ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
May 03, 2013

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

Report of Foreign Private Issuer

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

For May 3, 2013

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

RBS, Gogarburn, PO Box 1000
Edinburgh EH12 1HQ

(Address of principal executive offices)

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

Form 20-F X Form 40-F ___

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

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

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

Yes ___ No X

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

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

Divisional performance

The operating profit/(loss)(1) of each division is shown below.

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
	£m	£m	£m
Operating profit/(loss) before impairment losses by division			
UK Retail	557	606	632
UK Corporate	543	658	668
Wealth	61	92	53
International Banking	149	192	132
Ulster Bank	76	75	84
US Retail & Commercial	208	223	121
Retail & Commercial	1,594	1,846	1,690
Markets	294	161	826
Direct Line Group	89	113	84
Central items	(43)	126	(136)
Core	1,934	2,246	2,464
Non-Core	(72)	(239)	6
Group operating profit before impairment losses	1,862	2,007	2,470
Impairment losses by division			
UK Retail	80	93	155
UK Corporate	185	234	176
Wealth	5	16	10
International Banking	55	37	35
Ulster Bank	240	318	394
US Retail & Commercial	19	23	19
Retail & Commercial	584	721	789
Markets	16	22	2
Central items	-	8	34
Core	600	751	825

Non-Core	433	703	489
Group impairment losses	1,033	1,454	1,314

Note:

(1) Operating profit/(loss) before own credit adjustments, Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs, regulatory fines, integration and restructuring costs, (loss)/gain on redemption of own debt, write-down of goodwill and other intangible assets, Asset Protection Scheme, amortisation of purchased intangible assets, strategic disposals, bank levy, RFS Holdings minority interest and includes the results of Direct Line Group on a managed basis, which are included in discontinued operations in the statutory results until 12 March 2013 and as an associated undertaking thereafter.

Divisional performance (continued)

	Quarter ended		
	31 March 2013 £m	31 December 2012 £m	31 March 2012 £m
Operating profit/(loss) by division			
UK Retail	477	513	477
UK Corporate	358	424	492
Wealth	56	76	43
International Banking	94	155	97
Ulster Bank	(164)	(243)	(310)
US Retail & Commercial	189	200	102
Retail & Commercial	1,010	1,125	901
Markets	278	139	824
Direct Line Group	89	113	84
Central items	(43)	118	(170)
Core	1,334	1,495	1,639
Non-Core	(505)	(942)	(483)
Group operating profit	829	553	1,156

	Quarter ended		
	31 March 2013	31 December	31 March 2012

		2012	
	%	%	%
Net interest margin by division			
UK Retail	3.49	3.60	3.61
UK Corporate	3.01	2.97	3.09
Wealth	3.55	3.69	3.67
International Banking	1.74	1.62	1.60
Ulster Bank	1.85	1.93	1.87
US Retail & Commercial	2.93	2.90	3.03
Retail & Commercial	2.90	2.91	2.91
Non-Core	(0.25)	0.29	0.31
Group net interest margin	1.95	1.95	1.89

	31 March 2013	31 December 2012
	£bn	£bn
Total funded assets by division		
UK Retail	117.1	117.4
UK Corporate	109.9	110.2
Wealth	21.7	21.4
International Banking	54.4	53.0
Ulster Bank	30.6	30.6
US Retail & Commercial	76.3	72.1
Retail & Commercial	410.0	404.7
Markets	288.0	284.5
Other (primarily Group Treasury)	123.8	123.0
Core	821.8	812.2
Non-Core	52.9	57.4
	874.7	869.6
RFS Holdings minority interest	1.0	0.8
Group	875.7	870.4

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Risk-weighted assets by division					
UK Retail	44.5	45.7	(3%)	48.2	(8%)
UK Corporate	87.0	86.3	1%	76.9	13%
Wealth	12.5	12.3	2%	12.9	(3%)
International Banking	48.9	51.9	(6%)	41.8	17%
Ulster Bank	36.8	36.1	2%	38.4	(4%)
US Retail & Commercial	58.9	56.5	4%	58.6	1%
Retail & Commercial	288.6	288.8	-	276.8	4%
Markets	88.5	101.3	(13%)	115.6	(23%)
Other (primarily Group Treasury)	10.2	5.8	76%	11.0	(7%)
Core	387.3	395.9	(2%)	403.4	(4%)
Non-Core	54.6	60.4	(10%)	89.9	(39%)
Group before benefit of Asset Protection Scheme	441.9	456.3	(3%)	493.3	(10%)
Benefit of Asset Protection Scheme	-	-	-	(62.2)	(100%)
Group before RFS Holdings minority interest	441.9	456.3	(3%)	431.1	3%
RFS Holdings minority interest	3.9	3.3	18%	3.2	22%
Group	445.8	459.6	(3%)	434.3	3%

Employee numbers by division (full time equivalents rounded to the nearest hundred)	31 March 2013	31 December 2012	31 March 2012
UK Retail	25,800	26,000	27,600
UK Corporate	13,600	13,300	13,400
Wealth	5,100	5,100	5,500
International Banking	4,800	4,600	5,600
Ulster Bank	5,000	4,500	4,500
US Retail & Commercial	18,600	18,700	18,700
Retail & Commercial	72,900	72,200	75,300
Markets	11,300	11,300	13,300
Direct Line Group	-	14,200	15,100
Group Centre	6,800	6,800	6,600

Core	91,000	104,500	110,300
Non-Core	2,600	3,100	4,300
	93,600	107,600	114,600
Business Services	29,100	29,100	29,500
Integration and restructuring	300	500	1,000
Group	123,000	137,200	145,100

UK Retail

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
	£m	£m	£m
Income statement			
Net interest income	965	1,011	1,001
Net fees and commissions	212	202	237
Other non-interest income	14	17	29
Non-interest income	226	219	266
Total income	1,191	1,230	1,267
Direct expenses			
- staff	(178)	(186)	(211)
- other	(112)	(90)	(78)
Indirect expenses	(344)	(348)	(346)
	(634)	(624)	(635)
Operating profit before impairment losses	557	606	632
Impairment losses	(80)	(93)	(155)
Operating profit	477	513	477
Analysis of income by product			
Personal advances	223	228	236
Personal deposits	103	150	185
Mortgages	628	610	563
Cards	209	214	219

Other	28	28	64
Total income	1,191	1,230	1,267
Analysis of impairments by sector			
Mortgages	10	5	34
Personal	35	64	82
Cards	35	24	39
Total impairment losses	80	93	155
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Mortgages	-	-	0.1%
Personal	1.6%	2.9%	3.5%
Cards	2.5%	1.7%	2.8%
Total	0.3%	0.3%	0.6%

UK Retail (continued)

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			
Return on equity (1)	25.5%	27.2%	24.0%
Net interest margin	3.49%	3.60%	3.61%
Cost:income ratio	53%	51%	50%

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					

- mortgages	99.1	99.1	-	97.5	2%
- personal	8.6	8.8	(2%)	9.4	(9%)
- cards	5.5	5.7	(4%)	5.6	(2%)
	113.2	113.6	-	112.5	1%
Loan impairment provisions	(2.6)	(2.6)	-	(2.7)	(4%)
Net loans and advances to customers	110.6	111.0	-	109.8	1%
Risk elements in lending	4.4	4.6	(4%)	4.6	(4%)
Provision coverage (2)	58%	58%	-	58%	-
Customer deposits	110.1	107.6	2%	104.1	6%
Assets under management (excluding deposits)	6.2	6.0	3%	5.8	7%
Loan:deposit ratio (excluding repos)	100%	103%	(300bp)	105%	(500bp)
Risk-weighted assets (3)					
- Credit risk (non-counterparty)	36.7	37.9	(3%)	40.4	(9%)
- Operational risk	7.8	7.8	-	7.8	-
	44.5	45.7	(3%)	48.2	(8%)

Notes:

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

Key points
During Q1 2013, UK Retail continued to make progress towards becoming a simpler, more customer focused business. On 18 March 2013, UK Retail announced its new strategy and the investment of £700 million in the business over the next 3-5 years, as part of its plans to build the best retail bank in the UK.

The strategy focuses on understanding and responding to customers' needs, making banking easier and being fair and honest. At the heart of those plans is improving systems and processes to make it simpler for customers to do business with us and to free up more time to coach and develop customer facing teams.

Key points (continued)
In Q1 2013, UK Retail implemented a new Telephony Desktop System across all of its Customer Contact Centres, giving staff all the information they need to help customers on one screen, saving customer time and improving the experience. In addition, mortgage advisors attended extensive training courses and were re-accredited during Q1 2013 to help ensure customers receive the best possible outcome to meet their financial needs. The division also launched a new Specialist Financial Advice business for customers who require advice about their investment and protection needs. Through quality advice from fully accredited advisers, customers can make informed financial decisions.

Further enhancements were made to UK Retail's mobile banking app, used by over two million customers. Customers can now open a savings account using the iPhone or iPad apps (a first in the UK), and the app also now includes the ability to pay any mobile phone contact who holds a VISA debit card. In February 2013, as a direct response to requests from customers, UK Retail launched a version of the app for customers with Windows phones which attracted top reviews on WindowsPhone.com, with more than 10,000 downloads in the first few days following launch.

Q1 2013 compared with Q4 2012

- Operating profit of £477 million held up well, excluding the impact on income of fewer days in the quarter (£22 million) and the effect on expenses of higher FSCS levy charges (£22 million). Return on equity remained robust.

- Mortgage balances remained flat as the direct sales force took part in a re-accreditation training exercise to help ensure optimal customer outcomes. Credit card balances reflected seasonal customer behaviour, although the interest-bearing balances remained stable.

- Customer deposit balances increased by 2%, mainly due to strong current account and instant access savings performance, which helped drive a 3% reduction in the loan:deposit ratio to 100%.

- Net interest income, down £46 million, reflected the result of fewer days in the quarter as well as continued lower rates on current account hedges. This, along with the non-recurrence of an internal funding benefit in Q4 2012, drove net interest margin 11 basis points lower to 3.49%.

- Non-interest income increased by £7 million although investment advice income has been adversely impacted by the Retail Distribution Review (RDR).

- Staff costs declined by a further 4% as a consequence of increased branch efficiency and automation which drove headcount reductions. Other direct costs were successfully controlled, with the increase due to a rise in the FSCS levy charge of £22 million.

- Impairment losses declined by 14% reflecting slightly lower default levels and the recognition of improved recoveries on previously defaulted unsecured debt.

- Risk-weighted assets fell by 3%, reflecting quality improvements and small balance reductions across the unsecured portfolio.

UK Retail (continued)

Key points (continued)

Q1 2013 compared with Q1 2012

· Operating profit was resilient as impairments improved by £75 million, offsetting weaker income trends.

· The loan:deposit ratio improved by 5%.

Mortgage balances increased by 2% reflecting strong growth in 2012. Personal lending balances declined by 9% largely as a result of continued customer deleveraging.
Customer deposits increased by 6% with strong instant access balance growth and a healthy 2012/13 ISA season.

· Net interest income reflected the continuing roll-over of current account hedges at lower prevailing market rates and lower unsecured balances.

· Non-interest income was affected by restructuring and retraining to meet industry-wide RDR regulatory changes. In addition, packaged account fees and credit card insurance income were lower.

· Total costs remained stable as staff costs declined, reflecting headcount reductions of 1,800 offset by a higher FSCS levy and other regulatory charges.

· Impairment losses declined, reflecting lower default rates.

UK Corporate

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
	£m	£m	£m
Income statement			
Net interest income	706	717	756
Net fees and commissions	321	349	336
Other non-interest income	57	107	109

Non-interest income	378	456	445
Total income	1,084	1,173	1,201
Direct expenses			
- staff	(228)	(226)	(249)
- other	(105)	(99)	(85)
Indirect expenses	(208)	(190)	(199)
	(541)	(515)	(533)
Operating profit before impairment losses	543	658	668
Impairment losses	(185)	(234)	(176)
Operating profit	358	424	492
Analysis of income by business			
Corporate and commercial lending	622	672	687
Asset and invoice finance	164	176	162
Corporate deposits	73	87	166
Other	225	238	186
Total income	1,084	1,173	1,201
Analysis of impairments by sector			
Financial institutions	2	3	2
Hotels and restaurants	18	23	15
Housebuilding and construction	12	25	25
Manufacturing	8	10	-
Private sector education, health, social work, recreational and community services	25	2	22
Property	69	71	30
Wholesale and retail trade, repairs	32	47	33
Asset and invoice finance	1	10	9
Shipping	8	42	2
Other	10	1	38
Total impairment losses	185	234	176

UK Corporate (continued)

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Financial institutions	0.2%	0.2%	0.1%
Hotels and restaurants	1.3%	1.6%	1.0%
Housebuilding and construction	1.5%	2.9%	2.7%
Manufacturing	0.7%	0.9%	-
Private sector education, health, social work, recreational and community services	1.1%	0.1%	1.0%
Property	1.1%	1.1%	0.4%
Wholesale and retail trade, repairs	1.5%	2.2%	1.5%
Asset and invoice finance	-	0.4%	0.3%
Shipping	0.4%	2.2%	0.1%
Other	0.1%	-	0.6%
Total	0.7%	0.9%	0.6%

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			
Return on equity (1)	10.7%	13.2%	16.2%
Net interest margin	3.01%	2.97%	3.09%
Cost:income ratio	50%	44%	44%

UK Corporate (continued)

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change

Capital and balance sheet					
Loans and advances to customers (gross)					
- financial institutions	5.1	5.8	(12%)	6.2	(18%)
- hotels and restaurants	5.6	5.6	-	6.0	(7%)
- housebuilding and construction	3.1	3.4	(9%)	3.7	(16%)
- manufacturing	4.7	4.7	-	4.7	-
- private sector education, health, social work, recreational and community services	8.8	8.7	1%	8.6	2%
- property	24.4	24.8	(2%)	26.7	(9%)
- wholesale and retail trade, repairs	8.6	8.5	1%	9.1	(5%)
- asset and invoice finance	11.4	11.2	2%	10.3	11%
- shipping	7.7	7.6	1%	7.7	-
- other	27.4	26.7	3%	26.7	3%
	106.8	107.0	-	109.7	(3%)
Loan impairment provisions	(2.4)	(2.4)	-	(2.1)	14%
Net loans and advances to customers	104.4	104.6	-	107.6	(3%)
Total third party assets	109.9	110.2	-	113.2	(3%)
Risk elements in lending	5.3	5.5	(4%)	4.9	8%
Provision coverage (2)	45%	45%	-	43%	200bp
Customer deposits	123.9	127.1	(3%)	124.3	-
Loan:deposit ratio (excluding repos)	84%	82%	200bp	87%	(300bp)
Risk-weighted assets					
- Credit risk (non-counterparty)	78.6	77.7	1%	68.3	15%
- Operational risk	8.4	8.6	(2%)	8.6	(2%)
	87.0	86.3	1%	76.9	13%

Notes:

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

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

Key points

In a challenging economic landscape, UK Corporate continued to support the UK economy and contribute to the communities it operates in.

UK Corporate successfully completed the first of its Funding for Lending Scheme (FLS) phases in Q1 2013, surpassing the £2.5 billion of lending it had originally committed to. Since the scheme's inception, the division has supported over 19,000 Small and Medium Enterprises (SMEs) with over £3.2 billion of new FLS-related lending, £1.6 billion of which has already been drawn. These SME customers benefited from both lower interest rates and the removal of arrangement fees. Supporting UK economic growth, UK Corporate also used the FLS to provide targeted support to mid-sized manufacturers, reducing interest rates by more than 1% in some cases.

UK Corporate (continued)

Key points (continued)
In Q1 2013, UK Corporate underlined its commitment to the communities it operates in by continuing the implementation of its Business Banking Enterprise Programme. Through its Start-Up Surgeries, Mobile Business School and Business Academy the Programme offers support and advice to aspiring entrepreneurs, new start-up businesses and established SMEs looking to grow. In Q1 2013, UK Corporate began the national rollout of the Start-Up Surgeries and Business Academy which, since their launch, have already supported over 1,300 customers.

In Q1 2013, UK Corporate also expanded its Two Percent Club into the Midlands. A high-level networking group, the Two Percent Club aims to develop more women into senior business leaders in the UK and further underscores UK Corporate's longstanding commitment to helping women achieve their business goals.

Q1 2013 compared with Q4 2012

- Operating profit fell by 16%, with revenues 8% lower than the more buoyant Q4 2012. This was partially offset by lower impairments (down 21%), with improving trends in the SME portfolio.

- Net interest income was down 2% mainly as a result of fewer days in the quarter. Deposit margin compression, due to a continuation of low yields, was largely offset by an improvement in asset margins from selected sector re-pricing and back book refinancing.

- Non-interest income declined by 17%, mainly from lower revenue share from Markets hedging activities, the non-repeat of equity investment gains of £19 million in Q4 2012, higher derivative close-out charges associated with impaired assets, up £11 million, and subdued transaction services.

- Expenses were 5% higher, reflecting costs of £17 million provided for customer remediation. Excluding these, expenses were broadly in line with lower revenue-related costs offset by the implementation of revised internal charging arrangements, which resulted in UK Corporate taking an increased share of branch network costs.

- Impairments fell by 21% in the quarter, with fewer significant individual cases and improving trends in the SME market.

- Lending balances remained broadly flat over the course of Q1 2013, whilst absorbing targeted reductions in the commercial property sector.

- Risk-weighted assets increased by 1% to £87 billion following further regulatory changes to models relating to the market-wide slotting approach on real estate.

UK Corporate (continued)

Key points (continued)

Q1 2013 compared with Q1 2012

- Operating profit fell 27%, with continuing pressure on liability margins and with small increases in costs and impairments. Return on equity fell to 10.7%, reflecting the fall in operating profit and higher risk-weighted assets.

- Net interest income decreased by 7%, primarily driven by continuing pressure on liability margins and the non-repeat of income deferral benefits of £28 million in Q1 2012. This was partially offset by improvements in asset margins.

- Non-interest income was 15% lower, reflecting a decline in Markets revenue share, and derivative close-out charges up £14 million.

- Total expenses increased by 2% as a result of customer remediation costs of £17 million and increased branch network charges, partially offset by lower revenue-related and staff incentive costs.

- Impairments were slightly higher than in Q1 2012, which had benefited from a higher latent provision release.

- Risk-weighted assets were 13%, or £10 billion, higher as a result of significant increases in market-wide regulatory capital model requirements and increases to default risk weights in other models.

Wealth

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
	£m	£m	£m

Income statement			
Net interest income	169	178	179
Net fees and commissions	89	89	93
Other non-interest income	15	18	18
Non-interest income	104	107	111
Total income	273	285	290
Direct expenses			
- staff	(108)	(85)	(116)
- other	(24)	(34)	(43)
Indirect expenses	(80)	(74)	(78)
	(212)	(193)	(237)
Operating profit before impairment losses	61	92	53
Impairment losses	(5)	(16)	(10)
Operating profit	56	76	43
Analysis of income			
Private banking	224	230	237
Investments	49	55	53
Total income	273	285	290

Key metrics	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			
Return on equity (1)	12.1%	16.7%	9.0%
Net interest margin	3.55%	3.69%	3.67%
Cost:income ratio	78%	68%	82%

Note:

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

Wealth (continued)

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	8.8	8.8	-	8.4	5%
- personal	5.7	5.5	4%	6.8	(16%)
- other	2.7	2.8	(4%)	1.7	59%
	17.2	17.1	1%	16.9	2%
Loan impairment provisions	(0.1)	(0.1)	-	(0.1)	-
Net loans and advances to customers	17.1	17.0	1%	16.8	2%
Risk elements in lending	0.3	0.2	50%	0.2	50%
Provision coverage (1)	43%	44%	(100bp)	38%	500bp
Assets under management (excluding deposits)	30.8	28.9	7%	31.4	(2%)
Customer deposits	39.6	38.9	2%	38.3	3%
Loan:deposit ratio (excluding repos)	43%	44%	(100bp)	44%	(100bp)
Risk-weighted assets					
- Credit risk (non-counterparty)	10.4	10.3	1%	10.9	(5%)
- Market risk	0.2	0.1	100%	0.1	100%
- Operational risk	1.9	1.9	-	1.9	-
	12.5	12.3	2%	12.9	(3%)

Note:

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

Key points
Q1 2013 delivered an improved performance compared with the prior year, driven by lower expenses and a significant fall in impairments.

The period saw further execution of the division's strategy for generating new prospects through improved banker coverage, with senior hires in Asia and Middle East. Revenue growth in Asian and Indian markets was buoyant as a result of growth in collateralised lending, following enhancements made to the programme in 2012.

In the UK, clients have welcomed Coutts' new advice-led model. They have also been receptive to Coutts' differentiated approach, which delivers on the division's commitment to provide clients with the best service, advice and products based on their individual needs. Also in the UK, Coutts responded to client feedback and research with the launch of a new Coutts card suite, incorporating charge, credit and debit cards for both private and commercial banking clients and offering enhanced travel and international benefits plus multi-card functionality.

During 2013, the Coutts business continues to focus on implementing and delivering the new divisional strategy outlined in 2011. Priorities include optimising newly introduced service models, driving out further benefits of the division's global technology platform and streamlining key client facing processes.

Key points (continued)

Q1 2013 compared with Q4 2012

· Operating profit was lower than in the prior quarter, in large part reflecting the reversion of staff expenses following a significant reduction in incentive costs in Q4 2012, partially offset by an improvement in impairments.

· Net interest income reflected the continued impact of lower rates on UK deposit hedges. Small improvements in deposit and lending margins were more than offset by lower income on hedges, driving the net interest margin 14 basis points lower.

· Investment in technology and the global platform infrastructure was reflected in lower non-staff expenses, as a result of efficiency gains, and higher staff expenses, as headcount was increased to support this investment as well as to support regulatory projects. The phasing of Financial Services Compensation Scheme levies and the timing of incentive accruals also pushed expenses higher.

· Impairments fell by £11 million, reflecting the non-recurrence of one-off items in Q4 2012.

· Client assets and liabilities increased by 3%. Assets under management increased by 7%, benefiting from a recovery in markets in Q1 2013. Deposit volumes increased by 2%, while lending remained stable.

Q1 2013 compared with Q1 2012

· Operating profit increased, driven by a decrease in expenses and impairments, despite the continuation of a challenging income environment.

· Income trends reflect the wider economic environment, with muted investment activity and lower rates available on UK deposit hedges. Non-interest income was also impacted by client transfers resulting from the disposal of the Latin American, Caribbean and African businesses.

· Expenses decreased by £25 million, partially due to the non-repeat of an £8.75 million fine from the Financial Services Authority incurred in Q1 2012 and a fall in headcount.

· Client assets and liabilities increased marginally. Assets under management were largely maintained as positive market movements offset net outflows of low margin custody assets and client transfers resulting from the disposal of the Latin American, Caribbean and African businesses.

International Banking

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
	£m	£m	£m
Income statement			
Net interest income	197	201	260
Non-interest income	285	283	282
Total income	482	484	542
Direct expenses			
- staff	(134)	(103)	(189)
- other	(38)	(20)	(48)
Indirect expenses	(161)	(169)	(173)
	(333)	(292)	(410)
Operating profit before impairment losses	149	192	132
Impairment losses	(55)	(37)	(35)
Operating profit	94	155	97
Of which:			
Ongoing businesses	94	150	113
Run-off businesses	-	5	(16)
Analysis of income by product			
Cash management	187	205	268
Trade finance	70	70	72
Loan portfolio	224	207	197

Ongoing businesses	481	482	537
Run-off businesses	1	2	5
Total income	482	484	542
Analysis of impairments by sector			
Manufacturing and infrastructure	40	21	17
Property and construction	(14)	-	-
Transport and storage	24	1	(4)
Telecommunications, media and technology	-	3	9
Banks and financial institutions	-	-	12
Other	5	12	1
Total impairment losses	55	37	35
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	0.5%	0.4%	0.3%

International Banking (continued)

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios (ongoing businesses)			
Return on equity (1)	5.2%	8.3%	7.5%
Net interest margin	1.74%	1.62%	1.60%
Cost:income ratio	69%	61%	72%

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross) (2)	42.5	42.2	1%	53.1	(20%)
Loan impairment provisions	(0.4)	(0.4)	-	(0.8)	(50%)
Net loans and advances to customers	42.1	41.8	1%	52.3	20%

Loans and advances to banks	5.8	4.8	21%	4.0	45%
Securities	2.5	2.6	(4%)	4.0	(38%)
Cash and eligible bills	0.4	0.5	(20%)	0.3	33%
Other	3.6	3.3	9%	3.1	16%
Total third party assets (excluding derivatives mark-to-market)	54.4	53.0	3%	63.7	(15%)
Risk elements in lending	0.6	0.4	50%	0.9	(33%)
Provision coverage (3)	60%	93%	(3,300bp)	97%	(3,700bp)
Customer deposits (excluding repos)	47.0	46.2	2%	45.0	4%
Bank deposits (excluding repos)	4.7	5.6	(16%)	10.5	(55%)
Loan:deposit ratio (excluding repos)	90%	91%	(100bp)	116%	(2,600bp)
Risk-weighted assets					
- Credit risk (non-counterparty)	44.2	46.7	(5%)	37.0	19%
- Operational risk	4.7	5.2	(10%)	4.8	(2%)
	48.9	51.9	(6%)	41.8	17%

Notes:

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

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
	£m	£m	£m
Run-off businesses (1)			
Total income	1	2	5
Direct expenses	(1)	3	(21)
Operating profit/(loss)	-	5	(16)

Note:

(1) Run-off businesses consist of the exited corporate finance business.

International Banking (continued)

Key points
In Q1 2013, International Banking continued its progress in strengthening its balance sheet, in particular its liability composition. Performance, however, continued to be restricted by ongoing macroeconomic pressures.

Despite these headwinds, the division has earned external recognition for its efforts in serving its customers' needs, helping RBS Group gain awards such as:

- Best Trade Finance Bank in the UK (Global Finance Awards 2013).
- Number Two in Sterling denominated Debt Capital Markets in Q1 2013 (Dealogic).

International Banking continues its unwavering focus on its customers. It strives to build deeper long-term relationships, to understand its customers' business well and to develop solutions that help them succeed. As part of its commitment to treating customers fairly, the division has developed a framework to pro-actively redress any clients who might be adversely effected.

Q1 2013 compared with Q4 2012

- Operating profit was down £61 million, or 39%, largely reflecting the normalisation of expenses following the downward adjustment to variable compensation in Q4 2012, together with higher impairments.
- Income remained stable:
  - Loan portfolio income was up 8% following completion of one large hedging transaction.
  - Cash management decreased by 9%, driven by tighter spreads following the decline in both three month LIBOR and five year fixed rates across Europe.
  - Trade finance remained stable despite significant pressure on margins following increased competition in Asia.
- Total expenses increased by £41 million, or 14%, mainly due to the normalisation of revenue-linked expenses following the downward revision to variable compensation in Q4 2012.
- Impairments in Q1 2013 included a £38 million single-name provision.
- Return on equity was 5.2%, compared with 8.3% in Q4 2012. Excluding the single-name impairment, return on equity was 7.2% in Q1 2013.
- Customer deposits increased by £1 billion, with an improvement in the deposit profile as the business strategically reduced short-term deposits and increased operational balances, reducing future liquidity outflow

risk.

· Third party assets were up 3% as the impact of sterling weakening against the US dollar and euro more than offset reductions in the lending portfolio and increased levels of repayments.

· Risk-weighted assets decreased by 6% reflecting an active reduction in higher risk exposures. This was partially offset by exchange rate movements.

International Banking (continued)

Q1 2013 compared with Q1 2012

· Operating profit was little changed as expense reductions offset the impact on income of the strategic reduction in the loan portfolio undertaken in 2012.

· Income was 11% lower:

Loan portfolio income increased by 14%, mainly due to market movements associated with credit hedging activities.

Cash management income was affected by tighter deposit margins following reductions in both three month LIBOR and five year fixed rates across Europe. Payment fees were also lower, reflecting growth in electronic, lower-margin payments.

· Expenses declined by £77 million, reflecting planned restructuring initiatives following the formation of the International Banking division in January 2012. Savings were achieved through headcount reduction and the run-off of discontinued businesses, with a resulting decrease in infrastructure support costs. Revenue-linked expenses also fell in line with the decrease in income.

· Third party assets declined by 15%, reflecting targeted reductions in the lending portfolio carried out in 2012.

· Customer deposits increased by 4% with a focus on growing operational balances. The net funding position improved with the loan:deposit ratio moving from 116% to 90%.

· Bank deposits were down 55%, mainly as a result of lower short tenor balances, reflecting a strategic initiative to reduce liquidity outflow risk.

· Risk-weighted assets increased by 17%, reflecting the impact of regulatory uplifts partially offset by successful mitigation through balance sheet reduction. Risk-weighted asset intensity in the loan book has increased significantly given the uplifts, which will result in strategic adjustments going forward.

Ulster Bank

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
	£m	£m	£m
Income statement			
Net interest income	154	161	165
Net fees and commissions	34	36	38
Other non-interest income	20	15	11
Non-interest income	54	51	49
Total income	208	212	214
Direct expenses			
- staff	(57)	(53)	(53)
- other	(15)	(14)	(12)
Indirect expenses	(60)	(70)	(65)
	(132)	(137)	(130)
Operating profit before impairment losses	76	75	84
Impairment losses	(240)	(318)	(394)
Operating loss	(164)	(243)	(310)
Analysis of income by business			
Corporate	82	85	102
Retail	89	93	88
Other	37	34	24
Total income	208	212	214
Analysis of impairments by sector			
Mortgages	90	135	215
Commercial real estate			
- investment	46	52	40
- development	14	17	14
Other corporate	75	97	114
Other lending	15	17	11
Total impairment losses	240	318	394

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Mortgages	1.8%	2.8%	4.3%
Commercial real estate			
- investment	5.1%	5.8%	4.2%
- development	8.0%	9.7%	7.0%
Other corporate	3.8%	5.0%	5.6%
Other lending	4.6%	5.2%	3.4%
Total	2.9%	3.9%	4.6%

Ulster Bank (continued)

Key metrics	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			
Return on equity (1)	(13.5%)	(20.9%)	(25.8%)
Net interest margin	1.85%	1.93%	1.87%
Cost:income ratio	63%	65%	61%

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
Mortgages	19.7	19.2	3%	19.8	(1%)
Commercial real estate					
- investment	3.6	3.6	-	3.8	(5%)
- development	0.7	0.7	-	0.8	(13%)
Other corporate	7.8	7.8	-	8.2	(5%)
Other lending	1.3	1.3	-	1.3	-
	33.1	32.6	2%	33.9	(2%)
Loan impairment provisions	(4.2)	(3.9)	8%	(3.1)	35%

Net loans and advances to customers	28.9	28.7	1%	30.8	(6%)
Risk elements in lending					
Mortgages	3.4	3.1	10%	2.5	36%
Commercial real estate					
- investment	1.6	1.6	-	1.0	60%
- development	0.4	0.4	-	0.3	33%
Other corporate	2.4	2.2	9%	1.9	26%
Other lending	0.2	0.2	-	0.2	-
Total risk elements in lending	8.0	7.5	7%	5.9	36%
Provision coverage (2)	53%	52%	100bp	53%	-
Customer deposits	22.7	22.1	3%	21.0	8%
Loan:deposit ratio (excluding repos)	127%	130%	(300bp)	147%	(2,000bp)
Risk-weighted assets					
- Credit risk					
- non-counterparty	34.3	33.6	2%	35.9	(4%)
- counterparty	0.6	0.6	-	0.7	(14%)
- Market risk	0.2	0.2	-	0.1	100%
- Operational risk	1.7	1.7	-	1.7	-
	36.8	36.1	2%	38.4	(4%)
Spot exchange rate - €/£	1.183	1.227		1.200	

Notes:

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

Ulster Bank (continued)

Key points
Ulster Bank delivered a significant improvement in operating results with reduced impairment charges, in line with the recent stabilisation of the macroeconomic environment in the Republic of Ireland, driving a 33% reduction in operating losses. The bank continued to work with customers in arrears to find sustainable solutions, and significant investment was made in specialist resourcing to support customers in financial difficulty.

The progress made during 2012 to strengthen the balance sheet continued in Q1 2013 with deposit balances 7% higher than Q1 2012 on a constant currency basis. As a result the loan:deposit ratio further improved to 127% from 147% at Q1 2012.

Ulster Bank continued to improve its support for customers. New services aimed at improving customer convenience included the launch of 'Anytime banking' for business customers, which represents further progress to simplify customers' day to day banking needs through digital channels.

Q1 2013 compared with Q4 2012

· Operating loss decreased by £79 million to £164 million primarily reflecting a significant reduction in impairment losses.

· Income fell by £4 million in the quarter largely driven by lower interest-earning assets, the cost of deposit growth at the end of 2012 and the impact of fewer days in the quarter. Net interest margin decreased by 8 basis points to 1.85%.

· Expenses were £5 million lower with the impact of an impairment charge on own property assets in Q4 2012 partly offset by higher underlying pension charges and further investment in programmes to support customers in financial difficulty in Q1 2013.

· Impairment losses declined by £78 million, 25%, while remaining elevated. Although risk elements in lending increased in both the mortgage and corporate portfolios, the pace of arrears formation has slowed, particularly in the mortgage book. Residential asset values have been stabilising over the past two to three quarters.

· Customer deposits won during Q4 2012 were retained in Q1 2013 (flat on a constant currency basis) and the loan:deposit ratio fell further to 127%. Customer loan balances decreased by £0.6 billion, or by 2% in constant currency terms.

Q1 2013 compared with Q1 2012

· Operating loss decreased by £146 million or 47%, driven by a significant improvement in impairment losses.

· Net interest income fell by £11 million reflecting lower customer loan balances, the impact of an increased volume of impaired loans and the relatively high cost of deposit raising. Net interest margin declined by 2 basis points, despite the impact of initiatives to widen loan margins and re-price deposits.

· Non-interest income increased by £5 million, holding up well despite the low levels of new business and muted market activity.

Key points (continued)

Q1 2013 compared with Q1 2012 (continued)

· Expenses showed a modest increase, reflecting investment in resources to support customers in arrears coupled with an increase in mandatory change requirements. Expenses continued to be managed efficiently with further progress made on initiatives to simplify the bank's operations.

· Impairment losses decreased by £154 million, 39%, with a significant reduction in losses on the mortgage portfolio as underlying credit metrics improved and asset values began to stabilise.

· The loan:deposit ratio further improved to 127% from 147% in Q1 2012. Loan balances declined by 4% in constant currency terms reflecting subdued demand for new lending coupled with customer action to reduce debt levels. Customer deposits increased by 7% at constant currency, largely driven by retail and SME balances, a key focus area in the bank's deposit gathering strategy.

US Retail & Commercial (£ Sterling)

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
	£m	£m	£m
Income statement			
Net interest income	471	465	491
Net fees and commissions	190	197	199
Other non-interest income	102	78	66
Non-interest income	292	275	265
Total income	763	740	756
Direct expenses			
- staff	(279)	(227)	(270)
- other	(246)	(263)	(243)
- litigation settlement	-	-	(88)
Indirect expenses	(30)	(27)	(34)
	(555)	(517)	(635)

Operating profit before impairment losses	208	223	121
Impairment losses	(19)	(23)	(19)
Operating profit	189	200	102
Average exchange rate - US$/£	1.552	1.606	1.571
Analysis of income by product			
Mortgages and home equity	126	134	134
Personal lending and cards	100	102	98
Retail deposits	190	199	217
Commercial lending	168	154	160
Commercial deposits	102	101	112
Other	77	50	35
Total income	763	740	756
Analysis of impairments by sector			
Residential mortgages	2	2	6
Home equity	19	13	22
Corporate and commercial	(24)	(20)	(16)
Other consumer	22	24	3
Securities	-	4	4
Total impairment losses	19	23	19
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Residential mortgages	0.1%	0.1%	0.4%
Home equity	0.6%	0.4%	0.6%
Corporate and commercial	(0.4%)	(0.3%)	(0.3%)
Other consumer	1.0%	1.2%	0.2%
Total	0.1%	0.2%	0.1%

US Retail & Commercial (£ Sterling) (continued)

Key metrics

	Quarter ended		
	31 March 2013	31 December	31 March 2012

		2012	
Performance ratios			
Return on equity (1)	8.2%	9.0%	4.5%
Adjusted return on equity (2)	8.2%	9.0%	8.4%
Net interest margin	2.93%	2.90%	3.03%
Cost:income ratio	73%	70%	84%
Adjusted cost:income ratio (2)	73%	70%	72%

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- residential mortgages	6.0	5.8	3%	6.0	-
- home equity	13.8	13.3	4%	14.2	(3%)
- corporate and commercial	25.1	23.8	5%	22.6	11%
- other consumer	8.9	8.4	6%	8.1	10%
	53.8	51.3	5%	50.9	6%
Loan impairment provisions	(0.3)	(0.3)	-	(0.4)	(25%)
Net loans and advances to customers	53.5	51.0	5%	50.5	6%
Total third party assets	77.0	72.8	6%	74.0	4%
Investment securities	11.9	12.0	(1%)	14.3	(17%)
Risk elements in lending					
- retail	0.9	0.8	13%	0.6	50%
- commercial	0.4	0.3	33%	0.3	33%
Total risk elements in lending	1.3	1.1	18%	0.9	44%
Provision coverage (3)	22%	25%	(300bp)	43%	(2,100bp)
Customer deposits (excluding repos)	62.4	59.2	5%	58.7	6%
Bank deposits (excluding repos)	1.7	1.8	(6%)	4.3	(60%)
Loan:deposit ratio (excluding repos)	86%	86%	-	86%	-
Risk-weighted assets					
- Credit risk					
- non-counterparty	53.1	50.8	5%	52.8	1%
- counterparty	0.8	0.8	-	0.9	(11%)
- Operational risk	5.0	4.9	2%	4.9	2%
	58.9	56.5	4%	58.6	1%

Spot exchange rate - US$/£	1.517	1.616	1.599

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).
(2) Excludes the litigation settlement in Q1 2012.
(3) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.

Key points

Sterling weakened against the US Dollar, with the spot exchange rate at 31 March 2013 decreasing by 6% compared with 31 December 2012.

Performance is described in full in the US dollar-based financial statements set out on pages 47 to 50.

US Retail & Commercial (US Dollar)

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
	$m	$m	$m
Income statement			
Net interest income	731	747	772
Net fees and commissions	295	315	312
Other non-interest income	158	127	103
Non-interest income	453	442	415
Total income	1,184	1,189	1,187
Direct expenses			
- staff	(433)	(365)	(425)
- other	(381)	(422)	(379)
- litigation settlement	-	-	(138)
Indirect expenses	(48)	(42)	(54)
	(862)	(829)	(996)

Operating profit before impairment losses	322	360	191
Impairment losses	(30)	(38)	(31)
Operating profit	292	322	160
Analysis of income by product			
Mortgages and home equity	195	215	211
Personal lending and cards	155	164	154
Retail deposits	295	319	341
Commercial lending	261	247	251
Commercial deposits	158	163	176
Other	120	81	54
Total income	1,184	1,189	1,187
Analysis of impairments by sector			
Residential mortgages	3	3	9
Home equity	29	21	35
Corporate and commercial	(36)	(31)	(25)
Other consumer	34	39	6
Securities	-	6	6
Total impairment losses	30	38	31
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector			
Residential mortgages	0.1%	0.1%	0.4%
Home equity	0.6%	0.4%	0.6%
Corporate and commercial	(0.4%)	(0.3%)	(0.3%)
Other consumer	1.0%	1.2%	0.2%
Total	0.1%	0.2%	0.1%

US Retail & Commercial (US Dollar) (continued)

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios			

Return on equity (1)	8.2%	9.0%	4.5%
Adjusted return on equity (2)	8.2%	9.0%	8.4%
Net interest margin	2.93%	2.90%	3.03%
Cost:income ratio	73%	70%	84%
Adjusted cost:income ratio (2)	73%	70%	72%

	31 March 2013 $bn	31 December 2012 $bn	Change	31 March 2012 $bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- residential mortgages	9.1	9.4	(3%)	9.5	(4%)
- home equity	20.9	21.5	(3%)	22.6	(8%)
- corporate and commercial	38.1	38.5	(1%)	36.2	5%
- other consumer	13.5	13.5	-	13.2	2%
	81.6	82.9	(2%)	81.5	-
Loan impairment provisions	(0.4)	(0.5)	(20%)	(0.6)	(33%)
Net loans and advances to customers	81.2	82.4	(1%)	80.9	-
Total third party assets	116.8	117.7	(1%)	118.3	(1%)
Investment securities	18.1	19.5	(7%)	22.9	(21%)
Risk elements in lending					
- retail	1.4	1.3	8%	0.9	56%
- commercial	0.5	0.6	(17%)	0.6	(17%)
Total risk elements in lending	1.9	1.9	-	1.5	27%
Provision coverage (3)	22%	25%	(300bp)	43%	(2,100bp)
Customer deposits (excluding repos)	94.6	95.6	(1%)	93.9	1%
Bank deposits (excluding repos)	2.6	2.9	(10%)	6.9	(62%)
Loan:deposit ratio (excluding repos)	86%	86%	-	86%	-
Risk-weighted assets					
- Credit risk					
- non-counterparty	80.6	82.0	(2%)	84.4	(5%)
- counterparty	1.2	1.4	(14%)	1.5	(20%)
- Operational risk	7.5	7.9	(5%)	7.8	(4%)
	89.3	91.3	(2%)	93.7	(5%)

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of monthly average of divisional RWAs, adjusted for capital deductions).
(2) Excludes the litigation settlement in Q1 2012.
(3) Provision coverage represents loan impairment provisions as a percentage of risk elements in lending.

US Retail & Commercial (US Dollar) (continued)

Key points
In Q1 2013, US R&C continued to focus on its back-to-basics strategy, concentrating on core banking products and competing on service and product capabilities rather than price.

Consumer Banking continued to create greater convenience for its customers by addressing the shift in customer preferences and expanding its distribution presence. In Q1 2013, another 227 intelligent deposit machines were installed and additional web account opening enhancements were made. Expansion of the wealth and auto businesses continued, with the launch of Premier banking services to the Pittsburgh market and the ongoing increase of the auto dealer base (up 19% year on year).

Consumer Banking also continued to grow and deepen customer relationships, evidenced by the upward trends in online banking usage, online bill pay and direct deposit penetration. Moreover, the number of deposit customers with a consumer loan product continued to increase (up 3% year on year) indicating more effective cross-sell efforts.

To promote its thought leadership capabilities and to also help grow and deepen client relationships, Commercial Banking leveraged the 2013 M&A Outlook Research Study to develop an integrated marketing programme that includes industry webinars and targeted advertising campaigns. The division's strategic alliance with Oppenheimer further enhanced RBS Citizens commercial bankers' ability to drive forward relationships, ideas, and capabilities in the markets they serve.

Corporate Finance & Capital Markets, which was launched in 2009, continued to take market share, not only from its regional competitors but also from the large money centre banks, moving up in the traditional Middle Market league tables from unranked in 2009 to sixth position as at Q4 2012.

The Treasury Solutions division launched accessPAYMODE-X™, a business-to-business electronic settlement network. The product features improved efficiencies and security and provides web access and electronic delivery of remittance information. In partnership with NetSpend, a prepaid debit card provider, Treasury Solutions also launched a Commercial payroll card, which provides its clients' employees with an alternative to a payroll check. The card drives higher direct deposit participation, reduces overall payroll costs and minimizes exposure to check fraud.

Q1 2013 compared with Q4 2012

· Operating profit of $292 million was resilient excluding the impact of a one-off $33 million pension gain in Q4 2012.

· Net interest income was down 2% as favourable funding costs and commercial loan growth were more than offset by a smaller investment portfolio and consumer loan run-off.

· Non-interest income was up $11 million, or 2%, reflecting higher securities gains offset by lower mortgage banking fees and deposit fees.

· Excluding the one-off $33 million pension gain in Q4 2012, total expenses were flat, reflecting lower operational losses offset by phasing of the annual incentive plan accruals and a seasonal increase in payroll taxes.

· Impairment losses were down $8 million, or 21%, reflecting lower impairments related to securities as well as a stable credit environment.

US Retail & Commercial (US Dollar) (continued)

Key points (continued)

Q1 2013 compared with Q1 2012

· Operating profit of $292 million increased by $132 million, or 83%, and was broadly stable if adjusted for the $138 million litigation settlement in Q1 2012.

· Net interest income was down 5% as the positive impact of commercial loan growth and lower funding costs was offset by the effect of prevailing economic conditions on asset yields and customer investment behaviour.

· Loans and advances were up slightly with strong commercial loan growth mostly offset by planned run-off of long-term fixed-rate consumer products.

· Customer deposits were up 1% with strong growth achieved in checking balances. Consumer checking balances grew by 2% while small business checking balances grew by 6% over the year.

· Non-interest income was up $38 million, or 9%, reflecting higher securities gains partially offset by lower deposit and mortgage banking fees.

· Excluding the $138 million litigation settlement in Q1 2012 relating to a class action lawsuit regarding the way overdraft fees were assessed on customer accounts prior to 2010, total expenses were broadly in line with Q1 2012.

· Impairment losses were in line with Q1 2012. The credit environment remained broadly stable over the year.

Markets

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
	£m	£m	£m
Income statement			
Net interest income from banking activities	30	46	24
Net fees and commissions receivable	77	41	127
Income from trading activities	916	513	1,548
Other operating income (net of related funding costs)	17	41	35
Non-interest income	1,010	595	1,710
Total income	1,040	641	1,734
Direct expenses			
- staff	(385)	(87)	(545)
- other	(182)	(207)	(167)
Indirect expenses	(179)	(186)	(196)
	(746)	(480)	(908)
Operating profit before impairment losses	294	161	826
Impairment losses	(16)	(22)	(2)
Operating profit	278	139	824
Of which:			
Ongoing businesses	279	135	861
Run-off businesses	(1)	4	(37)
Analysis of income by product			
Rates and investor products (IP) (1)	340	333	924
Currencies	192	163	246
Asset backed products (ABP)	437	139	427
Credit markets	238	179	313
Total income ongoing businesses	1,207	814	1,910
Inter-divisional revenue share	(167)	(172)	(186)
Run-off businesses	-	(1)	10
Total income	1,040	641	1,734
Memo - Fixed income and currencies			
Rates & IP/currencies/ABP/credit markets	1,207	880	1,787
Less: primary credit markets	(139)	(151)	(171)

Total fixed income and currencies	1,068	729	1,616

Note:

(1) Following further review in Q4 2012, Investor Products and Equity Derivatives (IPED) operation was moved into Rates to form part of the Derivative Product Solutions (DPS) business. Includes IPED (31 December 2012 - £(66) million; 31 March 2012 - £123 million) which are not included in fixed income and currencies.

Markets (continued)

Key metrics

	Quarter ended		
	31 March 2013	31 December 2012	31 March 2012
Performance ratios (ongoing businesses)			
Return on equity (1)	8.0%	3.6%	21.1%
Cost:income ratio	72%	76%	50%
Compensation ratio (2)	37%	16%	29%

	31 March 2013 £bn	31 December 2012 £bn	Change	31 March 2012 £bn	Change
Capital and balance sheet (ongoing businesses)					
Loans and advances to customers (gross)	32.0	29.8	7%	28.8	11%
Loan impairment provisions	(0.2)	(0.2)	-	(0.2)	-
Net loans and advances to customers	31.8	29.6	7%	28.6	11%
Net loans and advances to banks (3)	20.1	16.6	21%	21.8	(8%)
Reverse repos	100.8	103.8	(3%)	90.8	11%
Securities	90.7	92.4	(2%)	106.6	(15%)
Cash and eligible bills	24.3	30.2	(20%)	24.2	-
Other	20.2	11.8	71%	27.8	(27%)

Total third party assets (excluding derivatives mark-to-market)	287.9	284.4	1%	299.8	(4%)
Net derivative assets (after netting)	21.7	21.9	(1%)	29.3	(26%)
Provision coverage (4)	76%	77%	(100bp)	75%	100bp
Customer deposits (excluding repos)	25.7	26.3	(2%)	34.6	(26%)
Bank deposits (excluding repos)	43.7	45.4	(4%)	46.2	(5%)
Risk-weighted assets					
- Credit risk					
- non-counterparty	12.4	14.0	(11%)	15.0	(17%)