	3,737
Analysis of impairment by sector		
Banks and financial institutions	15	9
Hotels and restaurants	98	25
Housebuilding and construction	106	42
Manufacturing	51	14
Other	150	53
Private sector education, health, social work, recreational and community services	59	15
Property	259	24

Wholesale and retail trade, repairs	76	37
Asset and invoice finance	113	100
Total impairment	927	319

UK Corporate (continued)

	Year ended 31 December 2009	Year ended 31 December 2008
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector		
Banks and financial Institutions	0.29%	0.17%
Hotels and restaurants	1.75%	0.41%
Housebuilding and construction	3.12%	0.81%
Manufacturing	1.38%	0.26%
Other	0.36%	0.14%
Private sector education, health, social work, recreational and community services	0.80%	0.20%
Property	0.93%	0.08%
Wholesale and retail trade, repairs	0.97%	0.41%
Asset and invoice finance	1.33%	1.18%
	0.83%	0.27%

Key metrics

	Year ended 31 December 2009	Year ended 31 December 2008
Performance ratios		
Return on equity (1)	10.3%	18.0%
Net interest margin	2.22%	2.40%
Cost:income ratio	42.7%	43.8%

	31 December 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Total assets	114.9	121.0
Loans and advances to customers – gross		
- Banks and financial institutions	5.2	5.4
- Hotels and restaurants	5.6	6.1
- Housebuilding and construction	3.4	5.2
- Manufacturing	3.7	5.3
- Other	42.0	38.1
- Private sector education, health, social work, recreational and community services	7.4	7.4
- Property	28.0	31.8

- Wholesale and retail trade, repairs	7.8	9.1
- Asset and invoice finance	8.5	8.5
Customer deposits	87.8	82.0
Risk elements in lending	2.3	1.3
Loan:deposit ratio	126%	142%
Risk-weighted assets	90.2	85.7

Note:

(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 8% of divisional risk-weighted assets, adjusted for capital deductions).

UK Corporate (continued)

Key points

2009 compared with 2008

- Operating profit of £1,125 million was £656 million lower than in 2008, largely due to an increase of £608 million in impairments.

- Net interest margin levels were rebuilt during the second half as asset pricing was amended to reflect increased funding and credit costs. For the year as a whole net interest margin was 18 basis points lower than in 2008, reflecting higher funding costs and continued competitive pricing for deposits.

- Gross new lending to customers remained resilient in 2009, with a noticeable acceleration of lending activity in the second half of the year. However, as customers have deleveraged and turned increasingly to capital markets, repayments have accelerated even more sharply. Loans and advances to customers, therefore, declined by 5% to £111.5 billion.

- Initiatives aimed at increasing customer deposits have been successful, with balance growth of 7%, although margins declined as a result of increased competition for balances.

- Non-interest income was flat, with stable fee income from refinancing and structuring activity.

- A reduction in costs of 7% was driven by lower staff expenses as a result of the Group's restructuring programme, together with restraint on discretionary spending levels.

- Impairment losses increased substantially reflecting both a rise in the number of corporate delinquencies requiring a specific impairment and a higher charge to recognise losses not yet specifically identified.

- Risk-weighted assets grew 5% despite the fall in customer lending, reflecting the impact of procyclicality, which was most pronounced in the first half of 2009.

Wealth

	Year ended 31 December 2009 £m	31 December 2008 £m
Income statement		
Net interest income	663	578
Net fees and commissions	363	405
Other non-interest income	83	76
Non-interest income	446	481
Total income	1,109	1,059
Direct expenses		
- staff	(357)	(377)
- other	(139)	(156)
Indirect expenses	(160)	(162)
	(656)	(695)
	453	364
Impairment losses	(33)	(16)
Operating profit	420	348
Analysis of income		
Private Banking	916	819
Investments	193	240
Total income	1,109	1,059

Key metrics

	Year ended 31 December 2009	31 December 2008
Performance ratios		
Net interest margin	4.38%	4.51%
Cost:income ratio	59.2%	65.6%

	31 December	31 December

	2009 £bn	2008 £bn
Capital and balance sheet		
Loans and advances to customers – gross		
- mortgages	6.5	5.3
- personal	4.9	5.0
- other	2.3	2.1
Customer deposits	35.7	34.1
Assets under management – excluding deposits	30.7	34.7
Risk elements in lending	0.2	0.1
Loan:deposit ratio	38%	36%
Risk-weighted assets	11.2	10.8

Wealth (continued)

Key points

2009 compared with 2008

- Wealth produced strong growth in operating profit, up 21% to £420 million, reflecting the increased value of the division's healthy deposit base in an increasingly competitive market for funding. Deposit balances increased by 5% from 2008, though the deposit market remains highly competitive.

- Total income was up 5% (1% in constant currency terms), with strong growth in net interest income, up 12% in constant currency terms reflecting the increased internal pricing applied to Wealth's deposit base. This was offset by a marked decrease in investment income year on year as assets under management decreased by 8% at constant exchange rates during 2009, with investors turning to more liquid assets and away from longer term investments.

- Loans and advances increased by 10% over 2008, primarily in the UK. Lending margins improved, particularly for mortgages, and credit metrics for new business remain satisfactory.

- Expenses were down 6% (10% lower on a constant currency basis), reflecting a rigorous focus on cost management, with staff costs decreasing by 11% as a result of planned headcount reduction. The cost:income ratio improved from 65.6% to 59.2%.

- Impairments increased by £17 million over 2008 reflecting some isolated difficulties in the UK and offshore mortgage books (representing mortgages for second properties for expatriates). Provisions as a percentage of lending to customers increased slightly to 0.25%.

Global Banking & Markets

	Year ended	
	31 December 2009	31 December 2008
	£m	£m
Income statement		
Net interest income from banking activities	2,424	2,390
Funding costs of rental assets	(49)	(64)
Net interest income	2,375	2,326
Net fees and commissions receivable	1,144	973
Income/(loss) from trading activities	7,954	(493)
Other operating income	(464)	(92)
Non-interest income	8,634	388
Total income	11,009	2,714
Direct expenses		
- staff	(2,930)	(2,056)
- other	(965)	(1,269)
Indirect expenses	(765)	(663)
	(4,660)	(3,988)
	6,349	(1,274)
Impairment losses	(640)	(522)
Operating profit/(loss)	5,709	(1,796)
Analysis of income by product		
Rates - money markets	1,714	1,641
Rates - flow	3,142	1,386
Currencies & Commodities	1,277	1,539
Equities	1,474	368
Credit markets	2,255	(3,435)
Portfolio management and origination	1,196	858
Fair value of own debt	(49)	357
Total income	11,009	2,714
Analysis of impairment by sector		
Manufacturing and infrastructure	91	39

Property and construction	49	12
Transport	3	-
Banks and financial institutions	348	186
Other	149	285
Total impairment	640	522
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	0.59%	0.29%

Global Banking & Markets (continued)

Key metrics

	Year ended 31 December 2009	Year ended 31 December 2008
Performance ratios		
Return on equity (1)	30.7%	(8.4%)
Net interest margin	1.38%	1.34%
Cost:income ratio	42.3%	146.9%

	31 December 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Loans and advances (including banks)	127.8	224.2
Reverse repos	73.3	88.8
Securities	106.0	127.5
Cash and eligible bills	74.0	20.2
Other	31.1	38.0
Total third party assets (excluding derivatives mark to market)	412.2	498.7
Net derivative assets (after netting)	68.0	121.0
Customer deposits (excluding repos)	46.9	87.8
Risk elements in lending	1.8	0.9
Loan:deposit ratio	194%	192%
Risk-weighted assets	123.7	151.8

Note:

(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 10% of divisional risk-weighted assets, adjusted for capital deductions).

Key points

2009 compared with 2008

· Operating profit improved to £5,709 million in 2009, compared with an operating loss of £1,796 million in 2008. Although the buoyant market conditions experienced in the first quarter levelled off over the course of the year, the refocusing of the business on its core franchises was successful. GBM has tightened its balance sheet management over the course of the year, with disciplined deployment of capital to support its targeted client base.

· In an often volatile market environment, GBM responded quickly to its clients' needs to strengthen their balance sheets and to take advantage of the attractive environment for debt and equity issues. RBS participated in the five largest equity issues worldwide in 2009, and in six out of the ten largest debt capital markets transactions.

Global Banking & Markets (continued)

Key points (continued)

2009 compared with 2008 (continued)

- Income grew significantly, reflecting a very strong first quarter benefiting from market volatility, client activity and a marked improvement from Credit Markets. Rates flow business, up 127%, benefited from good client activity, while strong equity capital markets drove a fourfold increase in Equities.

- Portfolio management and origination grew 39% as financial institutions and corporate clients refinanced through the debt capital markets. The refocused Credit Markets delivered a much improved result from greater liquidity and a more positive trading environment.

- Despite quarterly movement in the Group's credit spreads, overall spreads remained broadly flat over the year resulting in a small loss from movements in the fair value of own debt compared with a £357 million gain in 2008.

- Expenses increased 17%, reflecting higher performance-related costs and the impact of adverse exchange rate movements, partly offset by restructuring and efficiency benefits. Less than half of the change in staff costs related to increases in 2009 bonus awards.

- Staff costs represented 27% of income. The Group introduced new deferral policies in 2009, which have led to changes in accrual patterns. Adjusting for both 2008 and 2009 deferrals, GBM's compensation ratio in 2009 would have been 28%.

- Higher impairments principally reflected a large individual failure recognised in the third quarter. Impairments represented 0.59% of loans and advances to customers compared with 0.29% in the prior year, reflecting the marked reduction in loans and advances.

- Total third party assets, excluding derivatives, were down 17%, or 13% at constant exchange rates, compared with 31 December 2008, driven by a 43% reduction in loans and advances as customers took advantage of favourable capital market conditions to raise alternative forms of finance to bank debt. This reduction was partially offset by an increase in liquid assets.

- Risk-weighted assets decreased 19%, or 15% at constant exchange rates, reflecting the fall in third party assets and the Group's continued focus on reducing its risk profile and balance sheet usage.

Global Transaction Services

	Year ended 31 December 2009 £m	31 December 2008 £m
Income statement		
Net interest income	912	937
Non-interest income	1,575	1,494
Total income	2,487	2,431
Direct expenses		
- staff	(371)	(362)
- other	(161)	(149)
Indirect expenses	(943)	(864)
	(1,475)	(1,375)
	1,012	1,056
Impairment losses	(39)	(54)
Operating profit	973	1,002
Analysis of income by product		
Domestic cash management	805	795
International cash management	734	722
Trade finance	290	241
Merchant acquiring*	528	554
Commercial cards	130	119
Total income	2,487	2,431

* Comprises the Global Merchant Services business (see Appendix 3) and the Global Travel Money Services business. The Global Merchant Services business outlined in Appendix 3 includes business units in the Non-Core and Ulster Bank divisions.

Key metrics

	Year ended 31 December 2009	31 December 2008
Performance ratios		
Net interest margin	9.22%	8.25%
Cost:income ratio	59.3%	56.6%

	31 December 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Total third party assets	18.4	22.2
Loans and advances	12.7	14.8
Customer deposits	61.8	61.8
Risk elements in lending	0.2	0.1
Loan:deposit ratio	21%	25%
Risk-weighted assets	19.1	17.4

Global Transaction Services (continued)

Key points

2009 compared with 2008

- Operating profit declined by 3%, or 6% at constant foreign exchange rates, largely reflecting pressure on deposit income. The attrition of deposit balances experienced in the first half was reversed in the second, but margins remain compressed due to both a very competitive deposit market as well as the low rate environment.

- Customer deposit balances at £61.8 billion were flat on the previous year, with growth in the UK and international business offset by weaker US domestic balances. At constant exchange rates balances were up 3%. Loans and advances were down 14% (11% in constant currency terms) due to reduced overdraft utilisation and lower trade volumes.

- At constant exchange rates, international payment fees increased by 11%, while trade finance income increased by 8%, with improved penetration in the Asia-Pacific region. Merchant acquiring income, however, declined by 9% at constant exchange rates, as consumers continued to switch to lower margin debit card transactions in preference to using credit cards.

- Expenses were up 7% in headline terms but flat in constant currency terms, as cost savings and efficiencies helped to mitigate the impact of investment in infrastructure. Staff expenses were 2% lower in constant currency terms, with headcount down 5%. The cost:income ratio was 59.3%, a deterioration of 2.7 percentage points or 1.9 percentage points in constant currency terms.

- Impairment losses were £39 million, down £15 million versus 2008. Overall defaults remain modest at 0.3% of loans and advances.

Ulster Bank

	Year ended 31 December 2009 £m	31 December 2008 £m
Income statement		
Net interest income	780	773
Net fees and commissions	228	238
Other non-interest income	26	28
Non-interest income	254	266
Total income	1,034	1,039
Direct expenses		
- staff	(325)	(330)
- other	(85)	(93)
Indirect expenses	(343)	(292)
	(753)	(715)
	281	324
Impairment losses	(649)	(106)
Operating (loss)/profit	(368)	218
Analysis of income by business		
Corporate	580	618
Retail	412	396
Other	42	25
Total income	1,034	1,039
Analysis of impairment by sector		
Mortgages	74	17
Corporate		
- Property	306	37
- Other	203	7
Other	66	45
Total impairment	649	106

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector		
Mortgages	0.46%	0.09%
Corporate		
- Property	3.03%	0.34%
- Other	1.85%	0.05%
Other	2.75%	2.14%
	1.63%	0.24%

Ulster Bank (continued)

Key metrics

	Year ended 31 December 2009	31 December 2008
Performance ratios		
Return on equity (1)	(13.3%)	10.1%
Net interest margin	1.87%	1.89%
Cost:income ratio	72.8%	68.8%

	31 December 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Loans and advances to customers – gross		
- mortgages	16.2	18.1
- corporate		
- property	10.1	10.9
- other	11.0	12.9
- other	2.4	2.1
Customer deposits	21.9	24.3
Risk elements in lending		
- mortgages	0.6	0.3
- corporate		
- property	0.7	0.5
- other	0.8	0.3
- other	0.2	0.1
Loan:deposit ratio	177%	179%
Risk-weighted assets	29.9	24.5

Note:

(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 7% of divisional risk-weighted assets, adjusted for capital deductions).

Key points

2009 compared with 2008

· Operating results were in line with expectations but deteriorated during 2009 as economic conditions across the island of Ireland worsened, with an operating loss for the year of £368 million.

· Net interest income declined by 7% in constant currency terms, largely as a result of tightening deposit margins in an increasingly competitive market, partly offset by asset repricing initiatives. Net interest margin for the year at 1.87% remained broadly stable despite the challenging market conditions.

- At constant exchange rates loans to customers decreased by 4% from the prior year as new business demand weakened. Customer deposits reduced by 5% in 2009 in constant currency terms, reflecting an increasingly competitive Irish deposit market and reductions in wholesale funding during Q1. During the second half of the year the market stabilised and the division recorded strong growth in customer balances resulting in an improved funding profile.

- Non-interest income declined by 12% in constant currency terms due to lower fee income driven by reduced activity levels across all business lines.

Ulster Bank (continued)

Key points (continued)

2009 compared with 2008 (continued)

- Total costs for the year were flat on a constant currency basis. Direct expenses were down 12% in constant currency terms during 2009, driven by the bank's restructuring programme, which incorporates the merger of the First Active and Ulster Bank businesses. The rollout of the programme has resulted in a downward trend in direct expenses throughout 2009. The reduction in direct expenses has been offset by a 17% increase in indirect expenses primarily reflecting provisions relating to the bank's own property recognised in the fourth quarter.

- Impairment losses increased to £649 million from £106 million driven by the continued deterioration in the Irish economic environment and resultant impact on loan performance across the retail and wholesale portfolios.

- Necessary fiscal budgetary action allied to the well-entrenched downturn in property markets in Ireland has fed through to higher loan losses. Mortgage impairments have been driven by rising unemployment and lower incomes. Loans to the property sector experienced a substantial rise in defaults as the Irish property market declined, reflecting the difficult economic backdrop and the uncertainty surrounding the possible effect of the Irish Government's National Asset Management Agency on asset values. Sectors driven by consumer spending have been affected by the double digit decline in 2009 with rising default rates evident.

- Customer account numbers increased by 3% during 2009, with growth fuelled by strong current account activity and new-to-bank savings customers.

US Retail & Commercial (£ Sterling)

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Income statement		
Net interest income	1,775	1,726
Net fees and commissions	714	664
Other non-interest income	235	197
Non-interest income	949	861
Total income	2,724	2,587
Direct expenses		
- staff	(776)	(645)
- other	(593)	(354)
Indirect expenses	(766)	(623)
	(2,135)	(1,622)
	589	965
Impairment losses	(702)	(437)
Operating (loss)/profit	(113)	528
Analysis of income by product		
Mortgages and home equity	499	375
Personal lending and cards	451	333
Retail deposits	828	1,000
Commercial lending	542	405
Commercial deposits	398	377
Other	6	97
Total income	2,724	2,587
Average exchange rate – US$/£	1.566	1.853

	Year ended 31 December 2009 £m	Year ended 31 December 2008 £m
Analysis of impairment by sector		
Residential mortgages	72	41

Home equity	167	67
Corporate & Commercial	326	181
Other consumer	137	148
Total impairment	702	437
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector		
Residential mortgages	1.11%	0.43%
Home equity	1.08%	0.36%
Corporate & Commercial	1.67%	0.76%
Other consumer	1.84%	1.51%
	1.44%	0.71%

US Retail & Commercial (£ Sterling) (continued)

Key metrics

	Year ended	
	31 December 2009	31 December 2008
Performance ratios		
Return on equity (1)	(1.8%)	7.7%
Net interest margin	2.37%	2.68%
Cost:income ratio	78.3%	62.7%

	31 December 2009 £bn	31 December 2008 £bn
Capital and balance sheet		
Total assets	74.8	87.5
Loans and advances to customers (gross):		
- residential mortgages	6.5	9.5
- home equity	15.4	18.7
- corporate and commercial	19.5	23.7
- other consumer	7.5	9.8
Customer deposits (excluding repos)	60.1	63.9
Risk elements in lending		
- retail	0.4	0.2
- commercial	0.2	0.2
Loan:deposit ratio	80%	96%
Risk-weighted assets	59.7	63.9
Spot exchange rate - US$/£	1.622	1.460

Note:

(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 7% of divisional risk-weighted assets, adjusted for capital deductions).

Key points

· Sterling has strengthened over the course of the quarter, although the average exchange rate in Q409 has remained broadly stable. As a result the quarterly income statement trends are similar on a sterling and US dollar basis.

· Variances are fully described in the US dollar based financials that follow.

US Retail & Commercial (US Dollar)

	Year ended 31 December 2009 $m	31 December 2008 $m
Income statement		
Net interest income	2,777	3,200
Net fees and commissions	1,119	1,231
Other non-interest income	368	362
Non-interest income	1,487	1,593
Total income	4,264	4,793
Direct expenses		
- staff	(1,214)	(1,194)
- other	(929)	(654)
Indirect expenses	(1,196)	(1,157)
	(3,339)	(3,005)
	925	1,788
Impairment losses	(1,099)	(811)
Operating (loss)/profit	(174)	977
Analysis of income by product		
Mortgages and home equity	781	695
Personal lending and cards	706	617
Retail deposits	1,296	1,853
Commercial lending	848	751
Commercial deposits	624	698
Other	9	179
Total income	4,264	4,793
Analysis of impairment by sector		
Residential mortgages	113	76
Home equity	261	125
Corporate & Commercial	510	335
Other consumer	215	275
Total impairment	1,099	811

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector		
Residential mortgages	1.07%	0.55%
Home equity	1.04%	0.46%
Corporate & Commercial	1.61%	0.97%
Other consumer	1.77%	1.92%
	1.39%	0.90%

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US Retail & Commercial (US Dollar) (continued)

Key metrics

	Year ended	
	31 December 2009	31 December 2008
Performance ratios		
Return on equity (1)	(1.7%)	9.7%
Net interest margin	2.37%	2.68%
Cost:income ratio	78.3%	62.7%

	31 December 2009 $bn	31 December 2008 $bn
Capital and balance sheet		
Total assets	121.3	127.8
Loans and advances to customers (gross):		
- residential mortgages	10.6	13.9
- home equity	25.0	27.2
- corporate and commercial	31.6	34.7
- other consumer	12.1	14.3
Customer deposits (excluding repos)	97.4	93.4
Risk elements in lending		
- retail	0.6	0.3
- commercial	0.4	0.2
Loan:deposit ratio	80%	96%
Risk-weighted assets	96.9	93.2

Note:
(1) Return on equity is based on divisional operating profit after tax, divided by divisional notional equity (based on 7% of divisional risk-weighted assets, adjusted for capital deductions).

Key points

2009 compared with 2008

- The recessionary economic environment, historically low interest rates and deteriorating credit conditions resulted in an operating loss of $174 million. However, the business has now successfully refocused on its core customer franchises in New England, the Mid-Atlantic region and the Midwest.

- The division achieved very strong growth in mortgage origination volumes, with significantly higher penetration through the branch network and improved profitability, particularly on recent origination vintages. Cross-selling of card, deposit and checking account products has increased substantially, with over 65% of new mortgage customers also taking out a checking account. The division has also increased commercial banking market penetration, with lead bank share within its footprint increasing from 6% to 7% in the $5 million to $25 million segment and from 6% to 8% in the $25 million to $500 million segment.

US Retail & Commercial (US Dollar) (continued)

Key points (continued)

2009 compared with 2008 (continued)

- Net interest income was down 13%. Net interest margin was down 31bps for the full year, reflecting the decline in deposit margins resulting from the low interest rate environment, though margins have been partially rebuilt in the second half from the lows experienced in the first half, as the business repriced lending rates and aggressively reduced pricing on term and time deposits.

- Expenses increased by 11%, reflecting increased FDIC deposit insurance levies, higher employee benefit costs as well as increased costs relating to loan workout and collection activity. Successful execution of restructuring activities resulted in approximately $75 million of cost savings.

- Impairment losses increased to $1,099 million as charge-offs climbed to 0.90% of loans, an increase of 34bps compared with 2008.

- Loans and advances were down 12%, reflecting subdued customer demand.

- Customer deposits increased 4% from the prior year. The deposit mix improved significantly, with strong growth in checking balances combined with migration away from higher priced term and time deposits as the division adjusted its pricing strategies. Over 58,000 consumer checking accounts were added over the course of the year, and more than 13,000 small business checking accounts. Consumer checking balances grew by 8% and small business balances by 12%.

RBS Insurance

	Year ended 31 December 2009 £m	31 December 2008 £m
Income statement		
Earned premiums	4,519	4,512
Reinsurers' share	(165)	(206)
Insurance net premium income	4,354	4,306
Net fees and commissions	(366)	(396)
Other income	472	520
Total income	4,460	4,430
Direct expenses		
- staff	(267)	(286)
- other	(222)	(225)
Indirect expenses	(270)	(261)
	(759)	(772)
Gross claims	(3,690)	(3,136)
Reinsurers' share	55	104
Net claims	(3,635)	(3,032)
	66	626
Impairment losses	(8)	(42)
Operating profit/(loss)	58	584
Analysis of income by product		
Own-brand		
- Motor	2,005	1,942
- Household and life	849	806
Partnerships and broker		
- Motor	577	686
- Household and life	330	354
Other (international, commercial and central)	699	642
Total income	4,460	4,430

RBS Insurance (continued)

Key metrics

	Year ended 31 December 2009	31 December 2008
In-force policies (thousands)		
- Motor own-brand	4,858	4,492
- Own-brand non-motor (home, pet, rescue, HR24)	6,307	5,560
- Partnerships & broker (motor, home, pet, rescue, HR24)	5,328	5,898
- Other (International, commercial and central)	1,217	1,206
Gross written premium (£m)	4,480	4,384
Performance ratios		
Return on equity (1)	1.6%	18.3%
Cost:income ratio	17.0%	17.4%
Adjusted cost:income ratio (2)	92.0%	55.2%
Balance sheet		
General insurance reserves – total (£m)	7,030	6,672

Notes:
(1) Based on divisional operating profit after tax, divided by divisional notional equity (based on regulatory capital).
(2) Based on total income and operating expenses above and after netting insurance claims against income.

Key points

2009 compared with 2008

· Operating profit was severely affected by the rising costs of bodily injury claims, declining to £58 million. Significant price increases were implemented in the latter part of the year to mitigate the industry trend of rising claims costs.

· Income grew by 1%, with premium income stable but lower reinsurance costs. Investment income was 16% lower, reflecting the impact of low interest rates and returns on the investment portfolio partially offset by gains realised on the sale of equity investments.

· In-force policies grew by 3%, driven by the success of own brands, up 11%. Churchill and Privilege have benefited from deployment on selected price comparison websites, with motor policy numbers up 19% and 3% respectively, and home policies up 32% and 109% respectively, compared with prior year. Direct Line motor and home policies grew by 4% and 2% respectively. The partnerships and broker segment declined by 10% in line with business strategy.

· Expenses fell by 2% in 2009, with wage inflation, higher industry levies and professional fees offset by cost efficiencies, reduction in headcount and lower marketing expenditure.

RBS Insurance (continued)

Key points (continued)

2009 compared with 2008 (continued)

- Net claims were 20% higher than in 2008 driven by a £448 million increase in bodily injury claims as well as by adverse weather experienced in the fourth quarter. Significant price increases were implemented in the latter part of the year to mitigate the industry trend of rising claims costs, and additional significant initiatives have also been undertaken to adapt pricing models and enhance claims management.

- The UK combined operating ratio, including business services costs, was 105.9% compared with 93.6% in the previous year, with the impact of the increase in reserves for bodily injury claims and the bad weather experience only partially mitigated by commission and expense ratio improvement.

Central items

	Year ended 31 December 2009 £m	31 December 2008 £m
Fair value of own debt	(93)	875
Other	385	150
Central items not allocated	292	1,025

Key points

2009 compared with 2008

- Funding and operating costs have been allocated to operating divisions, based on direct service usage, requirement for market funding and other appropriate drivers where services span more than one division.
- Residual unallocated items relate to volatile corporate items that do not naturally reside within a division.
- Items not allocated during the year amounted to a net credit of £292 million. The Group's credit spreads have fluctuated over the course of the year, but ended the year slightly tighter, resulting in an increase in the carrying value of own debt. This was offset by a net credit on unallocated Group treasury items, including the impact of economic hedges that do not qualify for IFRS hedge accounting. 2008's results included some significant disposal gains.

Non-Core

	Year ended 31 December 2009 £m	31 December 2008 £m
Income statement		
Net interest income from banking activities	1,504	2,028
Funding costs of rental assets	(256)	(380)
Net interest income	1,248	1,648
Net fees and commissions receivable	472	889
Loss from trading activities	(5,123)	(7,716)
Insurance net premium income	784	986
Other operating income	318	1,161
Non-interest income	(3,549)	(4,680)
Total income	(2,301)	(3,032)
Direct expenses		
- staff	(851)	(988)
- other	(1,044)	(1,156)
Indirect expenses	(552)	(539)
	(2,447)	(2,683)
	(4,748)	(5,715)
Insurance net claims	(588)	(700)
Impairment losses	(9,221)	(4,936)
Operating loss	(14,557)	(11,351)
Analysis of income		
Banking & Portfolio	(1,338)	2,324
International Businesses & Portfolios	2,262	2,980
Markets	(3,225)	(8,336)
	(2,301)	(3,032)

Key metrics

Performance ratios		
Net interest margin	0.69%	0.87%
Cost:income ratio	(106.3%)	(88.5%)

	31 December 2009 £bn	31 December 2008 £bn
Capital and balance sheet (1)		
Total third party assets (including derivatives) (2)	220.9	342.9
Loans and advances to customers - gross	149.5	191.4
Customer deposits	12.6	27.4
Risk elements in lending	22.9	11.1
Loan:deposit ratio	1,121%	683%
Risk-weighted assets (3)	171.3	170.9

Notes:
(1) Includes disposal groups.
(2) Derivatives were £19.9 billion at 31 December 2009 (30 September 2009 - £30.9 billion; 31 December 2008 - £85.0 billion).
(3) Includes Sempra: 31 December 2009 Third Party Assets (TPAs) £14.2 billion, RWAs £10.2 billion; (31 December 2008 TPAs £17.8billion, RWAs £10.6 billion).

Non-Core (continued)

	Year ended 31 December 2009 £m	31 December 2008 £m
Credit and other market write-downs (1)		
Monoline exposures	2,387	3,121
CDPCs	947	615
Asset backed products (2)	288	3,220
Other credit exotics	558	935
Equities	47	947
Leveraged finance	-	1,088
Banking book hedges	1,613	(1,690)
Other	(679)	(497)
	5,161	7,739
Impairment losses		
Banking & Portfolio	4,215	938
International Businesses & Portfolios	4,494	1,832
Markets	512	2,166
	9,221	4,936
Loan impairment charge as % of gross customer loans and advances (3)		
Banking & Portfolio	4.91%	0.90%
International Businesses & Portfolios	6.56%	2.28%
Markets	5.34%	13.32%
Total	5.66%	2.18%
	£bn	£bn
Gross customer loans and advances		
Banking & Portfolio	82.0	97.0
International Businesses & Portfolios	65.6	79.9
Markets	1.9	14.5
	149.5	191.4
Risk-weighted assets		
Banking & Portfolio	58.2	63.1
International Businesses & Portfolios	43.8	50.1
Markets	69.3	57.7
	171.3	170.9

Note:
(1) Included in 'Loss from trading activities' on page 59.
(2) Asset backed products include super senior asset backed structures and other asset backed products.
(3) Includes disposal groups

Non-Core (continued)

	Year ended 31 December 2009 £m	31 December 2008 £m
Loan impairment losses by donating division and sector		
UK Retail		
Mortgages	5	1
Personal	48	42
Other	-	62
Total UK Retail	53	105
UK Corporate		
Manufacturing & infrastructure	87	42
Property & construction	637	281
Transport	10	(3)
Banks & financials	101	4
Lombard	122	61
Invoice finance	3	-
Other	717	142
Total UK Corporate	1,677	527
Global Banking & Markets		
Manufacturing & infrastructure	1,405	1,280
Property & construction	1,413	710
Transport	178	12
Telecoms, media & technology	545	55
Banks & financials	567	870
Other	619	177
Total Global Banking & Markets	4,727	3,104
Ulster Bank		
Mortgages	42	6
Commercial investment & development	302	9
Residential investment & development	716	229
Other	217	60
Other EMEA	107	116
Total Ulster Bank	1,384	420
US Retail & Commercial		
Auto & consumer	136	140

Cards	130	63
SBO/home equity	445	321
Residential mortgages	55	6
Commercial real estate	228	54
Commercial & other	85	20
Total US Retail & Commercial	1,079	604
Other		
Wealth	251	174
Global Transaction Services	49	(2)
Central items	1	4
Total Other	301	176
Total impairment losses	9,221	4,936

Non-Core (continued)

	Year ended 31 December 2009 £bn	31 December 2008 £bn
Gross loans and advances to customers by donating division and sector (excluding reverse repurchase agreements)		
UK Retail		
Mortgages	1.9	2.2
Personal	0.7	1.1
Other	-	-
Total UK Retail	2.6	3.3
UK Corporate		
Manufacturing & infrastructure	0.3	0.3
Property & construction	10.8	11.3
Lombard	2.7	3.7
Invoice finance	0.4	0.7
Other	20.7	22.1
Total UK Corporate	34.9	38.1
Global Banking & Markets		
Manufacturing & Infrastructure	17.5	
Property & construction	25.7	
Transport	5.8	
Telecoms, media & technology	3.2	
Banks & financials	16.0	
Other	13.5	
Total Global Banking & Markets	81.7	104.8
Ulster Bank		
Mortgages	6.0	6.5
Commercial investment & development	3.0	2.9
Residential investment & development	5.6	5.9
Other	1.1	1.1
Other EMEA	1.0	1.3
Total Ulster Bank	16.7	17.7
US Retail & Commercial		
Auto & consumer	3.2	4.2
Cards	0.5	0.7

SBO/home equity	3.7	5.2
Residential mortgages	0.8	1.1
Commercial real estate	1.9	3.0
Commercial & other	0.9	1.4
Total US Retail & Commercial	11.0	15.6
Other		
Wealth	2.6	3.6
Global Transaction Services	0.8	1.4
RBS Insurance	0.2	0.2
Central items	(3.2)	-
Total Other	0.4	5.2
Total loans and advances to customers	147.3	184.7

Non-Core (continued)

Key points

2009 compared with 2008

- Losses from trading activities have declined significantly as underlying asset prices rallied. Mark to market values for exposures such as monolines, super senior high grade collateralised debt obligations, and many negative basis trade asset classes have risen over the course of 2009. However, the £1.6 billion gain recorded on banking book hedging in 2008 unwound over the course of the year to a loss of £1.6 billion in 2009, as spreads continued to tighten throughout the year, ending almost in line with origination levels.

- Impairment losses increased to £9.2 billion, reflecting continued weakness in the economic environment, particularly across the corporate and property sectors. There were signs of a slowdown in the rate of provisioning towards the end of the year.

- Staff costs decreased by 14% over the year, or by 20% at constant exchange rates, due to headcount reductions and business divestments, notably Linea Directa and Tesco Personal Finance. Lower depreciation charges followed the 2008 sale of the Angel Trains business.

- Third party assets, excluding derivatives, decreased by £56.9 billion in the year as the division has run down exposures and pursued opportunities to dispose of loan portfolios. Sales of equity stakes, including Bank of China, were concluded while further disposals announced in 2009, including Asian retail and commercial operations, are moving towards completion in 2010.

- Risk weighted assets increased by 0.2% in 2009, and at constant exchange rates increased by 3%. The reduction of 15% since 30 September 2009, reflects active management to reduce trading book exposures, largely offset by the impact of procyclicality, monoline downgrades and adverse market risk.

Allocation methodology for indirect costs

Business Services and Group Centre directly attributable costs have been allocated to the operating divisions, based on their service usage. Where services span more than one division, an appropriate measure is used to allocate the costs on a basis which management considers reasonable. Business Services costs are fully allocated and there are no residual unallocated costs. The residual unallocated costs remaining in the Group centre relate to volatile corporate items that do not naturally reside within a division.

Business Services costs were flat on a constant currency basis, compared with 2008. The increase in property costs was principally due to the impact of expanded Group premises in London and the US.

Treasury costs are allocated to operating divisions as follows: term funding costs are allocated or rewarded based on long-term funding gap or surplus; liquidity buffer funding costs are allocated based on share of overall liquidity buffer derived from divisional stresses; and capital cost or benefit is allocated based on share of divisional risk-adjusted RWAs.

	Year ended	
	31 December 2009 £m	31 December 2008 £m
Business Services costs		
Property	1,931	1,705
Operations	1,471	1,474
Technology services and support functions	1,828	1,795
	5,230	4,974
Allocated to divisions:		
UK Retail	(1,579)	(1,639)
UK Corporate	(436)	(449)
Wealth	(121)	(123)
Global Banking & Markets	(532)	(472)
Global Transaction Services	(876)	(811)
Ulster Bank	(306)	(255)
US Retail & Commercial	(691)	(560)
RBS Insurance	(227)	(227)
Non-Core	(462)	(438)
	-	-
Group centre costs	851	799
Allocated to divisions:		
UK Retail	(194)	(212)
UK Corporate	(73)	(69)
Wealth	(39)	(39)
Global Banking & Markets	(233)	(191)
Global Transaction Services	(67)	(53)

Ulster Bank	(37)	(37)
US Retail & Commercial	(75)	(63)
RBS Insurance	(43)	(34)
Non-Core	(90)	(101)
	-	-

Allocation methodology for indirect costs (continued)

	Year ended 31 December 2009 £m	31 December 2008 £m
Treasury funding costs	1,402	1,372
Allocated to divisions:		
UK Retail	(192)	(182)
UK Corporate	(257)	(213)
Wealth	96	(86)
Global Banking & Markets	241	(165)
Global Transaction Services	154	93
Ulster Bank	(49)	(76)
US Retail & Commercial	(132)	(91)
RBS Insurance	(42)	(25)
Non-Core	(1,221)	(627)
	-	-

Average balance sheet

	Year ended 31 December 2009			Year ended 31 December 2008		
	Average Balance £m	Interest £m	Rate %	Average Balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	53,747	925	1.72	50,589	2,408	4.76
Loans and advances to customers	710,726	28,291	3.98	714,790	41,959	5.87
Debt securities	139,365	4,686	3.36	121,815	5,571	4.57
Interest-earning assets – banking business	903,838	33,902	3.75	887,194	49,938	5.63
Trading business	291,092			425,454		
Non-interest earning assets	828,550			728,037		
Total assets	2,023,480			2,040,685		
Liabilities						
Deposits by banks	129,233	3,041	2.35	159,809	6,576	4.11
Customer accounts	472,207	7,980	1.69	487,081	16,360	3.36
Debt securities in issue	252,249	5,662	2.24	249,396	10,788	4.33
Subordinated liabilities	39,862	1,508	3.78	39,818	2,157	5.42
Internal funding of trading business	(75,129)	(509)	0.68	(103,754)	(4,174)	4.02
Interest-bearing liabilities – banking business	818,422	17,682	2.16	832,350	31,707	3.81
Trading business	331,380			466,610		
Non-interest-bearing liabilities						
- demand deposits	43,605			37,421		
- other liabilities	772,770			645,760		
Shareholders’ equity	57,303			58,544		
Total liabilities and shareholders' equity	2,023,480			2,040,685		

Notes:

(1) Interest receivable and interest payable on trading assets and liabilities are included in income from trading activities.

(2) Interest-earning assets and interest-bearing liabilities exclude the Retail bancassurance long-term assets and liabilities, attributable to policyholders, in view of their distinct nature. As a result, interest income has been increased by £20 million (2008 - £84 million).

(3) Changes in the fair value of interest-bearing financial instruments designated as at fair value through profit or loss are recorded in other operating income in the consolidated income statement. In the average balance sheet shown above, interest includes increased interest income and interest expense related to these instruments of £46 million (2008 - £332 million) and £350 million (2008 - £860 million) respectively and the average balances have been adjusted accordingly.

Average balance sheet (continued)

	Year ended 31 December 2009	31 December 2008
	%	%
Average yields, spreads and margins of the banking business		
Gross yield on interest-earning assets of banking business	3.75	5.63
Cost of interest-bearing liabilities of banking business	(2.16)	(3.81)
Interest spread of banking business	1.59	1.82
Benefit from interest-free funds	0.20	0.23
Net interest margin of banking business	1.79	2.05
Average interest rates		
The Group's base rate	0.64	4.67
London inter-bank three month offered rates		
- Sterling	1.21	5.51
- Eurodollar	0.69	2.92
- Euro	1.21	4.63

Condensed consolidated income statement
for the year ended 31 December 2009

	2009 £m	2008 £m
Interest receivable	33,836	49,522
Interest payable	(17,332)	(30,847)
Net interest income	16,504	18,675
Fees and commissions receivable	9,831	9,831
Fees and commissions payable	(2,822)	(2,386)
Income/(loss) from trading activities	3,881	(8,477)
Gain on redemption of own debt	3,790	-
Other operating income (excluding insurance premium income)	1,962	1,899
Insurance net premium income	5,544	6,326
Non-interest income	22,186	7,193
Total income	38,690	25,868
Staff costs		
- excluding pension schemes curtailment gains	(11,783)	(10,410)
- pension schemes curtailment gains	2,148	-
Premises and equipment	(3,087)	(2,593)
Other administrative expenses	(5,584)	(5,464)
Depreciation and amortisation	(2,809)	(3,154)
Write-down of goodwill and other intangible assets	(363)	(32,581)
Operating expenses*	(21,478)	(54,202)
Profit/(loss) before other operating charges and impairment losses	17,212	(28,334)
Insurance net claims	(4,857)	(4,430)
Impairment losses	(14,950)	(8,072)
Operating loss before tax	(2,595)	(40,836)
Tax credit	371	2,323
Loss from continuing operations	(2,224)	(38,513)
(Loss)/profit from discontinued operations, net of tax	(99)	3,971
Loss for the year	(2,323)	(34,542)
Minority interests	(349)	10,832
Preference shareholders	(878)	(536)
Paid-in equity holders	(57)	(60)

Loss attributable to ordinary and B shareholders	(3,607)	(24,306)
*Operating expenses include:		
Integration and restructuring costs		
- administrative expenses	1,268	1,321
- depreciation and amortisation	18	36
	1,286	1,357
Amortisation of purchased intangible assets	272	443
	1,558	1,800

Condensed consolidated statement of comprehensive income
for the year ended 31 December 2009

	2009 £m	2008 £m
Loss for the year	(2,323)	(34,542)
Other comprehensive income:		
Available-for-sale financial assets	2,016	(7,406)
Cash flow hedges	684	(1,456)
Currency translation	(3,300)	15,425
Actuarial losses on defined benefit plans	(3,665)	(2,287)
Tax on other comprehensive income	430	2,786
Other comprehensive (loss)/income for the year, net of tax	(3,835)	7,062
Total comprehensive loss for the year	(6,158)	(27,480)
Attributable to:		
Minority interests	(1,346)	(4,332)
Preference shareholders	878	536
Paid-in equity holders	57	60
Ordinary and B shareholders	(5,747)	(23,744)
	(6,158)	(27,480)

Condensed consolidated balance sheet
at 31 December 2009

	2009 £m	2008 £m
Assets		
Cash and balances at central banks	52,261	12,400
Net loans and advances to banks	56,656	79,426
Reverse repurchase agreements and stock borrowing	35,097	58,771
Loans and advances to banks	91,753	138,197
Net loans and advances to customers	687,353	835,409
Reverse repurchase agreements and stock borrowing	41,040	39,313
Loans and advances to customers	728,393	874,722
Debt securities	267,254	267,549
Equity shares	19,528	26,330
Settlement balances	12,033	17,832
Derivatives	441,454	992,559
Intangible assets	17,847	20,049
Property, plant and equipment	19,397	18,949
Deferred taxation	7,039	7,082
Prepayments, accrued income and other assets	20,985	24,402
Assets of disposal groups	18,542	1,581
Total assets	1,696,486	2,401,652
Liabilities		
Bank deposits	104,138	174,378
Repurchase agreements and stock lending	38,006	83,666
Deposits by banks	142,144	258,044
Customer deposits	545,849	581,369
Repurchase agreements and stock lending	68,353	58,143
Customer accounts	614,202	639,512
Debt securities in issue	267,568	300,289
Settlement balances and short positions	50,876	54,277
Derivatives	424,141	971,364
Accruals, deferred income and other liabilities	30,327	31,482
Retirement benefit liabilities	2,963	2,032
Deferred taxation	2,811	4,165
Insurance liabilities	10,281	9,976
Subordinated liabilities	37,652	49,154
Liabilities of disposal groups	18,890	859
Total liabilities	1,601,855	2,321,154
Equity		
Minority interests	16,895	21,619
Owners' equity*		

Called up share capital	14,630	9,898
Reserves	63,106	48,981
Total equity	94,631	80,498
Total liabilities and equity	1,696,486	2,401,652
*Owners' equity attributable to:		
Ordinary and B shareholders	69,890	45,525
Other equity owners	7,846	13,354
	77,736	58,879

Condensed consolidated statement of changes in equity
for the year ended 31 December 2009

	2009 £m	2008 £m
Called-up share capital		
At beginning of year	9,898	2,530
Ordinary shares issued in respect of placing and open offers	4,227	5,728
Ordinary shares issued in respect of rights issue	-	1,531
Ordinary shares issued in respect of capitalisation issue	-	101
B shares issued	510	-
Preference shares issued in respect of placing and open offer	-	5
Other shares issued during the year	-	3
Preference shares redeemed during the year	(5)	-
At end of year	14,630	9,898
Paid-in equity		
At beginning of year	1,073	1,073
Securities redeemed during the year	(308)	-
Transfer to retained earnings	(200)	-
At end of year	565	1,073
Share premium account		
At beginning of year	27,471	17,322
Ordinary shares issued in respect of placing and open offer, net of £95 million expenses	1,047	-
Ordinary shares issued in respect of rights issue, net of £246 million expenses	-	10,469
Ordinary shares issued in respect of capitalisation issue	-	(101)
Expenses of placing and open offer	-	(265)
Other shares issued during the year	-	46
Preference shares redeemed during the year	(4,995)	-
At end of year	23,523	27,471
Merger reserve		
At beginning of year	10,881	10,881
Issue of B shares, net of £399 million expenses	24,591	-
Placing and open offer	-	14,273
Transfer to retained earnings	(9,950)	(14,273)
At end of year	25,522	10,881
Available-for-sale reserves		
At beginning of year	(3,561)	1,032
Unrealised gains/(losses) in the year	1,202	(6,808)
Realised losses in the year	981	842

Taxation	(377)	1,373
At end of year	(1,755)	(3,561)
Cash flow hedging reserve		
At beginning of year	(876)	(555)
Amount recognised in equity during the year	380	(603)
Amount transferred from equity to earnings in the year	513	198
Taxation	(269)	84
At end of year	(252)	(876)

Condensed consolidated statement of changes in equity
for the year ended 31 December 2009 (continued)

	2009 £m	2008 £m
Foreign exchange reserve		
At beginning of year	6,385	(426)
Retranslation of net assets	(2,322)	11,970
Foreign currency gains/(losses) on hedges of net assets	456	(5,801)
Taxation	9	642
At end of year	4,528	6,385
Capital redemption reserve		
At beginning and end of year	170	170
Contingent capital reserve		
At beginning of year	-	-
Contingent capital agreement - consideration payable	(1,208)	-
At end of year	(1,208)	-
Retained earnings		
At beginning of year	7,542	21,072
Loss attributable to ordinary and B shareholders and other equity owners	(2,672)	(23,710)
Ordinary dividends paid	-	(2,312)
Equity preference dividends paid	(878)	(536)
Paid-in equity dividends paid, net of tax	(57)	(60)
Transfer from paid-in equity	200	-
Equity owners gain on withdrawal of minority interest		
- gross	629	-
- taxation	(176)	-
Transfer from merger reserve	9,950	14,273
Actuarial losses recognised in retirement benefit schemes		
- gross	(3,756)	(1,807)
- taxation	1,043	472
Net cost of shares bought and used to satisfy share-based payments	(16)	(19)
Share-based payments		
- gross	325	177
- taxation	-	(8)
At end of year	12,134	7,542
Own shares held		
At beginning of year	(104)	(61)
Shares purchased during the year	(33)	(64)
Shares issued under employee share schemes	16	21

At end of year	(121)	(104)
Owners' equity at end of year	77,736	58,879

Condensed consolidated statement of changes in equity
for the year ended 31 December 2009 (continued)

	2009 £m	2008 £m
Minority interests		
At beginning of year	21,619	38,388
Currency translation adjustments and other movements	(1,434)	9,256
Acquisition of ABN AMRO	-	356
Profit/(loss) attributable to minority interests	349	(10,832)
Dividends paid	(313)	(285)
Movements in available-for-sale securities		
- unrealised gains/(losses) in the year	299	(1,288)
- realised gains in the year	(466)	(152)
- taxation	(36)	(7)
Movements in cash flow hedging reserves		
- amount recognised in equity during the year	(209)	(1,015)
- amount transferred from equity to earnings in the year	-	(36)
- taxation	59	220
Actuarial gains/(losses) recognised in retirement benefit schemes		
- gross	91	(480)
- taxation	1	2
Equity raised	9	1,071
Equity withdrawn and disposals	(2,445)	(13,579)
Transfer to retained earnings	(629)	-
At end of year	16,895	21,619
Total equity at end of year	94,631	80,498
Total comprehensive income recognised in the statement of changes in equity is attributable as follows:		
Minority interests	(1,346)	(4,332)
Preference shareholders	878	536
Paid-in equity holders	57	60
Ordinary and B shareholders	(5,747)	(23,744)
	(6,158)	(27,480)

Condensed consolidated cash flow statement
for the year ended 31 December 2009

	2009 £m	2008 £m
Operating activities		
Operating loss before tax	(2,595)	(40,836)
Operating (loss)/profit before tax on discontinued operations	(101)	4,208
Adjustments for non-cash items	18,387	5,049
Net cash inflow/(outflow) from trading activities	15,691	(31,579)
Changes in operating assets and liabilities	(15,964)	(42,219)
Net cash flows from operating activities before tax	(273)	(73,798)
Income taxes paid	(719)	(1,540)
Net cash flows from operating activities	(992)	(75,338)
Net cash flows from investing activities	54	16,997
Net cash flows from financing activities	18,791	15,102
Effects of exchange rate changes on cash and cash equivalents	(8,592)	29,209
Net increase/(decrease) in cash and cash equivalents	9,261	(14,030)
Cash and cash equivalents at beginning of year	134,925	148,955
Cash and cash equivalents at end of year	144,186	134,925

Notes

1. Basis of preparation

The directors have reviewed the Group's forecasts, projections and other relevant evidence. The directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Thus, the results for the year ended 31 December 2009 have been prepared on a going concern basis.

2. Accounting policies

The annual accounts of the Group are prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee of the IASB (together "IFRS") as adopted by the European Union ("EU"). It also complies with IFRS as issued by the IASB.

The Group has implemented Vesting Conditions and Cancellation amendments to IFRS 2 Share-based Payment. The amendments change the way the cancellation of share schemes by an employee are treated. Previously, cancellations resulted in credits as the charge was trued up to reflect the reduction in the number of shares that vest. Under the amendments, cancellations result in the amount that would otherwise have been recognised over the remainder of the vesting period being charged to profit or loss immediately. Implementation of these amendments has increased the charge for the Group's share schemes in 2009 by £325 million. The Group's income statement, related notes and cash flow statement for the year ended 31 December 2008 has been restated increasing loss before tax by £169 million. There is no effect on the Group's balance sheet at 31 December.

IAS 1 (Revised 2007) Presentation of Financial Statements has introduced a number of changes in the format and content of financial statements including a statement of changes in equity (showing the components of changes in equity for the period) as a primary financial statement and a statement of comprehensive income immediately following the income statement.

The Group has adopted Improving Disclosures about Financial Instruments (Amendments to IFRS 7 Financial Instruments: Disclosures). They expand disclosures required about fair value measurement and liquidity risk.

The Group has extended its accounting policy on derecognition to cover the redemption or settlement of issued debt:

On the redemption or settlement of debt securities (including subordinated liabilities) issued by the Group, the Group derecognises the debt instrument and records a gain or loss being the difference between the debt's carrying amount and the cost of redemption or settlement. The same treatment applies where the debt is exchanged for a new debt issue that has terms substantially different from those of the existing debt. The assessment of whether the terms of the new debt instrument are substantially different takes into account qualitative and quantitative characteristics including a comparison of the discounted present value of the cash flows under the new terms with the discounted present value of the remaining cash flows of the original debt issue.

There are a number of other changes to IFRS that were effective from 1 January 2009. They have had no material effect on the Group's financial statements.

Notes (continued)

3. Restatements

Divisional results for 2008 have been restated to reflect the Group's new organisational structure that includes a Non-Core division comprising individual assets, portfolios and lines of business that the Group intends to run off or dispose. The Non-Core division is reported separately from the divisions which form the Core Group. In addition, separate reporting of Business Services (formerly Group Manufacturing) and Centre results has changed and, with the exception of certain items of a one off nature, costs incurred are now allocated to the customer-facing divisions and included in the measurement of the returns which they generate. The changes do not affect the Group's results. Comparatives have been restated accordingly.

The results for 2008 have been restated for the amendment to IFRS 2 'Share-based Payment'. This has resulted in an increase in staff costs amounting to £169 million in 2008.

4. Goodwill

	2009 £m	2008 £m
Amortisation and write-down of goodwill and other intangible assets	363	32,581

The write-down of goodwill for the year ended 31 December 2009 principally relates to ABN AMRO and NatWest goodwill allocated to Non-Core businesses.

5. Pensions

Net pension deficit/(surplus)	2009 £m	2008 £m
At 1 January	1,996	(115)
Currency translation and other adjustments	(114)	144
Income statement		
- Curtailment gains	(2,148)	-
- Pension cost	659	490
Net actuarial losses	3,665	2,287
Contributions by employer	(1,153)	(810)
At 31 December	2,905	1,996
Net assets of schemes in surplus	(58)	(36)
Net liabilities of schemes in deficit	2,963	2,032

Curtailment gains of £2,148 million have been recognised in 2009 arising from changes to pension benefits in the main UK scheme and certain other subsidiaries schemes due to the capping of future salary increases that will count for pension purposes to the lower of 2% or the rate of inflation in any year.

Notes (continued)

5. Pensions (continued)

Pension costs (excluding curtailment gains)	2009 £m	2008 £m
Defined benefit schemes	659	490
Defined contribution schemes	126	148
	785	638

Excluding curtailment gains, total pension costs for the year ended 31 December 2009 amounted to £785 million (2008 - £638 million). Defined benefit schemes charges are based on the actuarially determined pension cost rates at 31 December 2008.

At 31 December 2009, increased benefit obligations, reflecting lower discount rates and higher assumed inflation, have been partially offset by increased asset values. This has resulted in net actuarial losses for the year of £3,665 million (2008 - £2,287 million) and net defined benefit pension liabilities of £2,905 million at 31 December 2009 (2008 - £1,996 million).

The most recent funding valuation of the main UK scheme, as at 31 March 2007, showed a surplus of assets over liabilities of £0.7 billion. The next valuation is due as at 31 March 2010 and the Group expects this valuation to show that liabilities exceed the value of the assets. Following this valuation, the Group and scheme Trustees will agree the level of contributions to be paid to the scheme. This could result in the amount of contributions payable in 2010 and subsequent years being materially different from the current rates based on the previous valuation.

Notes (continued)

6. Loan impairment provisions

Operating loss is stated after charging loan impairment losses of £14,134 million (2008 - £7,091 million). The balance sheet loan impairment provisions increased in the year from £11,016 million to £17,283 million and the movements thereon were:

	2009 £m	2008 £m
At beginning of year	11,016	6,452
Transfers to disposal groups	(324)	(767)
Currency translation and other adjustments	(530)	1,441
Disposals	(65)	(178)
Amounts written-off	(6,939)	(3,148)
Recoveries of amounts previously written-off	399	319
Charge to income statement	14,134	7,091
Unwind of discount	(408)	(194)
	17,283	11,016

The provision at 31 December 2009 includes £157 million (2008 - £127 million) in respect of loans and advances to banks. The charge to the income statement in the table above excludes £816 million (2008 - £981 million) relating to available-for-sale securities.

7. Taxation

The credit for taxation differs from the tax credit computed by applying the standard UK corporation tax rate of 28% (2008 - 28.5%) as follows:

	2009 £m	2008 £m
Loss before tax from continuing operations	(2,595)	(40,836)
Expected tax credit at 28% (2008 – 28.5%)	(727)	(11,638)
Non-deductible goodwill impairment	102	8,292
Unrecognised timing differences	(274)	274
Other non-deductible items	508	378
Non-taxable items:		
- gain on redemption of own debt	(693)	-
- other	(410)	(491)
Taxable foreign exchange movements	(1)	80
Foreign profits taxed at other rates	320	203
Losses in year not recognised	780	942
Losses brought forward and utilised	(94)	(11)
Adjustments in respect of prior periods	118	(352)
Actual tax credit	(371)	(2,323)

Notes (continued)

8. Profit/(loss) attributable to minority interests

	2009 £m	2008 £m
Trust preferred securities	39	65
Investment in Bank of China	359	78
Sempra	234	164
ABN AMRO	(295)	(11,153)
Other	12	14
Profit/(loss) attributable to minority interests	349	(10,832)

9. Other owners' dividends

	2009 £m	2008 £m
Preference shareholders		
Non-cumulative preference shares of US$0.01	342	293
Non-cumulative preference shares of €0.01	201	183
Non-cumulative preference shares of £1		
- issued to UK Financial Investments Limited (1)	274	-
- other	61	60
Paid-in equity holders		
Interest on securities classified as equity, net of tax	57	60
	935	596

Note:
(1) Includes £50 million redemption premium on repayment of preference shares.

10. Earnings per ordinary and B share

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

	2009 £m	2008 £m
Earnings		
Loss from continuing operations attributable to ordinary and B shareholders	(3,535)	(24,220)
Gain on redemption of paid-in equity	200	-
Adjusted loss from continuing operations attributable to ordinary and B shareholders	(3,335)	(24,220)
Add back finance on dilutive convertible securities	-	-
Diluted loss from continuing operations attributable to ordinary and B shareholders	(3,335)	(24,220)
Loss from discontinued operations attributable to ordinary and B shareholders	(72)	(86)
Number of shares (millions)		
Ordinary shares in issue during the year	51,494	16,563
B shares in issue during the year	1,397	-
Weighted average number of ordinary and B shares in issue during the year	52,891	16,563
Effect of dilutive share options and convertible securities	438	-
Diluted weighted average number of ordinary and B shares in issue during the year	53,329	16,563
Basic loss per ordinary and B share from continuing operations	(6.3p)	(146.2p)
Diluted loss per ordinary and B share from continuing operations	(6.3p)	(146.2p)
Basic loss per ordinary and B share from discontinued operations	(0.1p)	(0.5p)
Diluted loss per ordinary and B share from discontinued operations	(0.1p)	(0.5p)

11. Dividends

The Group has undertaken that, unless otherwise agreed with the European Commission, neither the company nor any of its direct or indirect subsidiaries (excluding companies in the ABN AMRO Group) will pay external investors any dividends or coupons on existing hybrid capital instruments (including preference shares, B shares and upper and lower tier 2 instruments) from a date starting not later than 30 April 2010 and for a period of two years thereafter ("the Deferral period"), or exercise any call rights in relation to these capital instruments between 24 November 2009 and the end of the deferral period, unless there is a legal obligation to do so. Hybrid capital instruments issued after 24 November 2009 will generally not be subject to the restriction on dividend or coupon payments or call options.

Notes (continued)

12. Discontinued operations and assets and liabilities of disposal groups

(Loss)/profit from discontinued operations, net of tax

	2009 £m	2008 £m
Discontinued operations:		
Total income	-	2,571
Operating expenses	-	(1,407)
Impairment losses	-	(564)
Profit before tax	-	600
Gain on disposal	-	3,859
Operating profit before tax	-	4,459
Tax on profit	-	(204)
Tax on gain on disposal	-	(33)
Profit after tax	-	4,222
Business acquired exclusively with a view to disposal:		
Loss after tax	(99)	(251)
(Loss)/profit from discontinued operations, net of tax	(99)	3,971

Discontinued operations for 2008 reflect the results of Banco Real sold to Santander on 24 July 2008.

Businesses acquired exclusively with a view to disposal comprise those ABN AMRO businesses, including Banca Antonveneta, Asset Management and Private Equity, classified as disposal groups on the acquisition of ABN AMRO on 17 October 2007. The Asset Management business was sold to Fortis on 3 April 2008. Banca Antonveneta, excluding its subsidiary Interbanca, was sold to Banca Monte dei Paschi de Siena S.p.A. on 30 May 2008.

Notes (continued)

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

Assets and liabilities of disposal groups

	2009			
	Sempra £m	Other £m	Total £m	2008 £m
Assets of disposal groups				
Cash and balances at central banks	-	129	129	-
Loans and advances to banks	314	74	388	-
Loans and advances to customers	306	2,910	3,216	-
Debt securities and equity shares	56	848	904	-
Derivatives	6,361	-	6,361	-
Intangible assets	238	-	238	-
Settlement balances	1,579	-	1,579	-
Property, plant and equipment	92	44	136	66
Other assets	5,257	160	5,417	-
Discontinued operations and other disposal groups	14,203	4,165	18,368	66
Assets acquired exclusively with a view to disposal	-	174	174	1,515
	14,203	4,339	18,542	1,581
Liabilities of disposal groups				
Deposits by banks	560	58	618	-
Customer accounts	1,961	6,946	8,907	-
Derivatives	6,262	421	6,683	-
Settlement balances	950	-	950	-
Subordinated liabilities	-	6	6	-
Other liabilities	1,260	415	1,675	-
Discontinued operations and other disposal groups	10,993	7,846	18,839	-
Liabilities acquired exclusively with a view to disposal	-	51	51	859
	10,993	7,897	18,890	859

At 31 December 2009, disposal groups comprise the assets and liabilities of:

- RBS Sempra Commodities;
- the Group’s retail and commercial businesses across Asia and wholesale banking business in Vietnam, the Philippines, Taiwan and Pakistan;
- certain of the Group’s commercial lending business in Latin America; and
-

the remaining ABN AMRO business, primarily Private Equity, classified as disposal groups on the acquisition of ABN AMRO.

At 31 December 2008, disposal groups related principally to the assets and liabilities of the remaining ABN AMRO business, primarily Private Equity, classified as disposal groups on the acquisition of ABN AMRO.

Notes (continued)

13. Financial instruments

Classification
The following tables analyse the Group's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 'Financial Instruments: Recognition and Measurement'. Assets and liabilities outside the scope of IAS 39 are shown separately.

2009	Held-for trading £m	Designated at fair value through profit or loss £m	Available-for-sale £m	Loans and receivables £m	Other financial instruments (amortised cost) £m	Finance leases £m	Non financial assets/ liabilities £m	Total £m
Cash and balances at central banks	-	-	-	52,261	-	-	-	52,261
Loans and advances to banks	45,449	-	-	46,304	-	-	-	91,753
Loans and advances to customers	42,277	1,981	-	671,037	-	13,098	-	728,393
Debt securities	111,482	2,603	143,298	9,871	-	-	-	267,254
Equity shares	14,443	2,192	2,893	-	-	-	-	19,528
Settlement balances	-	-	-	12,033	-	-	-	12,033
Derivatives (1)	441,454	-	-	-	-	-	-	441,454
Intangible assets	-	-	-	-	-	-	17,847	17,847
Property, plant and equipment	-	-	-	-	-	-	19,397	19,397
Deferred taxation	-	-	-	-	-	-	7,039	7,039
Prepayments, accrued income and other assets	-	-	-	1,421	-	-	19,564	20,985
Assets of disposal groups	-	-	-	-	-	-	18,542	18,542
Total assets	655,105	6,776	146,191	792,927	-	13,098	82,389	1,696,486
Deposits by banks	53,609	-	-	-	88,535	-	-	142,144
Customer accounts	52,868	8,580	-	-	552,754	-	-	614,202
Debt securities in issue	3,925	41,537	-	-	222,106	-	-	267,568
Settlement balances and short positions	40,463	-	-	-	10,413	-	-	50,876
Derivatives (1)	424,141	-	-	-	-	-	-	424,141
Accruals, deferred income and other liabilities	-	-	-	-	1,889	467	27,971	30,327

Retirement benefit liabilities	-	-	-	-	-	-	2,963	2,963
Deferred taxation	-	-	-	-	-	-	2,811	2,811
Insurance liabilities	-	-	-	-	-	-	10,281	10,281
Subordinated liabilities	-	1,277	-	-	36,375	-	-	37,652
Liabilities of disposal groups	-	-	-	-	-	-	18,890	18,890
Total liabilities	575,006	51,394	-	-	912,072	467	62,916	1,601,855
Equity								94,631
								1,696,486

Note:
(1) Held-for-trading derivatives include hedging derivatives.

Notes (continued)

13. Financial instruments (continued)

Classification (continued)

2008	Held-for-trading £m	Designated at fair value through profit or loss £m	Available-for-sale £m	Loans and receivables £m	Other financial instruments (amortised cost) £m	Finance leases £m	Non financial assets/ liabilities £m	Total £m
Cash and balances at central banks	-	-	-	12,400	-	-	-	12,400
Loans and advances to banks	56,234	-	-	81,963	-	-	-	138,197
Loans and advances to customers	51,501	2,141	-	806,627	-	14,453	-	874,722
Debt securities	116,280	5,428	132,856	12,985	-	-	-	267,549
Equity shares	17,054	2,101	7,175	-	-	-	-	26,330
Settlement balances	-	-	-	17,832	-	-	-	17,832
Derivatives (1)	992,559	-	-	-	-	-	-	992,559
Intangible assets	-	-	-	-	-	-	20,049	20,049
Property, plant and equipment	-	-	-	-	-	-	18,949	18,949
Deferred taxation	-	-	-	-	-	-	7,082	7,082
Prepayments, accrued income and other assets	-	-	-	1,326	-	-	23,076	24,402
Assets of disposal groups	-	-	-	-	-	-	1,581	1,581
Total assets	1,233,628	9,670	140,031	933,133	-	14,453	70,737	2,401,652
Deposits by banks	81,154	-	-	-	176,890	-	-	258,044
Customer accounts	55,926	8,054	-	-	575,532	-	-	639,512
Debt securities in issue	3,992	47,451	-	-	248,846	-	-	300,289
Settlement balances and short positions	42,536	-	-	-	11,741	-	-	54,277
Derivatives (1)	971,364	-	-	-	-	-	-	971,364
Accruals, deferred income and other liabilities	260	-	-	-	1,619	22	29,581	31,482
	-	-	-	-	-	-	2,032	2,032

Retirement benefit liabilities								
Deferred taxation	-	-	-	-	-	-	4,165	4,165
Insurance liabilities	-	-	-	-	-	-	9,976	9,976
Subordinated liabilities	-	1,509	-	-	47,645	-	-	49,154
Liabilities of disposal groups	-	-	-	-	-	-	859	859
Total liabilities	1,155,232	57,014	-	-	1,062,273	22	46,613	2,321,154
Equity								80,498
								2,401,652

Note:
(1) Held-for-trading derivatives include hedging derivatives.

13. Financial instruments (continued)

Valuation of financial instruments carried at fair value
Certain aspects relating to the valuation of financial instruments carried at fair value are discussed below.

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

Valuation reserves and adjustments comprise:

	2009 £m	2008 £m
Credit valuation adjustments:		
Monoline insurers	3,796	5,988
CDPCs	499	1,311
Other counterparties	1,588	1,738
	5,883	9,037
Bid-offer and liquidity reserves	2,814	3,260
	8,697	12,297
Debit valuation adjustments:		
Debt securities in issue	(2,331)	(2,373)
Derivatives	(467)	(450)
Total debit valuation adjustments	(2,798)	(2,823)
Total reserves	5,899	9,474

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 Group makes such credit adjustments to derivative exposures it has to counterparties, as well as debit valuation adjustments (DVA) to liabilities issued by the Group. CVA is discussed in Risk and capital management - Market turmoil - Credit valuation adjustments (page 149). Bid-offer, liquidity reserves and own credit are discussed below.

Bid-offer and liquidity reserves
Fair value positions are adjusted to bid or offer levels by marking individual cash based positions directly to bid or offer or by taking bid-offer reserves calculated on a portfolio basis for derivatives exposures.

Bid-offer and liquidity reserves reduced during the year, driven mainly by the tightening of spread across all asset classes in the first half of the year and risk reductions in the second half of the year, most notably in the interest rate trading business, partly off-set by additional reserves reflecting the implementation of a revised derivative discounting approach.

Notes (continued)

13. Financial instruments (continued)

Own credit
In accordance with IFRS, when valuing financial liabilities recorded at fair value, the Group takes into account the effect of its own credit standing. The categories of financial liabilities on which own credit spread adjustments are made are issued debt, including issued structured notes, and derivatives. An own credit adjustment is applied to positions where it is believed that counterparties would consider the Group's creditworthiness when pricing trades.

For issued debt and structured notes, this adjustment is based on independent quotes from market participants for the debt issuance spreads above average inter-bank rates, (at a range of tenors) which the market would demand when purchasing new senior or sub-debt issuances from the Group. Where necessary, these quotes are interpolated using a curve shape derived from CDS prices.

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, however the income statement includes intra-period foreign exchange sell-offs.

The table below shows the own credit spread adjustments on liabilities recorded during the year ended 31 December 2009.

	Debt securities in issue				
	Held-for -trading (1) £m	Designated at fair value through profit and loss £m	Total £m	Derivatives (2) £m	Total £m
Cumulative own credit adjustment:					
2009	1,237	1,094	2,331	467	2,798
2008	1,346	1,027	2,373	450	2,823
	£bn	£bn	£bn	£bn	£bn
Book value of underlying liabilities:					
2009	36.6	13.3	49.9	16.8	66.7
2008	25.5	16.9	42.4	43.5	85.9

Notes:
(1) The held-for-trading portfolio consists of wholesale and retail note issuances.
(2) The effect of changes in foreign exchange rates, new issues and redemptions are not captured separately.

Notes (continued)

13. Financial instruments (continued)

Valuation hierarchy
The table below shows the financial instruments carried at fair value, by valuation method.

	Total	Level 1	Level 2	Level 3	Level 3 sensitivity	
2009	£bn	£bn	£bn	£bn	£m	£m
Assets						
Loans and advances:						
- banks	45.4	-	45.4	-	-	-
- customers	44.3	-	43.2	1.1	80	(40)
Debt securities						
- government	146.8	130.1	16.7	-	-	-
- RMBS	57.7	-	57.2	0.5	30	(10)
- CMBS	4.1	-	4.0	0.1	30	-
- CDOs	3.6	-	2.6	1.0	130	(80)
- CLOs	8.8	-	8.0	0.8	80	(50)
- other ABS	6.1	-	5.2	0.9	120	(40)
- corporate	11.4	-	10.8	0.6	70	(20)
- other (3)	18.9	0.2	18.5	0.2	10	(30)
	257.4	130.3	123.0	4.1	470	(230)
Equity shares	19.5	15.4	2.6	1.5	280	(220)
Derivatives						
- foreign exchange	69.4	-	69.2	0.2	10	-
- interest rate	323.6	0.3	321.8	1.5	80	(100)
- equities	6.5	0.4	5.8	0.3	20	(20)
- commodities	0.3	-	0.3	-	-	-
- credit – APS	1.4	-	-			