ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
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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 November 1, 2013

Commission File Number: 001-10306

The Royal Bank of Scotland Group plc

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(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):_________

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

Yes ___ No X

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

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

Interim Management Statement

Q3 2013

Contents

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', 'could', 'probability', 'risk', 'Value-at-Risk (VaR)', 'target', 'goal', 'objective', 'will', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on such expressions.

In particular, this document includes forward-looking statements relating, but not limited to: the Group's restructuring and new strategic plans, divestments, capitalisation, portfolios, net interest margin, capital ratios, liquidity, risk-weighted assets (RWAs), return on equity (ROE), profitability, cost:income ratios, leverage and loan:deposit ratios, funding and risk profile; discretionary coupon and dividend payments; certain ring-fencing proposals; sustainability targets; regulatory investigations; the Group's future financial performance; the level and extent of future impairments and write-downs, including sovereign debt impairments; and the Group's potential exposure to political risks and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices about key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could cause actual results to differ materially from those estimated by the forward-looking statements contained in this document include, but are not limited to: global economic and financial market conditions and other geopolitical risks, and their impact on the financial industry in general and on the Group in particular; the ability to implement strategic plans on a timely basis, or at all, including the disposal of assets to be included in the internal "bad bank" and the disposal of certain other assets and businesses as stated in the new strategic plan or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to capital adequacy or liquidity requirements; organisational restructuring in response to legislative and regulatory proposals in the United Kingdom (UK), European Union (EU) and United States (US); the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; litigation, government and regulatory investigations including investigations relating to the setting of LIBOR and other interest rates and foreign exchange trading activities; costs or exposures borne by the Group arising out of the origination or sale of mortgages or mortgage-backed securities in the US; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by the Group; unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices and basis, volatility and correlation risks; changes in the credit ratings of the Group; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; the ability of the Group to attract or retain senior management or other key employees; regulatory or legal changes (including those requiring any restructuring of the Group's operations) in the UK, the US and other countries in which the Group operates or a change in UK Government policy; changes to regulatory requirements relating to capital and liquidity; changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes, including changes in regulatory capital regulations and liquidity requirements; the implementation of recommendations made by the Independent Commission on Banking and their potential implications and equivalent EU legislation; impairments of goodwill; pension fund shortfalls; general operational risks; HM Treasury exercising influence over the operations of the Group; reputational risk; the ability to access the contingent capital arrangements with HM Treasury; the conversion of the B Shares in accordance with their terms; limitations on, or additional requirements imposed on, the Group's activities as a result of HM Treasury's investment in the Group; and the success of the Group in managing the risks involved in the foregoing.

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

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

Highlights

RBS announces actions to accelerate capital strengthening and enhance strategic focus

Full review of bank to improve customer service reporting February 2014

Q3 2013 pre-tax loss £634 million, after £496 million accounting charge for improved own credit

Core Tier 1 ratio up to 11.6%, or 9.1% on a fully loaded Basel III basis

Highlights

Restoring financial strength

RBS announces management actions to accelerate the building of its capital strength and to enhance its strategic focus on its core UK businesses and its international corporate capabilities.

The measures will include the creation of an internal "bad bank" to manage the run-down of high risk assets projected to be £38 billion by the end of 2013. The goal is to remove 55-70% of these assets over the next two years. While there is inevitable uncertainty associated with running down such assets, there is a clear aspiration to remove all these assets from the balance sheet in three years.

Faster run-down of high risk assets is expected to entail accelerated and increased impairments in Q4 2013 of £4.0 billion to £4.5 billion but the capital impact of this will be neutralised by a commensurate reduction in expected loss capital deductions. The net impact on the current Core Tier 1 ratio is expected to be a reduction of c.10 basis points. However, the new strategy will result in a strengthening of the Group's capital ratios in the medium term.

In light of a changing regulatory landscape and other capital headwinds RBS will target a Core Tier 1 ratio of c.11% on a fully loaded Basel III basis by the end of 2015, 200 basis points higher than the current position, rising to 12% or beyond by the end of 2016.

The Group will accelerate the divestment of Citizens, the Group's US banking subsidiary. A partial initial public offering is now planned for 2014 and the Group intends to fully divest the business by the end of 2016.

RBS's capital strength improved in Q3 2013 as the Group delivered a Core Tier 1 ratio of 11.6%. On a fully loaded Basel III basis Core Tier 1 ratio was 9.1%, up from 8.7% at 30 June 2013.

Sharpening our customer focus

To capture the full potential of its customer businesses RBS is undertaking a comprehensive business review of its:

- Customer-facing businesses
- IT and operations
- Organisational and decision-making structures

The review will aim to improve the bank's performance and effectiveness in serving its customers, shareholders and wider stakeholders. The results of the review will be announced in February 2014 alongside the 2013 annual results. This will include detailed plans to realign the Group's cost base, with a cost:income percentage target in the mid 50s, down from 65% currently.

Highlights

Q3 2013 operating results

Q3 2013 Core operating profit of £1,283 million was 6% higher than the prior quarter, driven by continuing reductions in impairment losses in Retail & Commercial and an improvement in Markets operating profits. Core operating profit was down 14% from Q3 2012, driven by ongoing strategic contraction of the Markets business, with income down 9% and costs down 4%. Core return on equity was 7.7%.

Non-Core operating losses of £845 million compared with losses of £281 million in the prior quarter and £586 million in Q3 2012, reflecting exit and restructuring costs as the division saw accelerated disposals and asset run-off, and higher impairment losses.

Group operating profit(1) was £438 million in Q3 2013, compared with £931 million in Q2 2013 and £909 million in Q3 2012. After one-off items totalling £576 million, including £99 million of regulatory provisions and an additional charge of £250 million for Payment Protection Insurance redress, a pre-tax loss of £138 million was recorded, excluding own credit adjustments.

Own credit adjustments represented a charge of £496 million, reflecting the strengthening of Group's credit profile during the quarter. After these and a tax charge of £81 million (including a £197 million charge relating to the UK corporation tax change) and preference and other dividends of £102 million, the Group reported a loss attributable to ordinary and B shareholders of £828 million.

Tangible net asset value at 30 September 2013 was 431 pence per share, with foreign exchange movements accounting for 12 pence of the 14 pence fall since 30 June 2013.

RBS maintained its strong track record of running off legacy assets, with Non-Core's funded balance sheet down £8 billion to £37 billion, hitting its year-end target three months ahead of schedule. The reshaping of the Markets business also made strong progress, with funded assets down £20 billion to £248 billion and RWAs down £14 billion to £73 billion.

Serving our customers

UK Retail made good progress in the UK mortgage market, with applications up 14% in Q3 2013 from the prior quarter to £6.4 billion and net new lending of £607 million representing the strongest quarterly performance since 2010. Mortgage balances remained strong at £99 billion.

- RBS and NatWest were first to make mortgages available to customers with smaller deposits under the second phase of the UK Government's Help To Buy mortgage guarantee scheme, with strong demand evident in the early days of the scheme's operation.

- During Q3 2013 UK Retail has simplified pricing on its savings accounts and launched Cashback Plus, which rewards current account holders for using their debit cards in selected retailers.

· The detailed recommendations of Sir Andrew Large's independent review of RBS's lending to SMEs will be addressed in the Group's comprehensive business review, due in February 2014.

· UK Business & Commercial has received a positive response to 10,000 letters sent to advise customers of its appetite to lend to them if they should wish to increase their borrowing or take out new credit. Over £3.8 billion of funding had been offered through these statements of appetite by the end of Q3 2013.

· In Q3 2013 RBS offered more than £15.0 billion of loans and facilities to UK businesses, of which £7.7 billion was to SMEs. In addition, the Group renewed £7.3 billion of UK business overdrafts, including £1.5 billion to SMEs.

· There have been continuing signs of improving credit demand, with Q3 2013 SME loan and overdraft applications up 6% from Q2 2013.

Highlights

Serving our customers (continued)

· RBS continues to support the Bank of England's Funding for Lending Scheme (FLS). Net lending within the scope of the extended FLS was £273 million in Q3 2013, despite £1,240 million of run-off in Non-Core and commercial real estate portfolios. This compares with a reduction in net lending of £2,793 million in Q2 2013.

· In Q3 2013 Markets helped UK corporates raise £2.4 billion, by acting as bookrunner for debt capital market issues, including £1.0 billion sterling bonds, meeting UK customers' needs in both domestic and international markets.

Outlook

We see signs that the UK economic recovery is gaining traction and have observed higher levels of activity and confidence among our customers. Nevertheless, we expect a continued muted performance from our core businesses in the short term, due primarily to the continued effects of low interest rates, excess liquidity, a smaller balance sheet, and lower securities gains from our liquidity portfolio. We expect Markets performance in Q4 2013 to reflect normal seasonal trends. Our strategic review will start to drive cost reductions and improve efficiencies from our core businesses during 2014 but will take two to three years to embed.

We expect margins to be stable or slightly up, our underlying cost base to be at c.£13 billion for 2013 (excluding penalties and fines). Non-Core is forecast to be below £35 billion of funded assets, well ahead of our recent guidance. Whilst timings are uncertain, conduct and litigation charges are expected to continue as we work through the remaining outstanding issues.

In light of the new strategy to deal with our high risk assets we expect a significant increase in impairments in Q4 2013 which is likely to result in the Group reporting a substantial loss for the full year. The effect on the Group's Core Tier 1 ratio is however anticipated to be minimal.

Note:

(1) Operating profit before tax, own credit adjustments, Payment Protection Insurance costs, regulatory and legal actions, integration and restructuring costs, gain on redemption of own debt, amortisation of purchased intangible assets, strategic disposals and RFS Holdings minority interest ('operating profit'). Statutory operating loss before tax was £634 million for the quarter ended 30 September 2013.

Chief Executive's message

This is my first message to you as Chief Executive. I took on the job because I believe we can make this a great bank for our customers. That's also the best way to make RBS an attractive investment and a good place to work for all our employees. As I write today, we still have a long way to travel to achieve all of these goals.

We are a bank with a significant international reach but the UK is our home. It accounts for the majority of our income and it's where our reputation for customer service, community support and corporate governance will be won or lost. It is also the place where we have the most opportunity to build long-term shareholder value. We have unique responsibilities to the UK and meeting them will have financial rewards for our business.

Our purpose is to serve our customers and to meet more of their financial needs. And we need to find a way to serve them from a more efficient, effective and agile business platform than the one we have today. I will provide full details in February 2014 on how we intend to do this. Today, I want to set out my assessment of our current performance and the management actions we must take on capital and risk to ensure nothing distracts us from the task of making this a great customer bank again.

Recent performance

Our third quarter results show the areas where the bank is making progress and those where we still have more to do. I joined RBS just over a year ago because I respect Stephen Hester and admired the work he and his team had done to bring this bank back from the brink. I have seen at first hand both the scale of the challenge they took on and the success they had in what will go down as a remarkable corporate rescue. This has been a major achievement.

I know, however, that a balance sheet clean-up does not make a great bank on its own. We have posted our seventh consecutive quarterly operating profit today. But for the most part our improved profitability is driven by a fall in impairments rather than an increase in income. Revenue growth in our main business franchise - UK Retail and Commercial - is not what we would like it to be at this point in our recovery. I'm encouraged that costs are down 8% on last year, but they are still unsustainably high. Our Core Return on Equity was 7.7% in Q3 2013 - down from 8.9% and 9.3% for the full year 2012 and 2011 respectively. We must do better and we can do better.

RBS is a very complex business that is difficult for our employees and the outside world to navigate. But the heart of our performance problem is quite easy to understand: we make it too hard for customers to do business with us and too hard for our people to serve those customers well.

Our personal customers do only part of their everyday banking with us and there is no reason why we can't do more to support more of our customers' needs. We still receive far too many complaints, often on issues that would never arise if our systems and processes were more effective. We are the biggest backer of small businesses in the UK. Every year we speak to thousands of potential new small business customers but at the moment we don't convert enough of those conversations into actual new loans. And we haven't made the most of the opportunities in our international network by connecting the different parts of our corporate franchise to the needs of our customers. There is a big opportunity here and we are already beginning to seize it. The restructuring of our investment bank to lower its risk profile is in full swing and it is encouraging to see some signs of delivery from the business focus on our corporate and institutional customers.

No-one is more frustrated by this gap between our potential and our performance than our own people. I will make turning this situation around the top priority of everyone at RBS. We must become a company that knows what it means to obsess about our customers. This is a fundamental challenge that will involve the whole organisation.

Chief Executive's message

Improving our customer performance - February 2014

So realising the full potential of our customer businesses is now our major challenge and opportunity. I am confident that we can do it. The potential I saw in the Retail Bank exists across the other businesses - strong market positions, stable businesses and good staff who are eager to serve the customer better. I have launched a full review of our ongoing businesses that places the needs of our customers at its centre. It will consider three broad areas:

1) What can we do to meet more of our customers' needs and make ourselves simple and easy to do business with?
2) How do our operations and IT systems function for the benefit of customers? How do our core systems help or impede our employees in their work for customers?
3) How well does RBS work together as an organisation built to serve our customers? What can we do to make life simpler for employees and how can we simplify things so the whole of RBS can be greater than the sum of its parts?

The business review will also capture the tough calls on costs where they are needed to improve the performance and effectiveness of the bank. We currently have a cost:income ratio of 65%. That means we only have 35p left from every £1 we earn to invest in making our business better for customers and improving returns for shareholders. Our cost:income percentage needs to be down in the mid 50s. I will announce a new plan for the way the bank serves its customers around the time of our full year results in February 2014. That plan will require full focus from all our people.

Good Bank/Bad Bank Review

While everyone at RBS has been working hard for the last five years and the vast bulk of our balance sheet restructuring is now complete, we still have some hard work ahead of us. An important early challenge for me is to resolve the remaining legacy issues that have taken up a lot of the top management's time for the last few years. Without doing so we will not make the most of the plan I will set out in February.

Five years ago, our Non-Core assets totalled £258 billion. Through the good bank/bad bank review we have, over the last few months, been working with our major shareholder, the UK Government and their advisers to assess how far we've come in tackling the assets that continue to be a drag on our performance. We have a richer shared understanding of where we are today than we would have if we had not applied the rigour of this process. It is important for investors, regulators, and the management of the company that we have an agreed, robust assessment of our problematic assets.

We worked closely with HM Treasury and their advisers and identified a pool of £38 billion that we agreed would be a drag on our performance. These assets consume 20% of our capital and are made up predominantly of the most high risk assets we have in RBS.

Chief Executive's message

Good Bank/Bad Bank Review (continued)

Through this review it has become clear that the effort, risk and expense involved in the creation of an external bad bank is not justified. The good bank/bad bank review has from the start been carried out in conjunction with the Prudential Regulation Authority (PRA). This has allowed us to address our shared objective of identifying ways in which to strengthen the capital position of the bank, speed up the recovery in our core UK businesses and accelerate the path to privatisation. The options open to the Group have been debated extensively by the Board and the Board has decided that RBS should take the actions we are announcing today.

One of the first steps we are taking is to create an internal "bad bank" to manage these assets down so as to release capital. Our goal is to remove between 55% and 70% of these assets over the next two years. While there is inevitable uncertainty associated with running down such assets, we have a clear aspiration to remove all these assets from the balance sheet in three years. Our track record in delivering the Non-Core run-down to date should give everyone confidence that we can deliver on this plan. It will be called RBS Capital Resolution Group and will have strong and transparent governance and disclosure via an oversight committee which reports regularly to the main Board.

Disposing of these assets over a shorter timeframe will reduce the value we can expect to recover, and will lead to accelerated and increased impairments. This will result in an immediate reduction in our expected loss capital deduction. The net impact of this on our CT1 capital ratio today is a reduction of c.10 basis points. However, by the end of 2016 we anticipate an incremental £35 billion reduction in RWAs; and a net incremental improvement in our CT1 ratio and a strong improvement in our stressed capital ratio. This is the right thing to do as we sharpen our focus on our customer businesses, which account for over 90% of our assets.

Actions to improve our capital

Great banks have strong liquidity and capital positions. Our liquidity position is already strong without question. I also want to dispel any impression that RBS is travelling light on capital.

The Board has decided to lift our capital targets and take new actions in order to meet them. There are three drivers of our decisions:

1. You only have to pick up the newspaper every day to know that the sector faces capital risks from the continued cost of litigation and charges for bad conduct with our customers. As we have been disclosing for some time, we are squarely in the mix on some of the issues that have proved expensive elsewhere. The only option is to plan to carry more capital so we can absorb these costs as we work to put things right for customers.
2. The PRA has established a capital regime which gives it sufficient scope to vary capital requirements based on its assessment of the risk an individual bank poses to the UK financial system. Having completed a consultation period with relevant institutions, the PRA is expected to publish finalised rules for the new capital regime in December 2013. We expect that the PRA will require banks to hold a higher quality of capital in greater amounts and it is therefore prudent that RBS respond in a pro-active manner.
3. The current pace of momentum in our core businesses means we are not rebuilding capital as quickly as we planned.

Chief Executive's message

Actions to improve our capital (continued)
There is a range of possible outcomes on the actual capital position at different points in time. It is our prudent judgment that RBS should now be targeting a fully loaded Basel III Core Tier 1 ratio of c.11% by the end of 2015, rising to 12% or beyond by the end of 2016 - an increase of 300 basis points from our current position.

In order to meet our new capital targets we are announcing several new actions today:

- We will accelerate our divestment of Citizens with a partial IPO now planned for next year. We plan to fully divest the business by the end of 2016. It is a good business, with the potential to build profitability and its own shareholder base, but it's not one that is an essential element of our strategy. The rationale for the original IPO holds and we envisage secondary sell-downs to complete the process, as we have done successfully with Direct Line Group.
- Across the business we are intensifying management action to reduce risk-weighted-assets. The creation of our internal bad bank will on its own have a significant positive impact on our capital in the latter period of its rundown. The reduction of risk-weighted assets should position us safely above regulatory requirements and alongside the world's strongest financial institutions.

Ulster Bank
Like all of our businesses, Ulster Bank will form part of our February 2014 review. Subject to regulatory approval, a number of Ulster Bank assets (approximately £9 billion) will be managed by the "bad bank" and run down. But we also need to have full confidence that the rest of the Ulster Bank business is doing all it can for its customers and is playing its part within the wider company. We need to ensure that we have a viable and sustainable business model for Ulster Bank as part of this review. It's an important business for the whole island of Ireland and we understand the need to get this right.

Dividend Access Share
We are in advanced discussions with the UK Government about the removal of the Dividend Access Share. We are making very good progress in dealing with this issue which I know is important to many current and prospective investors in the company.

Lending
Today Sir Andrew Large will publish the summary of his review into lending to small and medium-sized businesses, which we commissioned earlier this year. The picture he will paint will not be an entirely comfortable one, but it's one we have to confront. I know that a successful, vibrant, and well-regarded SME bank is central to the overall value and reputation of this company. We must ensure our policies, processes and systems help our people to do the best job they can for customers and shareholders in this area. Our aim is to become the number one bank for SME customer service in the UK - including as measured in a new survey of SMEs by the Federation of Small Businesses and the British Chambers of Commerce - and to grow our lending along the way.

We have taken a number of steps to change and improve the way we do business but the Large review will show that there is significantly more we can do to expand our lending to small and medium-sized businesses. More recently, some of our competitors have managed to increase their lending in this area while we continue to contract. The detailed report will be published in one month's time. Its thematic findings are difficult to argue with and we will address all of the detailed issues it raises in the comprehensive business review I mentioned earlier in this letter.

Chief Executive's message

Conclusion

We now have a shared vision for the bank that includes the Board, our principal prudential regulator and the UK Government. I believe this is beneficial for all of our shareholders. The actions we are announcing today, when complete, will create a less complex, more effective customer business capable of delivering returns that will be attractive to prospective shareholders. They will create a bank that can reward the faith of UK taxpayers and all our investors.

RBS has made a lot of progress since 2009. As ever with any long and difficult job, a degree of weariness and even defensiveness has crept in. We have got to move on as a company. The bar has been set at a higher level for RBS than for other UK banks because we were rescued at the public's expense. I have asked all our people to embrace the higher expectations that people have placed on our bank. That's the only way we will build a really great business for our customers, our people and our shareholders. That's my aim.

Ross McEwan

Relationship with HM Treasury

Following the Report from the UK Parliamentary Commission on Banking Standards in June 2013, HMT announced its intention to conduct a "good bank"/"bad bank" review in relation to RBS. Throughout this review, the Group worked closely with HMT and its advisors to consider whether the separation and transfer of a pool of the Group's assets into an external "bad bank" was in the interests of the Group, HMT and the Group's other shareholders. As the review progressed, it became clear that the benefit of removing those assets from the Group to an external bad bank would not justify the effort, risk and expense which such separation would entail.

During this process, HMT and the PRA proposed certain actions for consideration by the Board. Key elements of these proposals were already being contemplated by the Board. In conjunction the Group has also been having discussions, initiated by the PRA, in relation to its capital planning and actions which the Group might take to enhance its capital position.

Separately, the Group's new executive management team has been reviewing with the Board, and continues to review, the Group's strategy including its business mix, operating structure and cost base. This has included a review of the Group's current capital plan and market guidance with a view to improving the Group's capital strength in the light of potential regulatory changes, conduct and litigation headwinds and other developments which may impact the Group's future capital position.

Throughout this period, the Board has met several times to discuss these issues, determine how best to approach them and ultimately to take decisions in the interests of all of the Group's shareholders and other stakeholders in accordance with its statutory duties. Today's announcements relating to the Group's strategy as well as revised guidance on the Group's capital targets reflect the Board's decisions.

Internal Bad Bank

Background

In June 2013, in response to a recommendation by the Parliamentary Commission on Banking Standards, the UK Government announced that it would review the case for an external "bad bank" to deal with RBS's legacy and poorly-performing assets, based on three objectives:

- accelerating the return of RBS to the private sector;
- supporting the British economy; and
- getting best value for the taxpayer.

Following this announcement, RBS worked closely with HMT and its advisers and identified a pool of c.£38 billion of assets with particularly high long-term capital intensity and/or potentially volatile outcomes in stressed environments.

HMT is publishing the results of its own review separately. The review concluded that the effort, risk and expense involved in the creation of an external bad bank could not be justified.

The options open to the Group for addressing its highest risk assets were reviewed and debated extensively by the Board, which decided to create an internal "bad bank" ('IBB') to manage these assets down so as to release capital. The IBB will bring assets under common management and increase focus on the run down (much as Non-Core does now).

Based on the July 2013 forecast of the 31 December 2013 balance sheet, c.£38 billion of funded assets were identified (see page 12), which together with associated derivatives, attract c.£116 billion of RWA equivalent.

While the IBB is of a similar size to the current Non-Core division, the assets have been selected on a different basis and no direct comparisons can be drawn:

- Non-Core assets were selected in 2009 on the basis of five strategic tests and comprised non-strategic businesses and countries; the lift and drop of entire activities; creditworthy assets and activities with low returns or low growth potential; high or volatile wholesale funding requirements; and assets with credit losses or capital intensity; whereas
- The IBB will comprise assets with potentially volatile outcomes in stressed environments or with long-term capital intensity.

The IBB being established to manage these assets will be fully operational on 1 January 2014. It will be separately managed, but within the existing legal and governance structures of the Group including the creation of an IBB oversight board.

As part of its external reporting, the Group will provide comprehensive and transparent disclosures on the progress of the IBB, including funding and capital employed and released.

At 31 December 2013, approximately 50% of the portfolio's funded assets are from Non-Core (excluding Ulster Bank), 20% from Ulster Bank (Core and Non-Core) and the remainder are from UK Corporate, International Banking and Markets, most of which are managed by the Global Restructuring Group (GRG). Additional details are set out on page 12.

Approximately £10 billion to £12 billion of assets currently managed in Non-Core will be returned to relevant Core divisions.

Impact of the revised strategy

The IBB will target a reduction of between 55% and 70% of assets by the end of 2015. While there is inevitable uncertainty associated with running down such assets, it is the Group's aspiration to remove most of these assets from the balance sheet in three years. RBS believes that under many of the possible outcomes, and assuming favourable market conditions, no more than 15% of the IBB assets should be left on the RBS balance sheet after 3 years. The IBB is expected to be capital accretive and neutral for shareholder value, taking account of the benefits of a material reduction in the credit risk profile of the Group.

The new strategy to exit these assets over a shorter timeframe than envisaged in current plans will lead to accelerated and increased impairment losses on the non-performing assets. An estimated £4.0 billion to £4.5 billion is expected to be recognised in Q4 2013.

At the same time, there will be an immediate reduction in the Group's expected loss capital deduction and a net capital benefit of c.£2 billion to the Group's fully loaded Basel III Common Equity Tier 1 (CET1) capital is expected by the end of 2016.

The Group's regulatory stress capital requirements and Pillar 2B stressed loss capital buffer are also expected to be reduced over time.

The new strategy will also normalise credit metrics, particularly REIL, contributing approximately 50% of the planned reductions in the Group NPL ratio from c.9% to c.3% (the original plan had a reduction to 6% by the end of 2016).

An additional c.£1 billion of impairments is expected to be incurred during the period 2014 to 2016 on assets which are currently performing.

Of the total c.£5.0 billion to £5.5 billion of IBB accelerated and increased impairment losses noted above, approximately 50% to 60% were expected in the original plan to be incurred in 2017 or later.

The cost of disposal of the IBB assets is expected to be in the range of c.£1.5 billion to £2.0 billion over 2014 to 2016.

As many of the IBB assets are in Ireland, the tax relief on the losses is expected to be relatively limited.

Operating and funding costs of the IBB in 2014 to 2016 of c.£1.5 billion are already included in previous Group forecasts.

Other aspects

All numbers are indicative only at this stage.

The new IBB will formally commence on 1 January 2014 and will be called RBS Capital Resolution Group. For the fourth quarter of 2013 and 2013 as a whole, the Group's results will continue to be reported on the existing basis.

Internal Bad Bank

Estimated funded assets and RWAe of the IBB

Analysis of the estimated funded assets and RWAe of the IBB at 31 December 2013 and the related position at 30 June 2013 (the starting point for the identification of the portfolios of the IBB) are set out below.

	31 December 2013			30 June 2013								
	Forecast total			Non-performing			Performing			Total		
	Gross TPA £bn	Net TPA £bn	RWAe £bn	Gross TPA £bn	Net TPA £bn	RWAe £bn	Gross TPA £bn	Net TPA £bn	RWAe £bn	Gross TPA £bn	Net TPA £bn	RWAe £bn
Non-Core												
- CRE	10.4	8.4	17.5	7.2	4.8	14.2	6.1	6.1	13.2	13.3	10.9	27.4
- Ulster Bank	10.9	4.6	15.6	12.5	5.3	20.8	-	-	-	12.5	5.3	20.8
- Corporate	4.6	3.7	17.1	1.6	1.0	3.0	4.8	4.7	7.6	6.4	5.7	10.6
- Asset Finance	2.9	2.7	4.8	0.6	0.4	1.2	2.4	2.5	4.2	3.0	2.9	5.4
- Markets	4.1	4.1	5.8	0.4	0.3	0.2	4.6	4.6	6.6	5.0	4.9	6.8
Total Non-Core	32.9	23.5	60.8	22.3	11.8	39.4	17.9	17.9	31.6	40.2	29.7	71.0
Core												
Ulster Bank	6.2	4.1	17.4	5.1	2.8	12.9	1.4	1.4	5.2	6.5	4.2	18.1
UK Corporate												
- CRE	2.1	1.8	5.5	1.5	1.2	3.6	1.8	1.8	5.7	3.3	3.0	9.3
- Asset Finance	2.2	2.2	5.0	1.0	1.0	3.5	1.4	1.4	2.5	2.4	2.4	6.0
- Corporate	1.6	1.5	4.1	0.4	0.3	0.5	1.4	1.4	4.1	1.8	1.7	4.6
Total UK Corporate	5.9	5.5	14.6	2.9	2.5	7.6	4.6	4.6	12.3	7.5	7.1	19.9
International Banking	2.9	2.6	7.3	0.9	0.6	3.2	2.4	2.4	4.8	3.3	3.0	8.0
Markets	2.7	2.6	15.5	-	-	-	2.8	2.8	19.8	2.8	2.8	19.8
Total Core	17.7	14.8	54.8	8.9	5.9	23.7	11.2	11.2	42.1	20.1	17.1	65.8
Total IBB	50.6	38.3	115.6	31.2	17.7	63.1	29.1	29.1	73.7	60.3	46.8	136.8

Notes:

(1) The amounts at 31 December 2013 are based on the July 2013 forecast of the 31 December 2013 balance sheet.

(2) Funded assets or third party assets excluding derivatives (TPA) are shown gross and net of impairment provisions.

(3) Performing assets are shown gross and net of latent provisions and valuation adjustments.
(4) RWAs and RWA equivalent (RWAe) are on a fully loaded Basel III basis. RWAe include RWA equivalent of capital deductions.
(5) Non-Core Ulster Bank predominantly comprises commercial real estate lending (CRE).
(6) Core Ulster Bank comprises corporate and CRE lending.

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Analysts' and Investor Presentation
The Royal Bank of Scotland Group will be hosting a presentation for analysts and investors following the release of the results for the quarter ended 30 September 2013. This will also be available via a live webcast and audio call. The details are as follows:

Date:	Friday 1 November 2013
Time:	9.00 am UK time
Webcast:	www.rbs.com/results
Dial in details:	International - +44 (0) 1452 568 172
	UK Free Call - 0800 694 8082
	US Toll Free - 1 866 966 8024

* Note: We will take questions from the phone lines and the webcast.

Slides
Slides accompanying this presentation will be available on www.rbs.com/results

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

Presentation of information

The financial information on pages 16 to 65 prepared using the Group's accounting policies, shows the underlying performance of the Group on a managed basis which excludes certain one-off and other items. Information is provided in this form to give a better understanding of the results of the Group's operations. Group operating profit/(loss) on this basis excludes:

· own credit adjustments;

· Payment Protection Insurance (PPI) costs;

· Interest Rate Hedging Products (IRHP) redress and related costs;

· regulatory and legal actions;

· integration and restructuring costs;

· gain/(loss) on redemption of own debt;

· Asset Protection Scheme (APS);

· amortisation of purchased intangible assets;

· strategic disposals; and

· RFS Holdings minority interest (RFS MI).

The ceding of control following the partial disposal of the Group's shareholding in Direct Line Group (DLG) resulted in the Group no longer treating DLG as an operating segment. Consequently, prior period data for 2012 on a managed basis (including disclosures relating to our Core business and segmental analysis) have been restated to exclude DLG. These restatements resulted in a decrease in Group operating profit of £110 million for the quarter ended 30 September 2012 and £285 million for the nine months ended 30 September 2012. They have no impact on the Group's statutory results. For further information on the restatements refer to the announcement dated 24 July 2013, available on www.rbs.com/ir

Statutory results
The condensed consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity and related notes presented on pages 66 to 88 inclusive are on a statutory basis. Reconciliations between the managed basis and statutory basis are included in Appendix 2.

Presentation of information

Revisions

Direct Line Group
The Group sold the first tranche of ordinary shares representing 34.7% of the share capital of DLG in October 2012 via an Initial Public Offering. On 13 March 2013, the Group sold a further 16.8% of ordinary shares in DLG and ceded control. This fulfilled the Group's plan to cede control of DLG by the end of 2013. On 20 September 2013, the Group sold a further 20% of the ordinary shares in DLG which is a further step towards complete disposal by the end of 2014, as required by the European Commission.

The Group now holds 28.5% of the issued ordinary share capital of DLG. Consequently, in the Group results DLG is treated as a discontinued operation until 12 March 2013 and as an associated undertaking thereafter, with associate income reported in Group Centre from 13 March 2013.

Revised allocation of Business Services costs

In the first quarter of 2013, the Group reclassified certain costs between direct and indirect expenses for all divisions. Comparatives have been restated accordingly; the revision did not affect total expenses or operating profit.

Implementation of IAS 19 'Employee Benefits' (revised)

The Group implemented IAS 19 with effect from 1 January 2013. IAS 19 requires: the immediate recognition of all actuarial gains and losses; interest cost to be calculated on the net pension liability or asset at the long-term bond rate, such that an expected rate of return will no longer be applied to assets; and all past service costs to be recognised immediately when a scheme is curtailed or amended. Implementation of IAS 19 resulted in an increase in the loss after tax of £21 million for the quarter ended 30 September 2012 and £63 million for the nine months ended 30 September 2012. Prior periods have been restated accordingly.

Implementation of IFRS 10 'Consolidated Financial Statements'

The Group implemented IFRS 10 with effect from 1 January 2013. IFRS 10 adopts a single definition of control: a reporting entity controls another entity when the reporting entity has the power to direct the activities of that other entity so as to vary returns for the reporting entity. IFRS 10 requires retrospective application. Following implementation of IFRS 10, certain entities that have trust preferred securities in issue are no longer consolidated by the Group. As a result there has been a reduction in non-controlling interests of £0.5 billion with a corresponding increase in Owners' equity (Paid-in equity); prior periods have been restated accordingly.

Summary consolidated income statement
for the period ended 30 September 2013

	Quarter ended			Nine months ended	
	30 September 2013 £m	30 June 2013 £m	30 September 2012 £m	30 September 2013 £m	30 September 2012 £m
Net interest income	2,783	2,770	2,811	8,225	8,641
Non-interest income	2,111	2,677	2,747	7,277	8,602
Total income (1)	4,894	5,447	5,558	15,502	17,243
Operating expenses (2)	(3,286)	(3,399)	(3,473)	(10,066)	(10,906)
Operating profit before impairment losses (3)	1,608	2,048	2,085	5,436	6,337
Impairment losses	(1,170)	(1,117)	(1,176)	(3,320)	(3,825)
Operating profit (3)	438	931	909	2,116	2,512
Own credit adjustments	(496)	127	(1,455)	(120)	(4,429)
Payment Protection Insurance costs	(250)	(185)	(400)	(435)	(660)
Interest Rate Hedging Products redress and related costs	-	-	-	(50)	-

Regulatory and legal actions	(99)	(385)	-	(484)	-
Integration and restructuring costs	(205)	(149)	(229)	(476)	(848)
Gain/(loss) on redemption of own debt	13	242	(123)	204	454
Other items	(35)	(33)	(70)	(15)	(79)
Operating (loss)/profit before tax	(634)	548	(1,368)	740	(3,050)
Tax charge	(81)	(328)	(3)	(759)	(402)
(Loss)/profit from continuing operations	(715)	220	(1,371)	(19)	(3,452)
(Loss)/profit from discontinued operations, net of tax					
- Direct Line Group	-	-	62	127	167
- Other	(5)	9	5	6	6
(Loss)/profit from discontinued operations, net of tax	(5)	9	67	133	173
(Loss)/profit for the period	(720)	229	(1,304)	114	(3,279)
Non-controlling interests	(6)	14	3	(123)	28
Other owners' dividends	(102)	(101)	(104)	(284)	(186)
(Loss)/profit attributable to ordinary and B shareholders	(828)	142	(1,405)	(293)	(3,437)

For the notes to this table refer to the following page.

Core summary consolidated income statement
for the quarter ended 30 September 2013

	Quarter ended			Nine months ended	
	30 September 2013 £m	30 June 2013 £m	30 September 2012 £m	30 September 2013 £m	30 September 2012 £m
Net interest income	2,826	2,751	2,732	8,286	8,450
Non-interest income	2,187	2,423	2,776	6,969	8,473
Total income (1)	5,013	5,174	5,508	15,255	16,923
Operating expenses (2)	(3,141)	(3,243)	(3,261)	(9,600)	(10,169)
Operating profit before impairment losses (3)	1,872	1,931	2,247	5,655	6,754
Impairment losses	(589)	(719)	(752)	(1,908)	(2,305)
Operating profit (3)	1,283	1,212	1,495	3,747	4,449

Key metrics

Core performance ratios					
- Net interest margin	2.24%	2.21%	2.15%	2.21%	2.15%
- Cost:income ratio	63%	63%	59%	63%	60%
- Return on equity	7.7%	7.2%	8.8%	7.5%	9.2%
- Adjusted earnings per ordinary and B share	4.0p	5.6p	5.1p	14.9p	13.7p
- Adjusted earnings per ordinary and B share assuming a normalised tax rate of 23.25% (2012 - 24.5%)	7.9p	7.4p	9.3p	23.2p	29.0p

Notes:

(1) Excluding own credit adjustments, gain/(loss) on redemption of own debt, Asset Protection Scheme, strategic disposals and RFS Holdings minority interest.

(2) Excluding PPI costs, IRHP redress and related costs, regulatory and legal actions, integration and restructuring costs, amortisation of purchased intangible assets and RFS Holdings minority interest.

(3) Operating profit before tax, own credit adjustments, PPI costs, IRHP redress and related costs, regulatory and legal actions, integration and restructuring costs, gain/(loss) on redemption of own debt, Asset Protection Scheme, amortisation of purchased intangible assets, strategic disposals and RFS Holdings minority interest.

Analysis of results is set out on pages 19 to 26.

Summary consolidated balance sheet
at 30 September 2013

	30 September 2013 £m	30 June 2013 £m	31 December 2012 £m
Cash and balances at central banks	87,066	89,613	79,290
Net loans and advances to banks (1,2)	28,206	30,241	29,168
Net loans and advances to customers (1,2)	406,927	418,792	430,088
Reverse repurchase agreements and stock borrowing	95,971	99,283	104,830
Debt securities and equity shares	133,249	149,625	172,670
Settlement balances	18,099	17,966	5,741
Intangible assets	13,742	13,997	13,545
Other assets (3)	22,519	23,020	35,060
Funded assets	805,779	842,537	870,392
Derivatives	323,657	373,692	441,903
Total assets	1,129,436	1,216,229	1,312,295

Bank deposits (2,4)	38,601	45,287	57,073
Customer deposits (2,4)	434,305	437,097	433,239
Repurchase agreements and stock lending	105,384	123,740	132,372
Debt securities in issue	71,781	79,721	94,592
Settlement balances	18,514	17,207	5,878
Short positions	31,020	27,979	27,591
Subordinated liabilities	23,720	26,538	26,773
Other liabilities (3)	18,517	18,955	29,996
Liabilities excluding derivatives	741,842	776,524	807,514
Derivatives	319,464	370,047	434,333
Total liabilities	1,061,306	1,146,571	1,241,847
Non-controlling interests	462	475	1,770
Owners' equity	67,668	69,183	68,678
Total liabilities and equity	1,129,436	1,216,229	1,312,295
Memo: Tangible equity (5)	48,634	49,894	49,841

Notes:

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

Key points

· The ongoing reduction in Non-Core assets and strategic reshaping of the Markets balance sheet significantly reduced the Group's funded assets, down by £64.6 billion compared with 31 December 2012.
· Loans and advances to customers decreased by £23.2 billion, primarily led by the Non-Core and Markets reductions.
· Debt securities and equity shares were down £39.4 billion, mainly due to the sale of available-for-sale securities as part of the Group's on-going liquidity management, and the focus on balance sheet reduction and capital management in Markets.
· Bank deposits decreased by £18.5 billion and debt securities in issue decreased by £22.8 billion in line with the overall reduction in the size of the Group's balance sheet and the planned reduction in wholesale funding.
· Derivative assets and liabilities decreased by £118.2 billion and £114.9 billion respectively, primarily due to decreases in fair values of interest rate contracts driven by upward shifts in interest rate yield curves.

Analysis of results

	Quarter ended	Nine months ended

Net interest income	30 September 2013 £m	30 June 2013 £m	30 September 2012 £m	30 September 2013 £m	30 September 2012 £m
Net interest income (1)	2,726	2,748	2,804	8,161	8,641
Average interest-earning assets (1)	539,396	552,072	576,833	550,599	603,240
Net interest margin					
- Group	2.01%	2.00%	1.93%	1.98%	1.91%
- Retail & Commercial (2)	2.95%	2.92%	2.91%	2.92%	2.92%
- Non-Core	(0.35%)	0.15%	0.41%	(0.15%)	0.32%

Notes:

(1) For further analysis and details refer to pages 69 to 71.
(2) Retail & Commercial (R&C) comprises the UK Retail, UK Corporate, Wealth, International Banking, Ulster Bank and US R&C divisions.

Key points

Q3 2013 compared with Q2 2013

· Retail & Commercial net interest income increased by £52 million, 2%. Net interest margin rose by 3 basis points as deposit repricing took effect, with asset spreads broadly stable in most R&C businesses.

· Non-Core net interest income decreased by £63 million compared with Q2 2013, which included a one-off interest in suspense recovery of £54 million.

· Group net interest margin (NIM) increased by 1 basis point in Q3 2013. Reduced funding costs in Markets and the margin improvement in R&C were partially offset by the non-repeat of the Non-Core recovery in Q2 2013.

Q3 2013 compared with Q3 2012

· Group net interest income decreased by £78 million, 3%, largely due to a decline in interest earning assets, down 6%, partially offset by deposit repricing.

· Group NIM increased by 8 basis points to 2.01%, driven by deposit repricing partially offset by a reduction in higher yielding securities.

· The reduction in rates on rolling current account hedges continued to have a negative impact, though the drag on net interest income has started to diminish.

Analysis of results

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
Non-interest income	£m	£m	£m	£m	£m
Net fees and commissions	1,144	1,142	1,191	3,392	3,746
Income from trading activities	599	874	769	2,489	2,962
Other operating income	368	661	787	1,396	1,894
Total non-interest income	2,111	2,677	2,747	7,277	8,602

Key points

Q3 2013 compared with Q2 2013

- Income from trading activities was £275 million lower. While Markets income remained steady, with improved results from flow rates trading, Non-Core was a loss of £109 million in Q3 2013 compared with a £134 million gain in Q2 2013 reflecting the exit and restructuring costs on a number of transactions.

- Disposal gains on available-for-sale securities, primarily in Group Treasury, were £251 million lower at £168 million.

Q3 2013 compared with Q3 2012

- Lower non-interest income primarily reflects the targeted reduction in Markets balance sheet and risk-weighted assets.

- The decrease in other operating income reflects lower disposal gains on available-for-sale securities as noted above and lower operating lease income, together with higher Non-Core disposal losses in Q3 2013.

Analysis of results

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
Operating expenses	£m	£m	£m	£m	£m
Staff expenses	1,758	1,764	1,882	5,343	5,998
Premises and equipment	540	526	510	1,619	1,572
Other	683	801	716	2,162	2,214
Administrative expenses	2,981	3,091	3,108	9,124	9,784
Depreciation and amortisation	305	308	365	942	1,122

Operating expenses	3,286	3,399	3,473	10,066	10,906
Staff costs as a % of total income	36%	32%	34%	34%	35%
Cost:income ratio - Core	63%	63%	59%	63%	60%
Cost:income ratio - Group	67%	62%	62%	65%	63%

Key points

Q3 2013 compared with Q2 2013

· Staff expenses were £6 million lower, with headcount down by 1,400, principally in UK Retail, Markets and Non-Core. Premises and equipment costs, however, were £14 million higher, as the Group stepped up investment to improve its IT delivery capability.

· Conduct-related costs were £83 million lower, including reduced legal costs in Centre and customer remediation charges in UK Corporate.

· The deterioration in the Group cost:income ratio was principally driven by reduced income in Non-Core. The Core cost:income ratio was stable at 63%.

Q3 2013 compared with Q3 2012

· Staff costs were 7% lower, driven by the Markets headcount reductions implemented since Q3 2012. Markets' compensation ratio in the first nine months of the year was 37%, an increase of 1% compared with the same period of 2012.

· The Core cost:income ratio worsened to 63% from 59% in Q3 2012, largely driven by weaker income in Markets.

Analysis of results

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
Impairment losses	£m	£m	£m	£m	£m
Loan impairment losses	1,120	1,125	1,183	3,281	3,913
Securities	50	(8)	(7)	39	(88)
Group impairment losses	1,170	1,117	1,176	3,320	3,825
Loan impairment losses					
- individually assessed	580	826	661	2,052	2,351
- collectively assessed	287	293	562	1,021	1,691

- latent	253	15	(40)	217	(153)
Customer loans	1,120	1,134	1,183	3,290	3,889
Bank loans	-	(9)	-	(9)	24
Loan impairment losses	1,120	1,125	1,183	3,281	3,913
Core	584	659	751	1,842	2,266
Non-Core	536	466	432	1,439	1,647
Group	1,120	1,125	1,183	3,281	3,913
Customer loan impairment charge as a % of gross loans and advances to customers (1)					
Group	1.0%	1.0%	1.0%	1.0%	1.1%
Core	0.6%	0.7%	0.7%	0.6%	0.8%
Non-Core	5.2%	4.0%	2.8%	4.7%	3.6%

Note:

(1) Customer loan impairment charge as a percentage of gross loans and advances to customers excludes reverse repurchase agreements and includes disposal groups.

Key points

Q3 2013 compared with Q2 2013

· Core Retail & Commercial loan impairments fell by £158 million, or 23%, with charges relating to a small number of large single name cases in International Banking and UK Corporate in Q2 not being repeated. Core Ulster Bank also showed improvements, with a reduction in losses on the mortgage portfolio as arrears formation continued to fall and residential property prices stabilised.

· Non-Core loan impairments were up £70 million to £536 million. The increase primarily related to Ulster Bank's CRE development portfolio. This was partially offset by reduced losses on the UK Corporate portfolio.

Q3 2013 compared with Q3 2012

· Core Retail & Commercial loan impairments fell by £238 million or 31%, including a £125 million reduction in Core Ulster Bank, accompanied by significant improvements in UK Retail and UK Corporate.

· Non-Core loan impairments increased by £104 million due to higher impairment charges on commercial real estate loans in the Ulster Bank-originated book, partly offset by continued portfolio run-off.

For further details of the Group's exposures and provisioning refer to page 96 and Appendix 1.

Analysis of results

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
One-off and other items	£m	£m	£m	£m	£m
Payment Protection Insurance costs	(250)	(185)	(400)	(435)	(660)
Interest Rate Hedging Products redress and related costs	-	-	-	(50)	-
Regulatory and legal actions	(99)	(385)	-	(484)	-
Integration and restructuring costs	(205)	(149)	(229)	(476)	(848)
Gain/(loss) on redemption of own debt	13	242	(123)	204	454
Other items					
- Asset Protection Scheme	-	-	1	-	(44)
- Amortisation of purchased intangible assets	(39)	(38)	(47)	(118)	(146)
- Strategic disposals**	(7)	6	(23)	(7)	129
- RFS Holdings minority interest	11	(1)	(1)	110	(18)
	(576)	(510)	(822)	(1,256)	(1,133)
Own credit adjustments*	(496)	127	(1,455)	(120)	(4,429)
One-off and other items	(1,072)	(383)	(2,277)	(1,376)	(5,562)
* Own credit adjustments impact:					
Income from trading activities	(155)	76	(435)	20	(1,715)
Other operating income	(341)	51	(1,020)	(140)	(2,714)
Own credit adjustments	(496)	127	(1,455)	(120)	(4,429)
** Strategic disposals					
(Loss)/gain on sale and provision for loss on disposal of investments in:					
- Direct Line Group	(13)	-	-	(13)	-
- RBS Aviation Capital	-	-	-	-	197
- Other	6	6	(23)	6	(68)
	(7)	6	(23)	(7)	129

Key points

The Group does not allocate one-off and other items to individual divisions. However, of the one-off and other items of significance, Regulatory and legal actions of £484 million in the first nine months of 2013 relate predominantly to Markets and Payment Protection Insurance (PPI) costs of £435 million relate mainly to UK Retail. Of the total integration and restructuring costs of £476 million, UK Retail accounts for c.30%, Markets account for c.25%, Centre c.15% and other divisions <10% each.

Q3 2013 compared with Q2 2013

- Excluding own credit adjustments (OCA), one-off items totalled £576 million compared with £510 million in Q2. This included £205 million of restructuring charges, principally relating to the strategic reshaping of the Markets division and to streamlining UK Retail operations.

- Regulatory provisions of £99 million were recorded in the quarter. An additional charge of £250 million was booked in respect of PPI redress.

- OCA represented a charge of £496 million as the Group's credit spreads tightened, reversing the OCA credits booked in the first half of the year.

Q3 2013 compared with Q3 2012

- The significant reduction in one-off items principally reflected a smaller charge for OCA and lower PPI redress charges.

Analysis of results

Capital resources and ratios	30 September 2013	30 June 2013	31 December 2012
Core Tier 1 capital	£48bn	£48bn	£47bn
Tier 1 capital	£57bn	£58bn	£57bn
Total capital	£67bn	£69bn	£67bn
Risk-weighted assets (RWAs)	£410bn	£436bn	£460bn
Core Tier 1 ratio	11.6%	11.1%	10.3%
Tier 1 ratio	13.8%	13.3%	12.4%
Total capital ratio	16.2%	15.8%	14.5%

Key points

30 September 2013 compared with 30 June 2013

- The Group's Core Tier 1 ratio strengthened further to 11.6%, driven by a substantial reduction in risk-weighted assets, principally reflecting the strategic reshaping of the Markets division.

- Group RWAs fell by £26 billion to £410 billion. Markets was £14 billion lower, with a reduced balance sheet and declining market risk while Non-Core fell £5 billion. Retail & Commercial RWAs were down £6 billion, largely driven by foreign exchange movements.

- On a fully loaded Basel III basis, the Core Tier 1 ratio strengthened by 40 basis points to 9.1%, above the Group's year end capital target of over 9%.

30 September 2013 compared with 31 December 2012

- The Group's Core Tier 1 ratio was 130 basis points higher at 11.6%. On a fully loaded Basel III basis, the Core Tier 1 ratio was 140 basis points higher.

- Since 31 December 2012, Group RWAs have fallen by £50 billion, with Markets declining by £28 billion and Non-Core £19 billion lower.

- The total capital ratio increased by 170 basis points to 16.2%.

For further details of the Group's capital resources refer to page 90.

Analysis of results

Balance sheet	30 September 2013	30 June 2013	31 December 2012
Funded balance sheet (1)	£806bn	£843bn	£870bn
Total assets	£1,129bn	£1,216bn	£1,312bn
Loans and advances to customers (2)	£408bn	£420bn	£432bn
Customer deposits (3)	£434bn	£437bn	£434bn
Loan:deposit ratio - Core (4)	87%	88%	90%
Loan:deposit ratio - Group (4)	94%	96%	100%
Tangible net asset value per ordinary and B share (5)	431p	445p	446p
Tier 1 leverage ratio (6)	14.0x	14.3x	15.0x
Tangible equity leverage ratio (7)	6.1%	6.0%	5.8%

Notes:

(1) Funded balance sheet represents total assets less derivatives.
(2) Excluding reverse repurchase agreements and stock borrowing, and including disposal groups.
(3) Excluding repurchase agreements and stock lending, and including disposal groups.
(4) Net of provisions, including disposal groups and excluding repurchase agreements. Excluding disposal groups, the loan:deposit ratios of Core and Group at 30 September 2013 were 87% and 94% respectively (30 June 2013 - 88% and 96%; 31 December 2012 - 90% and 99%)
(5) Tangible net asset value per ordinary and B share is total tangible equity divided by the number of ordinary shares in issue and the effect of convertible B shares.
(6) Funded tangible assets divided by total Tier 1 capital. See also Appendix 1 for the regulatory leverage ratio.
(7)

Tangible equity leverage ratio is tangible equity attributable to ordinary and B shareholders divided by funded tangible assets.

Key points

30 September 2013 compared with 30 June 2013

- The Group's funding position remained strong, reflecting continuing Non-Core run-off and reduced Markets collateral requirements. Total customer deposits declined by only 1% despite tighter pricing.

- Retail & Commercial loans and advances were down £2 billion, as the strength of sterling reduced dollar and euro-denominated balances. UK Corporate property balances declined, offset by growth in International Banking trade finance balances.

- Tangible net asset value per ordinary and B share was 431 pence, with exchange rate movements accounting for 12 pence of the 14 pence fall.

30 September 2013 compared with 31 December 2012

- The Group loan:deposit ratio was 94% compared with 100% at the end of 2012. The Group has continued to attract deposits despite tightening its pricing, leaving a significant customer funding surplus as Non-Core loans and advances continue to run off.

- Funded assets fell to £806 billion, a reduction of £64 billion since 31 December 2012, principally reflecting strategic reshaping of Markets and Non-Core run-off.

- The Group's funded balance sheet has been reduced by £757 billion from its worst point, with only £37 billion of Non-Core assets remaining.

Analysis of results

Funding and liquidity metrics	30 September 2013	30 June 2013	31 December 2012
Deposits (1)	£473bn	£482bn	£491bn
Deposits as a percentage of funded balance sheet	59%	57%	56%
Short-term wholesale funding (2)	£35bn	£37bn	£42bn
Wholesale funding (2)	£114bn	£129bn	£150bn
Short-term wholesale funding as a percentage of funded balance sheet	4%	4%	5%
Short-term wholesale funding as a percentage of total wholesale funding	31%	29%	28%

Liquidity portfolio	£151bn	£158bn	£147bn
Liquidity portfolio as a percentage of funded balance sheet	19%	19%	17%
Liquidity portfolio as a percentage of short-term wholesale funding	431%	427%	350%
Net stable funding ratio	119%	120%	117%

Notes:

(1) Excludes repurchase agreements and stock lending and includes disposal groups.
(2) Excludes derivative collateral.

Key points

30 September 2013 compared with 30 June 2013

- Short-term wholesale funding fell in the quarter to £35 billion, just 4% of the funded balance sheet.

- The Group's liquidity portfolio was reduced to £151 billion compared with £158 billion at 30 June 2013, but remained flat as a proportion of the total funded balance sheet at 19%.

30 September 2013 compared with 31 December 2012

- Short-term wholesale funding fell by £7 billion in the year-to-date to £35 billion, 4% of the funded balance sheet and 31% of total wholesale funding.

- Liquidity metrics improved during the year-to-date reflecting continuing balance sheet improvements.

For further details of the Group's funding and liquidity metrics refer to page 93.

Divisional performance

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

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
	£m	£m	£m	£m	£m
Operating profit/(loss) before impairment losses by division					
UK Retail	599	566	605	1,722	1,814

UK Corporate	572	589	615	1,704	1,976
Wealth	61	58	71	180	197
International Banking	111	141	187	401	513
Ulster Bank	72	98	87	246	249
US Retail & Commercial	201	206	244	615	622
Retail & Commercial	1,616	1,658	1,809	4,868	5,371
Markets	209	136	289	639	1,385
Central items	47	137	149	148	(2)
Core	1,872	1,931	2,247	5,655	6,754
Non-Core	(264)	117	(162)	(219)	(417)
Group operating profit before impairment losses	1,608	2,048	2,085	5,436	6,337
Impairment losses/(recoveries) by division					
UK Retail	82	89	141	251	436
UK Corporate	150	194	247	529	604
Wealth	1	2	8	8	30
International Banking	28	99	12	182	74
Ulster Bank	204	263	329	707	1,046
US Retail & Commercial	59	32	21	110	68
Retail & Commercial	524	679	758	1,787	2,258
Markets	(1)	43	(6)	58	15
Central items	66	(3)	-	63	32
Core	589	719	752	1,908	2,305
Non-Core	581	398	424	1,412	1,520
Group impairment losses	1,170	1,117	1,176	3,320	3,825

Note:

(1) Operating profit/(loss) before own credit adjustments, Payment Protection Insurance costs, Interest Rate Hedging Products redress and related costs, regulatory and legal actions, integration and restructuring costs, gain/(loss) on redemption of own debt, Asset Protection Scheme, amortisation of purchased intangible assets, strategic disposals and RFS Holdings minority interest.

Divisional performance

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012

	£m	£m	£m	£m	£m
Operating profit/(loss) by division					
UK Retail	517	477	464	1,471	1,378
UK Corporate	422	395	368	1,175	1,372
Wealth	60	56	63	172	167
International Banking	83	42	175	219	439
Ulster Bank	(132)	(165)	(242)	(461)	(797)
US Retail & Commercial	142	174	223	505	554
Retail & Commercial	1,092	979	1,051	3,081	3,113
Markets	210	93	295	581	1,370
Central items	(19)	140	149	85	(34)
Core	1,283	1,212	1,495	3,747	4,449
Non-Core	(845)	(281)	(586)	(1,631)	(1,937)
Group operating profit	438	931	909	2,116	2,512

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
	%	%	%	%	%
Net interest margin by division					
UK Retail	3.62	3.56	3.53	3.56	3.57
UK Corporate	3.09	3.05	2.99	3.05	3.08
Wealth	3.56	3.41	3.88	3.51	3.74
International Banking	1.47	1.62	1.70	1.61	1.65
Ulster Bank	1.86	1.85	1.92	1.85	1.87
US Retail & Commercial	2.99	2.91	2.96	2.94	3.00
Retail & Commercial	2.95	2.92	2.91	2.92	2.92
Non-Core	(0.35)	0.15	0.41	(0.15)	0.32
Group net interest margin	2.01	2.00	1.93	1.98	1.91

	30 September 2013	30 June 2013	31 December 2012
	£bn	£bn	£bn
Total funded assets by division			
UK Retail	117.0	116.1	117.4
UK Corporate	107.0	107.6	110.2
Wealth	21.0	21.3	21.4
International Banking	53.3	51.9	53.0

Ulster Bank	29.2	30.3	30.6
US Retail & Commercial	71.4	74.1	72.1
Retail & Commercial	398.9	401.3	404.7
Markets	248.2	267.9	284.5
Central items	120.5	126.9	110.3
Core	767.6	796.1	799.5
Non-Core	37.3	45.4	57.4
	804.9	841.5	856.9
Direct Line Group	-	-	12.7
RFS Holdings minority interest	0.9	1.0	0.8
Group	805.8	842.5	870.4

Divisional performance

	30 September 2013 £bn	30 June 2013 £bn	Change	31 December 2012 £bn	Change
Risk-weighted assets by division					
UK Retail	44.8	44.1	2%	45.7	(2%)
UK Corporate	87.2	88.1	(1%)	86.3	1%
Wealth	12.1	12.5	(3%)	12.3	(2%)
International Banking	48.4	49.7	(3%)	51.9	(7%)
Ulster Bank	31.8	33.9	(6%)	36.1	(12%)
US Retail & Commercial	56.1	58.2	(4%)	56.5	(1%)
Retail & Commercial	280.4	286.5	(2%)	288.8	(3%)
Markets	73.2	86.8	(16%)	101.3	(28%)
Other (primarily Group Treasury)	11.6	12.3	(6%)	5.8	100%
Core	365.2	385.6	(5%)	395.9	(8%)
Non-Core	40.9	46.3	(12%)	60.4	(32%)
Group before RFS Holdings minority interest	406.1	431.9	(6%)	456.3	(11%)
RFS Holdings minority interest	3.9	4.1	(5%)	3.3	18%
Group	410.0	436.0	(6%)	459.6	(11%)

Employee numbers by division	30 September	30 June

(full time equivalents rounded to the nearest hundred)	2013	2013	31 December 2012
UK Retail	23,900	25,300	26,000
UK Corporate	13,700	13,800	13,300
Wealth	5,000	5,100	5,100
International Banking	4,800	4,800	4,600
Ulster Bank	4,800	4,800	4,500
US Retail & Commercial	18,300	18,500	18,700
Retail & Commercial	70,500	72,300	72,200
Markets	10,900	11,200	11,300
Group Centre	7,300	6,700	6,800
Core	88,700	90,200	90,300
Non-Core	1,900	2,200	3,100
	90,600	92,400	93,400
Business Services	29,500	29,000	29,100
Integration and restructuring	200	300	500
Group	120,300	121,700	123,000

UK Retail

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
	£m	£m	£m	£m	£m
Income statement					
Net interest income	1,013	987	990	2,965	2,979
Net fees and commissions	243	215	231	670	682
Other non-interest income	11	10	21	35	78
Non-interest income	254	225	252	705	760
Total income	1,267	1,212	1,242	3,670	3,739
Direct expenses					
- staff	(177)	(180)	(201)	(535)	(625)
- other	(137)	(115)	(93)	(364)	(282)
Indirect expenses	(354)	(351)	(343)	(1,049)	(1,018)
	(668)	(646)	(637)	(1,948)	(1,925)
Operating profit before impairment losses	599	566	605	1,722	1,814
Impairment losses	(82)	(89)	(141)	(251)	(436)

Operating profit	517	477	464	1,471	1,378
Analysis of income by product					
Personal advances	233	220	230	676	688
Personal deposits	125	124	158	352	511
Mortgages	664	649	598	1,941	1,757
Cards	213	210	218	632	649
Other	32	9	38	69	134
Total income	1,267	1,212	1,242	3,670	3,739
Analysis of impairments by sector					
Mortgages	18	15	29	43	87
Personal	34	50	77	119	243
Cards	30	24	35	89	106
Total impairment losses	82	89	141	251	436
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	0.1%	0.1%	0.1%	0.1%	0.1%
Personal	1.7%	2.4%	3.5%	2.0%	3.6%
Cards	2.1%	1.7%	2.5%	2.1%	2.5%
Total	0.3%	0.3%	0.5%	0.3%	0.5%

UK Retail

Key metrics

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
Performance ratios					
Return on equity (1)	28.0%	26.1%	23.8%	26.5%	23.5%
Net interest margin	3.62%	3.56%	3.53%	3.56%	3.57%
Cost:income ratio	53%	53%	51%	53%	51%

	30 September	30 June

	2013 £bn	2013 £bn	Change	31 December 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	98.9	98.3	1%	99.1	-
- personal	8.1	8.3	(2%)	8.8	(8%)
- cards	5.7	5.6	2%	5.7	-
	112.7	112.2	-	113.6	(1%)
Loan impairment provisions	(2.2)	(2.5)	(12%)	(2.6)	(15%)
Net loans and advances to customers	110.5	109.7	1%	111.0	-
Risk elements in lending	3.8	4.3	(12%)	4.6	(17%)
Provision coverage (2)	59%	58%	100bp	58%	100bp
Customer deposits					
- Current accounts	31.5	31.2	1%	28.9	9%
- Savings	81.9	80.4	2%	78.7	4%
Total customer deposits	113.4	111.6	2%	107.6	5%
Assets under management (excluding deposits)	5.9	5.8	2%	6.0	(2%)
Loan:deposit ratio (excluding repos)	97%	98%	(100bp)	103%	(600bp)
Risk-weighted assets (3)					
- Credit risk (non-counterparty)	37.0	36.3	2%	37.9	(2%)
- Operational risk	7.8	7.8	-	7.8	-
Total risk-weighted assets	44.8	44.1	2%	45.7	(2%)

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

UK Retail continues to work towards being the best retail bank in the UK. In August 2013, it was announced that the division's then CEO, Ross McEwan, would take up the position of RBS Group CEO and a comprehensive internal and external search for his successor commenced. Les Matheson (previously Managing Director of Products and Marketing) has been appointed as interim CEO of UK Retail to lead the business in achieving its goals.

The division's newly retrained mortgage advisors continued to make good progress with new mortgage lending, growing application values by a further 14% in Q3 2013 following a 72% rebound in Q2 2013. Completion values increased by 64% following the high volume of applications in Q2 2013. RBS was the first bank to be ready to deliver the second phase of the Government's Help to Buy scheme, launched in early October 2013, and the very strong early response from customers has further reinforced UK Retail's determination to help young people and families across Britain buy their next home.

UK Retail

Key points (continued)
During Q3 2013, the division also continued to focus on making banking simple and easy for customers. The pricing on Cash/Instant Access ISAs was simplified, with fewer interest rate tiers and improved entry level interest rates.

Cashback Plus rewarding customers with a cash rebate for using their debit card in selected stores was launched for current account holders in the quarter. This is the first free debit card cashback scheme to launch in the UK, offering something innovative to RBS and NatWest customers. Over 400,000 customers had signed up for Cashback Plus by the end of Q3 2013. In addition, more than one million credit card customers were using the Your Points loyalty scheme by the quarter end, receiving a variety of benefits for transacting on their card.

Q3 2013 compared with Q2 2013

· Operating profit increased by £40 million, or 8%, reflecting good income performance and stable, low levels of impairments.

· Loans and advances to customers increased as mortgage completions rebounded following advisor retraining during H1 2013. Credit card balances increased slightly, offset by a small decline in personal advances.

· Customer deposit balances increased by 2%, with strong balance growth of 5% in instant access savings products. The volume of new instant access accounts increased by 3% to 7.6 million during the quarter.

· Net interest income was 3% higher.

Savings margins improved slightly as fixed rate products rolled off and strong growth in instant access products continued. This was offset by current account margin decline.
Mortgage new business margins continued to fall in line with market conditions; however, mortgage volumes increased and overall mortgage book margins remained stable.

· Non-interest income increased by £29 million as minimal regulatory provisions were taken compared with Q2 2013. Strong transactional income from both debit and credit cards, supported by Cashback Plus and Your Points loyalty schemes respectively also contributed to this increase.

· Direct costs were 6% higher as continued lower staff costs were more than offset by increased non-staff charges.

Direct staff costs declined further as headcount was reduced by 1,400.

Direct other costs increased due to a higher FSCS levy and other regulatory charges.
Indirect costs increased due to higher technology investment costs.

- Impairments were 8% lower, driven by lower customer defaults. Recoveries remained strong across the portfolio of impaired debt.

- Risk elements in lending reduced by £0.5 billion primarily reflecting the write down of unsecured assets and the reclassification of certain mortgage loans.

- Risk-weighted assets increased as a result of volume growth and minor model recalibrations, primarily in mortgages.

Q3 2013 compared with Q3 2012

- Operating profit increased by 11% with lower impairment losses and higher income, partly offset by increased costs.

- Net interest income increased, reflecting higher mortgage balances. Current account balances have grown strongly, however, this has been more than offset by lower rates on hedges.

UK Retail

Key points (continued)

Q3 2013 compared with Q3 2012 (continued)

- Non-interest income remained broadly flat. Strong transactional income from debit and credit cards, with volumes 10% higher, was offset by lower investment and advice income following the Retail Distribution Review.

- Direct staff costs decreased, reflecting a 3,200 headcount reduction. Other direct costs increased principally due to higher FSCS levies, regulatory charges and increased marketing activity. Indirect costs reflected higher technology investment expenditure.

- Impairments were 42% lower as a result of improved asset quality and significantly lower default volumes.

UK Corporate

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
	£m	£m	£m	£m	£m
Income statement					
Net interest income	725	715	729	2,146	2,257

Net fees and commissions	328	335	334	984	1,016
Other non-interest income	59	92	75	208	277
Non-interest income	387	427	409	1,192	1,293
Total income	1,112	1,142	1,138	3,338	3,550
Direct expenses					
- staff	(229)	(226)	(229)	(683)	(714)
- other	(90)	(113)	(91)	(308)	(265)
Indirect expenses	(221)	(214)	(203)	(643)	(595)
	(540)	(553)	(523)	(1,634)	(1,574)
Operating profit before impairment losses	572	589	615	1,704	1,976
Impairment losses	(150)	(194)	(247)	(529)	(604)
Operating profit	422	395	368	1,175	1,372
Analysis of income by business					
Corporate and commercial lending	631	665	613	1,918	1,964
Asset and invoice finance	169	170	176	503	509
Corporate deposits	88	83	141	244	481
Other	224	224	208	673	596
Total income	1,112	1,142	1,138	3,338	3,550
Analysis of impairments by sector					
Financial institutions	5	(1)	8	6	12
Hotels and restaurants	7	12	6	37	29
Housebuilding and construction	9	6	14	27	118
Manufacturing	17	5	20	30	39
Private sector education, health, social work, recreational and community services	36	44	(8)	105	35
Property	41	93	117	203	181
Wholesale and retail trade, repairs	20	7	16	59	65
Asset and invoice finance	5	5	10	11	30
Shipping	(1)	24	29	31	40
Other	11	(1)	35	20	55
Total impairment losses	150	194	247	529	604

UK Corporate

	Quarter ended 30 June	Nine months ended

	30 September 2013	2013	30 September 2012	30 September 2013	30 September 2012
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Financial institutions	0.4%	(0.1%)	0.6%	0.2%	0.3%
Hotels and restaurants	0.5%	0.9%	0.4%	0.9%	0.7%
Housebuilding and construction	1.2%	0.8%	1.6%	1.2%	4.5%
Manufacturing	1.6%	0.5%	1.7%	0.9%	1.1%
Private sector education, health, social work, recreational and community services	1.7%	2.0%	(0.4%)	1.6%	0.5%
Property	0.7%	1.5%	1.8%	1.2%	0.9%
Wholesale and retail trade, repairs	1.0%	0.3%	0.7%	0.9%	1.0%
Asset and invoice finance	0.2%	0.2%	0.4%	0.1%	0.4%
Shipping	(0.1%)	1.3%	1.5%	0.6%	0.7%
Other	0.2%	-	0.5%	0.1%	0.3%
Total	0.6%	0.7%	0.9%	0.7%	0.7%

Key metrics

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
Performance ratios					
Return on equity (1)	12.4%	11.8%	11.9%	11.7%	15.0%
Net interest margin	3.09%	3.05%	2.99%	3.05%	3.08%
Cost:income ratio	49%	48%	46%	49%	44%

Note:

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

UK Corporate

	30 September 2013 £bn	30 June 2013 £bn	Change	31 December 2012 £bn	Change

Capital and balance sheet					
Loans and advances to customers (gross)					
- financial institutions	4.7	4.6	2%	5.8	(19%)
- hotels and restaurants	5.5	5.5	-	5.6	(2%)
- housebuilding and construction	2.9	2.9	-	3.4	(15%)
- manufacturing	4.3	4.4	(2%)	4.7	(9%)
- private sector education, health, social work, recreational and community services	8.6	8.7	(1%)	8.7	(1%)
- property	23.1	24.1	(4%)	24.8	(7%)
- wholesale and retail trade, repairs	8.4	8.2	2%	8.5	(1%)
- asset and invoice finance	11.6	11.6	-	11.2	4%
- shipping	7.0	7.3	(4%)	7.6	(8%)
- other	27.7	27.3	1%	26.7	4%
	103.8	104.6	(1%)	107.0	(3%)
Loan impairment provisions	(2.3)	(2.4)	(4%)	(2.4)	(4%)
Net loans and advances to customers	101.5	102.2	(1%)	104.6	(3%)
Total third party assets	107.0	107.6	(1%)	110.2	(3%)
Risk elements in lending	6.0	6.2	(3%)	5.5	9%
Provision coverage (1)	39%	39%	-	45%	(600bp)
Customer deposits	124.9	126.2	(1%)	127.1	(2%)
Loan:deposit ratio (excluding repos)	81%	81%	-	82%	(100bp)
Risk-weighted assets					
- Credit risk (non-counterparty)	78.8	79.7	(1%)	77.7	1%
- Operational risk	8.4	8.4	-	8.6	(2%)
	87.2	88.1	(1%)	86.3	1%

Note:

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

Key points

UK Corporate continues to pursue new initiatives to deliver on its commitment to UK businesses and the communities it operates in.

As part of the division's concerted effort to support its SME customers, UK Corporate is proactively reviewing the business needs of SME customers to understand if they could benefit from the offer of additional facilities. By the end of September 2013, over 10,000 customers had been identified for additional funding under UK Corporate's 'Statements of Appetite' initiative with over £3.8 billion of funding offered to customers.

In Q3 2013 UK Corporate received more lending applications from SME customers than in any other period of 2013. For our larger customers UK Corporate has set aside £1.25 billion of funding for targeted support to housing associations, education sector clients and strategic infrastructure projects.

The division has continued to support the government-backed Funding for Lending Scheme (FLS). Surpassing its original FLS commitment, UK Corporate has now allocated in excess of £4.6 billion of new FLS-related lending to over 26,000 customers, £2.9 billion of which has been drawn. Mid-sized manufacturers are being offered targeted support, with interest rates reduced by more than 1% in some cases. SME customers have benefited from both lower interest rates and the removal of arrangement fees.

UK Corporate

Key points (continued)

In July 2013, RBS announced an independent review by Sir Andrew Large of the lending standards and practices used by RBS and NatWest. The detailed findings of Sir Andrew's report will be addressed in full in the Group's comprehensive business review. UK corporate is committed to adopting a revised strategy and capabilities to enhance support to SMEs and the wider UK economic recovery while maintaining safe and sound lending practices.

Over 8,000 members of the public have benefited from UK Corporate's Business Banking Enterprise Programme in 2013. Through its combination of nationwide start-up surgeries, mobile business schools and business academies, the programme offers support and advice to aspiring entrepreneurs, start-up businesses and established SMEs looking to grow.

Q3 2013 compared with Q2 2013

- Following growth of 10% in Q2 2013, operating profit increased by a further 7% with a return on equity of 12.4%.

- Net interest income increased by 1%, benefiting from deposit and asset repricing. The additional day in the quarter helped offset the continued impact of lower yields on current accounts.

- Non-interest income declined by 9%, primarily from the non-repeat of an equity gain of £20 million recorded in Q2 2013.

- Total expenses were 2% lower, with no additional customer remediation costs in the quarter.

- Impairments improved by £44 million, or 23%, with fewer significant individual cases in the mid-to-large corporate business.

- Risk-weighted assets were £1 billion lower as reduced asset volumes offset the increase resulting from the implementation of regulatory capital model change for shipping exposures.

Q3 2013 compared with Q3 2012

- Operating profit improved by 15%, principally driven by lower impairment charges.

- Net interest income declined by 1% with economic factors affecting deposit returns combined with a 4% reduction in lending volumes, partially offset by the repricing initiatives.

· Non-interest income was down 5%, due to an £18 million reduction in operating lease income (offset by an associated reduction in operating lease depreciation in expenses), lower lending fees and higher derivative close-out costs on impaired assets. These were partially offset by a one-off fair value charge of £25 million recorded on investments in Q3 2012.

· Total expenses were up 3%, reflecting a £15 million increased allocation of branch network costs. Direct costs remained flat with higher investment spend and costs of the lending review, offset by a £14 million reduction in operating lease depreciation.

· Impairments improved by £97 million due to fewer significant individual cases.

· The loan to deposit ratio moved to 81% from 84% in Q3 2012. Lending volumes were down 4% as business demand for credit remained weak, whilst deposits were down 1% reflecting the rebalancing of the Group's liquidity position.

· Risk-weighted assets increased as a result of regulatory capital model changes, in part offset by reduced asset volumes and movements into default.

Wealth

	Quarter ended			Nine months ended	
	30 September 2013 £m	30 June 2013 £m	30 September 2012 £m	30 September 2013 £m	30 September 2012 £m
Income statement					
Net interest income	169	162	185	500	542
Net fees and commissions	90	91	94	270	277
Other non-interest income	12	19	13	46	66
Non-interest income	102	110	107	316	343
Total income	271	272	292	816	885
Direct expenses					
- staff	(102)	(110)	(103)	(320)	(334)
- other	(30)	(27)	(43)	(81)	(128)
Indirect expenses	(78)	(77)	(75)	(235)	(226)
	(210)	(214)	(221)	(636)	(688)
Operating profit before impairment losses	61	58	71	180	197
Impairment losses	(1)	(2)	(8)	(8)	(30)

Operating profit	60	56	63	172	167
Analysis of income					
Private banking	222	223	237	669	726
Investments	49	49	55	147	159
Total income	271	272	292	816	885

Key metrics	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
Performance ratios					
Return on equity (1)	13.1%	12.1%	13.8%	12.4%	12.0%
Net interest margin	3.56%	3.41%	3.88%	3.51%	3.74%
Cost:income ratio	77%	79%	76%	78%	78%

Note:

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

Wealth

	30 September 2013 £bn	30 June 2013 £bn	Change	31 December 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	8.7	8.7	-	8.8	(1%)
- personal	5.6	5.7	(2%)	5.5	2%
- other	2.6	2.7	(4%)	2.8	(7%)
	16.9	17.1	(1%)	17.1	(1%)
Loan impairment provisions	(0.1)	(0.1)	-	(0.1)	-
Net loans and advances to customers	16.8	17.0	(1%)	17.0	(1%)

Risk elements in lending	0.3	0.3	-	0.2	50%
Provision coverage (1)	38%	39%	(100bp)	44%	(600bp)
Assets under management (excluding deposits)	30.5	31.1	(2%)	28.9	6%
Customer deposits	38.1	38.9	(2%)	38.9	(2%)
Loan:deposit ratio (excluding repos)	44%	44%	-	44%	-
Risk-weighted assets					
- Credit risk (non-counterparty)	10.1	10.6	(5%)	10.3	(2%)
- Market risk	0.1	-	100%	0.1	-
- Operational risk	1.9	1.9	-	1.9	-
	12.1	12.5	(3%)	12.3	(2%)

Note:

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

Key points

In Q3 2013, Coutts made further progress in implementing its UK strategy. The new advice proposition, post the UK's Retail Distribution Review, has delivered over £2 billion of assets under advice year to date.

Coutts continues to streamline client-facing processes and drive greater benefits from its global technology platform. It recently announced a reduction in the London property footprint from 11 buildings to 2 in order to drive further synergies. Good progress continues with the restructuring and investment in the international trust business including the closure of the Berne office in Q3 2013.

Q3 2013 compared with Q2 2013

· Operating profit was up £4 million primarily due to lower expenses reflecting the continued focus on cost reduction.

· Income was down £1 million, with a 7% decrease in non-interest income partially offset by a 4% increase in net interest income. The increase in net interest income is a result of Wealth's repricing initiatives on deposits. This follows a reduction in the spread earned on a number of deposit products, reflecting lower Group funding requirements. Lower non-interest income was largely due to lower transactional activity in the international businesses.

· Expenses decreased by 2% reflecting reduced headcount, from efficiency gains following investment in the global platform infrastructure, and a continued focus on discretionary costs.

· Client assets and liabilities managed by the division declined by 2% with a reduction in deposits, following repricing initiatives in the UK, and a reduction in assets under management, due to movements in exchange rates. Lending remained broadly stable.

· Impairments were £1 million lower, as the credit quality of the loan book remained strong.

Wealth

Key points (continued)

Q3 2013 compared with Q3 2012

· Operating profit was down 5% with lower income only partially offset by reduced expenses and impairment losses.

· Net interest income declined by 9%, reflecting lower spreads on a number of deposit products. Non-interest income was 5% lower as market volatility led to a decrease in investment income.

· Expenses fell by 5% due to reduced headcount and continued management of the cost base.

· Client assets and liabilities managed by the division were flat. Lending was stable while deposits declined by 2% as a result of repricing activity in Q3 2013. Assets under management increased by 3% due to net inflows of £1 billion primarily in the international business.

· Impairments were £7 million lower.

International Banking

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
	£m	£m	£m	£m	£m
Income statement					
Net interest income	166	177	227	540	721
Non-interest income	288	291	308	864	917
Total income	454	468	535	1,404	1,638
Direct expenses					
- staff	(137)	(136)	(134)	(407)	(477)
- other	(41)	(34)	(48)	(113)	(144)
Indirect expenses	(165)	(157)	(166)	(483)	(504)

	(343)	(327)	(348)	(1,003)	(1,125)
Operating profit before impairment losses	111	141	187	401	513
Impairment losses	(28)	(99)	(12)	(182)	(74)
Operating profit	83	42	175	219	439
Of which:					
Ongoing businesses	83	42	171	219	452
Run-off businesses	-	-	4	-	(13)
Analysis of income by product					
Cash management	189	177	224	553	738
Trade finance	77	71	76	218	221
Loan portfolio	188	220	228	632	658
Ongoing businesses	454	468	528	1,403	1,617
Run-off businesses	-	-	7	1	21
Total income	454	468	535	1,404	1,638
Analysis of impairments by sector					
Manufacturing and infrastructure	-	87	2	127	21
Property and construction	20	9	-	15	7
Transport and storage	8	-	-	32	(4)
Telecommunications, media and technology	-	(7)	-	(7)	9
Banks and financial institutions	-	-	12	-	43
Other	-	10	(2)	15	(2)
Total impairment losses	28	99	12	182	74
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	0.3%	1.0%	0.1%	0.6%	0.2%

International Banking

Key metrics	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
Performance ratios (ongoing businesses)					
Return on equity (1)	4.7%	2.3%	10.3%	4.1%	9.5%
Net interest margin	1.47%	1.62%	1.70%	1.61%	1.65%

Cost:income ratio	76%	70%	65%	71%	67%

	30 September 2013 £bn	30 June 2013 £bn	Change	31 December 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross) (2)					
- manufacturing and infrastructure	15.0	16.6	(10%)	15.8	(5%)
- property and construction	2.2	2.4	(8%)	2.4	(8%)
- transport and storage	3.2	3.5	(9%)	2.5	28%
- telecommunications, media and technology	2.3	1.7	35%	2.2	5%
- banks and financial institutions	8.4	7.7	9%	9.1	(8%)
- other	10.8	8.7	24%	10.2	6%
	41.9	40.6	3%	42.2	(1%)
Loan impairment provisions	(0.3)	(0.4)	(25%)	(0.4)	(25%)
Net loans and advances to customers	41.6	40.2	3%	41.8	-
Loans and advances to banks	5.5	5.6	(2%)	4.8	15%
Securities	2.4	2.5	(4%)	2.6	(8%)
Cash and eligible bills	0.3	0.2	50%	0.5	(40%)
Other	3.5	3.4	3%	3.3	6%
Total third party assets (excluding derivatives mark-to-market)	53.3	51.9	3%	53.0	1%
Risk elements in lending	0.5	0.5	-	0.4	25%
Provision coverage (3)	64%	75%	(1,100bp)	93%	(2,900bp)
Customer deposits (excluding repos)	47.6	46.0	3%	46.2	3%
Bank deposits (excluding repos)	5.3	6.1	(13%)	5.6	(5%)
Loan:deposit ratio (excluding repos)	87%	87%	-	91%	(400bp)
Risk-weighted assets					
- Credit risk (non-counterparty)	43.7	45.0	(3%)	46.7	(6%)
- Operational risk	4.7	4.7	-	5.2	(10%)
	48.4	49.7	(3%)	51.9	(7%)

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			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
	£m	£m	£m	£m	£m
Run-off businesses (1)					
Total income	-	-	7	1	21
Direct expenses	-	-	(3)	(1)	(34)
Operating profit/(loss)	-	-	4	-	(13)

Note:

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

International Banking

Key points

International Banking remains focused on serving customers through its country network using its core strengths: debt financing, risk management and transaction services. Business conditions remained difficult during Q3 2013, with persistent low interest rates and broader margin compression.

In Q3 2013, International Banking continued to strengthen its balance sheet. Despite an underlying increase from the ongoing roll out of credit models, the division's risk-weighted assets were down 3% year on year.

Q3 2013 compared with Q2 2013

· Operating profit was up £41 million, driven by lower impairments.

· Income decreased by £14 million, or 3%:

Loan portfolio income was down 15%, with lower net interest income from a smaller portfolio asset base (due to increased repayments by customers actively managing their debt profiles) partially offset by increased revenues from capital management and hedging activities.

Cash management income was up £12 million, reflecting strategic improvements in the deposit mix.

Trade finance was up 8%, driven by loan growth, particularly in Asia.

· Total expenses increased by £16 million, due to a £6 million increase related to risk management activities and an £8 million increase in indirect costs.

· Impairment losses were £71 million lower than in Q2 2013, which included two large single-name provisions.

· Third party assets were up 3%, reflecting growth in Trade finance as the business continues to grow capital efficient lending. This was partially offset by a lower asset base in the loan portfolio due to increased levels of customer repayments.

· Risk-weighted assets decreased by 3%, partly due to movements in exchange rates.

· Return on equity was 5% compared with 2% in Q2 2013.

Q3 2013 compared with Q3 2012

· Operating profit decreased by £92 million as a result of a decline in income and increased impairments, partially offset by lower costs.

· Income was 15% lower:

Cash management income was down 16% reflecting a decline in three-month LIBOR as well as increased funding costs of liquidity buffer requirements.

Loan portfolio income was down 18% as a result of a lower asset base, resulting in decreased net interest income year on year.

· Expenses declined by £5 million, reflecting continued emphasis on cost control with timely run-off of discontinued business. Tighter management of technology and infrastructure support costs also delivered savings.

· Impairments were £16 million higher primarily due to a single provision in Q3 2013.

· Third party assets declined by 9% following increased levels of customer repayments as customers continued to manage down their debt profile.

· Risk-weighted assets were down 3%, as management action mitigated credit model increases.

Ulster Bank

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
	£m	£m	£m	£m	£m
Income statement					
Net interest income	154	154	163	462	488
Net fees and commissions	35	35	36	104	109
Other non-interest income	25	53	14	98	36
Non-interest income	60	88	50	202	145
Total income	214	242	213	664	633
Direct expenses					
- staff	(64)	(67)	(54)	(188)	(161)

- other	(15)	(12)	(13)	(42)	(35)
Indirect expenses	(63)	(65)	(59)	(188)	(188)
	(142)	(144)	(126)	(418)	(384)
Operating profit before impairment losses	72	98	87	246	249
Impairment losses	(204)	(263)	(329)	(707)	(1,046)
Operating loss	(132)	(165)	(242)	(461)	(797)
Analysis of income by business					
Corporate	76	88	85	246	275
Retail	101	120	93	310	267
Other	37	34	35	108	91
Total income	214	242	213	664	633
Analysis of impairments by sector					
Mortgages	30	91	155	211	511
Commercial real estate					
- investment	104	51	78	201	169
- development	12	12	14	38	38
Other corporate	51	111	75	237	292
Other lending	7	(2)	7	20	36
Total impairment losses	204	263	329	707	1,046
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	0.6%	1.8%	3.3%	1.5%	3.6%
Commercial real estate					-
- investment	11.6%	5.7%	8.7%	7.4%	6.3%
- development	6.9%	6.9%	8.0%	7.2%	7.2%
Other corporate	2.8%	5.9%	3.9%	4.4%	5.1%
Other lending	2.3%	(0.6%)	2.2%	2.2%	3.7%
Total	2.6%	3.2%	4.1%	3.0%	4.3%

Ulster Bank

Key metrics	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
Performance ratios					

Return on equity (1)	(12.0%)	(14.1%)	(20.4%)	(13.2%)	(22.0%)
Net interest margin	1.86%	1.85%	1.92%	1.85%	1.87%
Cost:income ratio	66%	60%	59%	63%	61%

	30 September 2013 £bn	30 June 2013 £bn	Change	31 December 2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
Mortgages	19.2	19.8	(3%)	19.2	-
Commercial real estate					
- investment	3.6	3.6	-	3.6	-
- development	0.7	0.7	-	0.7	-
Other corporate	7.2	7.5	(4%)	7.8	(8%)
Other lending	1.2	1.3	(8%)	1.3	(8%)
	31.9	32.9	(3%)	32.6	(2%)
Loan impairment provisions	(4.5)	(4.4)	2%	(3.9)	15%
Net loans and advances to customers	27.4	28.5	(4%)	28.7	(5%)
Risk elements in lending					
Mortgages	3.3	3.4	(3%)	3.1	6%
Commercial real estate					
- investment	2.1	1.9	11%	1.6	31%
- development	0.4	0.5	(20%)	0.4	-
Other corporate	2.5	2.6	(4%)	2.2	14%
Other lending	0.2	0.2	-	0.2	-
Total risk elements in lending	8.5	8.6	(1%)	7.5	13%
Provision coverage (2)	52%	52%	-	52%	-
Customer deposits	22.2	23.1	(4%)	22.1	-
Loan:deposit ratio (excluding repos)	123%	123%	-	130%	(700bp)
Risk-weighted assets					
- Credit risk					
- non-counterparty	29.6	31.3	(5%)	33.6	(12%)
- counterparty	0.4	0.6	(33%)	0.6	(33%)
- Market risk	0.1	0.3	(67%)	0.2	(50%)
- Operational risk	1.7	1.7	-	1.7	-
	31.8	33.9	(6%)	36.1	(12%)
Spot exchange rate - €/£	1.196	1.169		1.227	

Notes:

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

Ulster Bank

Key points
Operating results showed further improvement in Q3 2013 primarily due to lower impairment losses. Ulster Bank's investment in programmes to assist customers in financial difficulty has resulted in six consecutive months of declining mortgage arrears and this, coupled with stabilising economic conditions, has driven an improved impairment performance.

Ulster Bank is committed to supporting economic recovery across the island of Ireland. The bank continued to re-affirm its commitment to serving customers well, supporting business and giving back to the communities where it operates. A number of new initiatives were delivered in Q3 2013 that demonstrate Ulster Bank's core values.

Serving our customers well

In the quarter, Ulster Bank customers completed 46% of transactions through digital channels. This was supported by further enhancements to mobile services and smart phone apps that allow customers to withdraw money from an ATM without a debit card, make payments using only a mobile number and view up to seven years of transaction history.

Over 7,000 business customers have registered for the "Anytime for Business" online banking service since its launch in Q2 2013.

Customers now have access to a customer advisor in real time via Webchat 24 hours a day, 7 days a week.

Supporting Enterprise and Communities:

Working in partnership with others, Ulster Bank provides funding for a range of initiatives such as SmallBusinessCan and BusinessWomenCan to build long-term financial health and employability. During Q3 2013 this was recognised in the National Chambers Ireland Corporate Social Responsibility Awards where Ulster Bank won the Marketplace award for BusinessWomenCan.

Through the Bank of England and HM Treasury Funding for Lending Scheme Ulster Bank has committed over £100 million of new lending to Northern Ireland businesses.

The bank's "One Week in June" initiative raised £430,000 for a number of Irish charities through a series of fundraising events involving both staff and customers.

Helping customers in financial difficulty

Ulster Bank has invested strategically in people, systems and a suite of tailored solutions to make it easier for customers to enter into arrangements to stay in their homes and remain economically active. Customers in financial difficulty are continuously encouraged to engage with the bank.

Q3 2013 compared with Q2 2013

Operating results improved by £33 million, or 20%, primarily due to lower impairment losses on the mortgage portfolio reflecting investment in programmes to support customers in arrears.

Income fell by £28 million in the quarter reflecting a reduced mark-to-market benefit on derivative instruments executed to hedge interest rate basis risk in the mortgage portfolio. Net interest income remained stable at £154 million with net interest margin increasing by 1 basis point to 1.86%.

Total expenses were £2 million, or 1%, lower, driven by the benefits of cost saving initiatives and the non-recurrence of an impairment charge on own property assets in Q2 2013.

Impairment losses fell by £59 million, or 22%, with a significant reduction in losses on the mortgage portfolio as residential property prices stabilised. Impairment losses within the corporate portfolio remained elevated with a small number of significant charges on individual counterparty exposures.

Ulster Bank

Key points (continued)

Q3 2013 compared with Q2 2013 (continued)

The loan:deposit ratio remained steady at 123%. Loan balances fell by 1% on a constant currency basis reflecting limited new lending due to low levels of demand. Retail and SME deposit balances were stable during the quarter, although total deposit balances declined by 2% on a constant currency basis driven by a reduction in Corporate Term balances.

Q3 2013 compared with Q3 2012

Operating results improved significantly, by £110 million or 45%, driven by lower impairment losses.

Income was marginally higher at £214 million. Net interest income was down £9 million reflecting a lower return on the bank's capital base coupled with the cost of deposit raising. Net interest margin decreased by 6 basis points to 1.86%. Non-interest income increased by £10 million primarily due to a mark-to-market benefit on derivative instruments.

Expenses increased by £16 million, or 13%, reflecting further investment in programmes to support customers in financial difficulty, the cost of mandatory change programmes and higher pension charges.

Impairment losses decreased by £125 million, or 38%, reflecting a reduction in losses on the mortgage portfolio as residential property prices stabilised.

The progress made during 2012 to strengthen the balance sheet continued into 2013 with deposit balances 6% higher than Q3 2012 on a constant currency basis. As a result, the loan to deposit ratio improved to 123% from 141% at Q3 2012.

Risk-weighted assets decreased by 9% reflecting a smaller performing loan book and stabilising credit metrics.

US Retail & Commercial (£ Sterling)

	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
	£m	£m	£m	£m	£m
Income statement					
Net interest income	493	473	488	1,437	1,467
Net fees and commissions	197	192	197	579	594
Other non-interest income	66	86	95	254	290
Non-interest income	263	278	292	833	884
Total income	756	751	780	2,270	2,351
Direct expenses					
- staff	(264)	(278)	(254)	(821)	(786)
- other	(249)	(231)	(247)	(726)	(751)
- litigation settlement	-	-	-	-	(88)
Indirect expenses	(42)	(36)	(35)	(108)	(104)
	(555)	(545)	(536)	(1,655)	(1,729)
Operating profit before impairment losses	201	206	244	615	622
Impairment losses	(59)	(32)	(21)	(110)	(68)
Operating profit	142	174	223	505	554
Average exchange rate - US$/£	1.551	1.536	1.581	1.543	1.578

Analysis of income by product

Mortgages and home equity	109	123	139	358	406
Personal lending and cards	106	104	101	310	300
Retail deposits	197	189	213	576	653
Commercial lending	175	167	144	510	455
Commercial deposits	103	98	109	303	333
Other	66	70	74	213	204
Total income	756	751	780	2,270	2,351
Analysis of impairments by sector					
Residential mortgages	16	10	(5)	28	(3)
Home equity	27	18	40	64	82
Corporate and commercial	(13)	(11)	(35)	(48)	(57)
Other consumer	24	15	21	61	41
Securities	5	-	-	5	5
Total impairment losses	59	32	21	110	68
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	1.1%	0.7%	(0.3%)	0.6%	(0.1%)
Home equity	0.9%	0.5%	1.2%	0.7%	0.8%
Corporate and commercial	(0.2%)	(0.2%)	(0.6%)	(0.3%)	(0.3%)
Other consumer	1.1%	0.7%	1.0%	0.9%	0.7%
Total	0.4%	0.2%	0.2%	0.3%	0.2%

US Retail & Commercial (£ Sterling)

Key metrics	Quarter ended			Nine months ended	
	30 September 2013	30 June 2013	30 September 2012	30 September 2013	30 September 2012
Performance ratios					
Return on equity (1)	6.3%	7.7%	9.7%	7.4%	8.1%
Adjusted return on equity (2)	6.3%	7.7%	9.7%	7.4%	8.8%
Net interest margin	2.99%	2.91%	2.96%	2.94%	3.00%
Cost:income ratio	73%	73%	69%	73%	74%
Adjusted cost:income ratio (2)	73%	73%	69%	73%	71%

	30 September	30 June	31 December

	2013 £bn	2013 £bn	Change	2012 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- residential mortgages	5.6	5.8	(3%)	5.8	(3%)
- home equity	12.5	13.5	(7%)	13.3	(6%)
- corporate and commercial	24.1	25.2	(4%)	23.8	1%
- other consumer	8.6	8.8	(2%)	8.4	2%
	50.8	53.3	(5%)	51.3	(1%)
Loan impairment provisions	(0.3)	(0.3)	-	(0.3)	-
Net loans and advances to customers	50.5	53.0	(5%)	51.0	(1%)
Total third party assets	71.9	74.6	(4%)	72.8	(1%)
Investment securities	12.9	11.5	12%	12.0	8%
Risk elements in lending					
- retail	0.9	0.9	-	0.8	13%
- commercial	0.2	0.2	-	0.3	(33%)
Total risk elements in lending	1.1	1.1	-	1.1	-
Provision coverage (3)	25%				