GETTY REALTY CORP /MD/
Form DEF 14A
March 27, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant x Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to §240.14a-12

GETTY REALTY CORP.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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x No fee required.

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GETTY REALTY CORP.

TWO JERICHO PLAZA, WING C, STE. 110, JERICHO, NEW YORK 11753

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

TO BE HELD MAY 12, 2015

To the Stockholders of GETTY REALTY CORP.:

NOTICE IS HEREBY GIVEN that the 2015 Annual Meeting of Stockholders (the Annual Meeting) of Getty Realty Corp., a Maryland corporation, will be held at JP Morgan Chase & Co., 277 Park Avenue, 17th Floor Conference Center, New York, NY 10172 on May 12, 2015 at 3:30 p.m., for the following purposes:

(1) To elect a Board of six directors to hold office until our 2016 annual meeting and until their successors are elected and qualified.

(2) To hold an advisory vote to approve named executive officer compensation.

(3) To ratify the appointment of PricewaterhouseCoopers LLP as our independent registered public accounting firm for the year ending December 31, 2015.

We will also transact such other business as may properly come before the Annual Meeting or any adjournments or postponements thereof.

Only stockholders of record at the close of business on March 16, 2015 are entitled to notice of and to vote at this meeting or any adjournments or postponements thereof.

We are pleased to take advantage of the Securities and Exchange Commission (SEC) rules allowing companies to furnish proxy materials to their stockholders over the Internet. We believe that this e-proxy process will expedite stockholders receipt of proxy materials, as well as lower the costs and reduce the environmental impact of our Annual Meeting. On or about April 2, 2015, for the holders of record and beneficial owners of our common stock as of the close of business on the record date, we will either send (i) a copy of our Proxy Statement, including this Notice of Annual Meeting, the accompanying proxy card and our Annual Report or (ii) a Notice of Internet Availability of Proxy Materials (the Notice of Internet Availability). The Notice of Internet Availability instructs you how to access and review this Proxy Statement and our Annual Report beginning on April 1, 2015. The Notice of Internet Availability also instructs you how you may submit your proxy over the Internet.

By Order of the Board of Directors,
/s/ Joshua Dicker
Joshua Dicker

Senior Vice President, General Counsel and Secretary

Jericho, New York

March 27, 2015

WHETHER OR NOT YOU PLAN TO ATTEND THE ANNUAL MEETING, PLEASE READ THE PROXY STATEMENT AND COMPLETE A PROXY FOR YOUR SHARES AS SOON AS POSSIBLE. YOU MAY VIA THE INTERNET AUTHORIZE A PROXY TO VOTE YOUR SHARES BY FOLLOWING THE INSTRUCTIONS ON THE WEBSITE INDICATED IN THE NOTICE MAILED TO YOU REGARDING THE AVAILABILITY OF PROXY MATERIALS. IF YOUR SHARES ARE HELD IN THE NAME OF A BROKERAGE FIRM, BANK, NOMINEE OR OTHER INSTITUTION, YOU SHOULD PROVIDE INSTRUCTIONS TO YOUR BROKER, BANK, NOMINEE OR OTHER INSTITUTION ON HOW TO VOTE YOUR SHARES. YOU MAY ALSO REQUEST A PAPER PROXY CARD TO SUBMIT YOUR VOTE BY MAIL. IF YOU ATTEND THE MEETING AND VOTE IN PERSON, THAT VOTE WILL REVOKE ANY PROXY YOU PREVIOUSLY SUBMITTED. IF YOU HOLD SHARES IN THE NAME OF A BROKERAGE FIRM, BANK, NOMINEE OR OTHER INSTITUTION, YOU MUST PROVIDE A LEGAL PROXY FROM THAT INSTITUTION IN ORDER TO VOTE YOUR SHARES AT THE MEETING. YOUR VOTE IS IMPORTANT, NO MATTER HOW FEW OR HOW MANY SHARES YOU OWN.

GETTY REALTY CORP.

PROXY STATEMENT FOR ANNUAL MEETING OF STOCKHOLDERS

This Proxy Statement is furnished in connection with the solicitation of proxies by and on behalf of the Board of Directors of Getty Realty Corp. (hereinafter called the Company or Getty), to be voted at the Annual Meeting to be held at JP Morgan Chase & Co., 277 Park Avenue, 17th Floor Conference Center, New York, NY, 10172 on May 12, 2015 at 3:30 p.m., and at any adjournments or postponements thereof (the Annual Meeting), for the purposes of electing a Board of Directors, holding an advisory vote to approve named executive officer compensation, ratifying the appointment of independent auditors and transacting such other business as may properly come before the meeting or any adjournments or postponements thereof.

Record Date, Voting Rights, Outstanding Shares and Quorum

At the close of business on March 16, 2015, the record date for stockholders entitled to vote at the Annual Meeting, there were 33,417,203 shares of Getty common stock outstanding. Each outstanding share of common stock is entitled to one vote. The common shares vote as a single class. In order to constitute a quorum at the Annual Meeting, there must be present, or voting by proxy, holders of a majority of the outstanding common stock.

Under Maryland law, shares represented by proxies that reflect abstentions or broker non-votes (i.e., shares held by a broker or nominee which are represented at the Annual Meeting, but with respect to which such broker or nominee is not empowered by the beneficial owner of the stock to vote on a particular proposal) will be counted as shares that are present and entitled to vote for purposes of determining the presence of a quorum.

Voting Requirements

If your shares are held in the name of a bank, broker or other holder of record, you will receive instructions from the holder of record. You must follow the instructions of the holder of record in order for your shares to be voted. If your shares are not registered in your own name and you plan to vote your shares in person at the Annual Meeting, you should contact your broker or agent to obtain a legal proxy or broker s proxy card and bring it to the Annual Meeting in order to vote.

All valid proxies received before the Annual Meeting will be exercised. All shares represented by a proxy will be voted, and where a proxy specifies a stockholder s choice with respect to any matter to be acted upon, the shares will be voted in accordance with that specification. If no choice is indicated on the proxy, the shares will be voted in favor of each of the proposals. At the discretion of the persons named in the enclosed proxy card or vote instruction form, the proxies may vote on any other matter that may properly come before the Annual Meeting or any adjournments or postponements of the Annual Meeting.

Vote Required

If a quorum is achieved at the Annual Meeting, the following voting requirements will apply:

Board Elections. To be elected to serve until our 2016 annual meeting and until his successor is elected and qualifies, a director nominee will be elected if the number of votes cast FOR that director exceeds the number of votes cast AGAINST that director. For purposes of the election of directors, abstentions and broker non-votes, if any, will not be counted as votes cast and will have no effect on the result of the vote, although they will be considered present for the purpose of determining the presence of a quorum.

Advisory vote to approve named executive officer compensation. The affirmative vote of a majority of the votes cast at the Annual Meeting will be necessary to approve the advisory vote on executive compensation. Abstentions and broker non-votes are not considered votes cast and will have no effect on the outcome of this proposal.

Ratify the appointment of PricewaterhouseCoopers LLP. A majority of the votes cast at the Annual Meeting is necessary to ratify the appointment of the independent registered public accounting firm. Abstentions and broker non-votes are not considered votes cast and will have no effect on the outcome of this proposal.

Broker Non-Votes and Abstentions

A broker non-vote occurs when a broker submits a proxy card with respect to shares held in a fiduciary capacity (generally referred to as being held in street name) but declines to vote on a particular matter because the broker has not received voting instructions from the beneficial owner. Brokers may not vote your shares on the election of directors or on the advisory vote to approve named executive officer compensation in the absence of your specific instructions as to how to vote, so we encourage you to provide instructions to your broker regarding the voting of your shares. In the absence of instructions, shares subject to such broker non-votes will not be counted as voted on any of the proposals and therefore will have no effect on the vote.

If you vote by proxy, the individuals named on the proxy card (your proxies) will vote your shares in the manner you indicate. You may specify whether your shares should be voted for or against all, some or none of the nominees for director and whether your shares should be voted for or against the other proposals.

Solicitation of Proxies

We will bear the cost of soliciting proxies. In addition to soliciting stockholders by mail through our employees, we will request banks, brokers and other custodians, nominees and fiduciaries to solicit customers for whom they hold our stock and we will reimburse them for their reasonable, out-of-pocket costs. We may also use the services of our officers, directors and others to solicit proxies personally or by telephone, without additional compensation.

Notice Regarding the Availability of Proxy Materials

From the date of mailing of the Notice of Internet Availability through the conclusion of the Annual Meeting, stockholders will be able to access all of the proxy materials on the internet at www.proxyvote.com. The proxy materials will be available free of charge. The Notice of Internet Availability will instruct you as to how you may access and review all of the important information contained in the proxy materials (including our Annual Report to stockholders) over the internet or through other methods specified at the website designated in the Notice of Internet Availability. The designated website contains instructions as to how to vote over the internet or by telephone. The Notice of Internet Availability also instructs you as to how you may request a paper or email copy of the proxy card. If you received a Notice of Internet Availability and would like to receive printed copies of the proxy materials, you should follow the instructions for requesting such materials included in the Notice of Internet Availability.

The rules and regulations adopted by the Securities and Exchange Commission (the SEC) permit us to deliver a single Notice of Internet Availability or set of Annual Meeting materials to one address shared by two or more of our stockholders. We have delivered only one Notice of Internet Availability or Annual Meeting materials to multiple stockholders who share an address, unless we received contrary instructions from the impacted stockholders prior to the mailing date. We will promptly deliver, upon written or oral request, a separate copy of the Notice of Internet Availability or Annual Meeting materials to any stockholder at the shared address to which a single copy of those documents was delivered. If you prefer to receive separate copies of the Notice of Internet Availability or Annual Meeting materials, contact Broadridge Financial Solutions, Inc. at 1-800-542-1061 or in writing at Broadridge, Householding Department, 51 Mercedes Way, Edgewood, NY 11717. If you are currently a stockholder sharing an address with another stockholder and wish to receive only one copy of future Notices of Internet Availability or Annual Meeting materials for your household, please contact Broadridge at the above phone number or address.

The Notice of Internet Availability or Annual Meeting materials is being sent to stockholders on, and will be available on the internet on or about, April 1, 2015.

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PROPOSAL NO. 1

ELECTION OF DIRECTORS

(Item No. 1 on the Proxy Card)

Nominees for Election at the Annual Meeting

Getty s directors are elected at each annual meeting of stockholders and hold office for a term of one year and until their respective successors are elected and qualified. The Board of Directors has nominated six candidates for election as directors for a one year term ending at the 2016 annual meeting of the Company s stockholders or when their successors are duly elected and qualified. If a quorum is achieved at the Annual Meeting, a director will be elected for a term of one year if the number of votes cast FOR that director exceeds the number of votes cast AGAINST that director.

You may use the proxy card furnished to you to cast your votes for the election of the nominees named in the table below. In the event that any of the nominees should become unable or unwilling to serve as a director, we intend to vote your proxy FOR the election of the person, if any, who is designated by the Board of Directors. For additional information about how we identify and evaluate nominees for director, see Committees Nominating/Corporate Governance Committee below.

Set forth below is information regarding the directors nominated for election at the Annual Meeting, including background information and information regarding the specific experience, qualifications, attributes and skills that support the conclusion that these nominees should serve as directors of Getty.

Name and Age	Information Regarding Nominees
Leo Liebowitz 87	Mr. Liebowitz has served as Chairman of the Board of Getty since 1971 and served as the Chief Executive Officer of Getty from 1985 until 2010. Mr. Liebowitz served as President of Getty from 1971 until 2004. In 1955, Mr. Liebowitz co-founded the predecessor business that became our Company, and he is our largest individual stockholder.
	Mr. Liebowitz also served as Chairman, Chief Executive Officer and a director of Getty Petroleum Marketing Inc. from 1996 until 2000, and as a director of the Regional Banking Advisory Board of JPMorgan Chase & Co. from 1975 to 2013.
	As our co-founder and one of our largest stockholders since the Company s inception, Mr. Liebowitz possesses a deep understanding and appreciation of all aspects of Getty, its history and its business. He is highly qualified to serve on and lead our Board.
Milton Cooper 86	Mr. Cooper has served as a director of Getty since 1971 and as Chairman of the Compensation Committee of the Board of Directors since 2006

and a member of the Nominating/Corporate Governance Committee since before 1993.

Mr. Cooper is the Executive Chairman of the Board of Directors for Kimco Realty Corporation (Kimco), a NYSE listed real estate investment trust which is one of the nation s largest owners and operators of neighborhood and community shopping centers. Mr. Cooper served as the Chairman of the Board of Directors and Chief Executive Officer of Kimco from its initial public offering in 1991 to 2009, and was a Director and President of Kimco prior thereto. In 1956, Mr. Cooper co-founded the predecessor business that became Kimco.

Name and Age		Information Regarding Nominees
		Mr. Cooper is a nationally recognized leader of the modern REIT industry. He has received the National Association of Real Estate Investment Trusts Industry Leadership Award for his significant and lasting contribution to the REIT industry. From 1983 through April, 2012, he was also a director of Blue Ridge Real Estate/Big Boulder Corporation, a real estate management and land development firm. Mr. Cooper also served as a member of the Executive Committee of the Board of Governors of the National Association of Real Estate Investment Trusts.
		Along with Mr. Liebowitz, Mr. Cooper is the longest-serving member of our Board, and also one of our largest individual stockholders. Mr. Cooper is a trusted advisor and highly qualified for our Board.
Philip E. Coviello	72	Mr. Coviello has served as a director of Getty since 1996 and has served as Chairman of the Audit Committee of the Board of Directors since 2000. Mr. Coviello also serves on the Compensation Committee since 2007 and the Nominating/Corporate Governance Committee since 1999.
		Mr. Coviello has served as a director of Kimco since 2008, serves as Chairman of Kimco s Audit Committee, and also serves on Kimco s Executive Compensation Committee and Nominating and Corporate Governance Committee. Mr. Coviello was a partner in Latham & Watkins LLP, an international law firm, until his retirement from the firm as of December 31, 2003.
		Mr. Coviello s qualifications to serve on our Board include his many years of legal experience counseling Boards of Directors and senior management of public and private companies on a wide range of corporate and securities law issues, including mergers and acquisitions, securities offerings and corporate governance, regulatory compliance and other matters.
David B. Driscoll	60	Mr. Driscoll has served as a director of Getty since 2007 and served as Lead Director from April 2008 until February 2010. Mr. Driscoll has served as President of Getty since April 2010 and as the Company s Chief Executive Officer since May 2010.
		Prior to joining Getty as President, Mr. Driscoll was a Managing Director of Morgan Joseph & Co. Inc. since July 2001, and prior thereto, from 1999 he was the co-head of ING Barings Americas Equity Capital

Markets. From 1995 to 1999 he served as Managing Director and Global Coordinator of real estate activities for ING Barings and its Americas predecessor, Furman Selz. From 1983 to 1994, Mr. Driscoll worked at Smith Barney as the senior officer responsible for property, lodging and leisure activities. Mr. Driscoll also served from 1987 through 1991 as a director of Aer Lingus-Dunfey Corporation, the North American holding company for Aer Lingus whose primary asset was the Omni Hotels.

Mr. Driscoll s qualifications to serve on our Board include his past leadership experience with two investment banking firms, including as a Managing Director of Morgan Joseph & Co. Inc. and as the founder

Name and Age	Information Regarding Nominees
	of the real estate group at Smith Barney, which he ran for more than a decade, as well as his broad range of experience and diverse knowledge of financial markets and capital deployment strategies, particularly as they relate to the real estate industry and REITs, as well as his thorough knowledge and understanding of all aspects of our business, finances and operations obtained during his service as a director of Getty and in his leadership role as our President and Chief Executive Officer since 2010.
Richard E. Montag 82	Mr. Montag has served as a director of Getty since 2010. He is a member of Compensation Committee since 2010 and the Audit Committee since 2010.
	He was a director of FNC Realty Corporation (f/k/a Frank s Nursery & Crafts, Inc.) from 2004 until 2005; Enterprise Asset Management, Inc. from 2003 until 2004; Hills Stores Company from 1997 to 1998, and Getty Petroleum Marketing Inc. from 1996 until 2000. From 1982 until 1998, Mr. Montag was the Vice President of Real Estate Development, The Richard E. Jacobs Group.
	Mr. Montag s qualifications to serve on our Board include his demonstrated leadership and management experience and strong understanding of public company governance and operations through his prior service on three public company boards. Mr. Montag also possesses experience as a director of Getty Petroleum Marketing, Inc. from October 1996 until December 2000 and as a senior executive in the real estate industry, including his prior position as vice-president and partner with The Richard E. Jacob Group, Inc., one of the nation s most established and respected owners, developers, and managers of commercial real estate.
Howard B. Safenowitz 56	Mr. Safenowitz has served as a director of Getty since December 1998 and as Lead Director of Getty since February 2010. He has also served as Chairman of the Nominating/Corporate Governance Committee of the Board of Directors since 2005. Mr. Safenowitz also serves on the Compensation Committee since 1999 and on the Audit Committee since 2005.
	Together with attributed family interests, Mr. Safenowitz is also one of the Company s largest stockholders. Mr. Safenowitz is the President of Safenowitz Family Corp., an investment firm, since 1997. From 1990 to 2003, he was employed by The Walt Disney Company where he served as Senior Vice President, Business Affairs of Buena Vista Motion Pictures from March 2001 until April 2003 and prior thereto as Vice

President, Business Affairs of Walt Disney Pictures and Television from 1996 until 2001. Mr. Safenowitz practiced corporate and transactional law in New York and California from 1983 until joining The Walt Disney Company in 1990. He also served as a director of Getty Petroleum Marketing, Inc. from December 1998 until December 2000.

Mr. Safenowitz s qualifications to serve on our Board include his significant experience with and knowledge of Getty, along with his prior service as a director of Getty Petroleum Marketing, Inc. until December 2000, which together provide him with a valuable perspective

Name and Age	Information Regarding Nominees
	on core business matters that face our Company. In addition, his experience as a corporate lawyer, as well as his position as the president of Safenowitz Family Corp., and his past leadership experience at The Walt Disney Company, have provided Mr. Safenowitz demonstrated leadership and management skills contributing to his value as an advisor to our Company.

Recommendation

The Board unanimously recommends that you vote FOR the election of each nominee for director.

CORPORATE GOVERNANCE AND RELATED MATTERS

Board of Directors and Board Leadership Structure

Our Board of Directors is currently comprised of Leo Liebowitz, Howard B. Safenowitz, Milton Cooper, Philip E. Coviello, David B. Driscoll, and Richard E. Montag. Our Board is elected by the stockholders to oversee the performance of the business affairs of the Company and to set broad strategy for the Company s growth. The Board of Directors acts as an advisor to senior management and monitors its performance. It also oversees the Company s compliance efforts. To help discharge its responsibilities, the Board of Directors has adopted Corporate Governance Guidelines on significant corporate governance issues. The Corporate Governance Guidelines address, among other things, the size of the Board of Directors, director independence, committee membership and structure, meetings and executive sessions, and director selection and training.

The Charters for each of the committees of the Board of Directors, the Corporate Governance Guidelines, and Getty s Business Conduct Guidelines (which serve as our code of ethics under the Sarbanes-Oxley Act of 2002 and our code of business conduct and ethics under the NYSE rules, and covers officers, employees and directors), may all be accessed through the Getty website at www.gettyrealty.com by clicking on Corporate Governance. Additionally, copies of any such documents may be obtained by submitting a written request to Mr. Joshua Dicker, Senior Vice President, General Counsel and Secretary, at the address for Getty s executive offices provided in this Proxy Statement. The Business Conduct Guidelines apply to all employees, officers and directors of the Company and waivers of the Business Conduct Guidelines for directors or executive officers, if any, will be disclosed as required by the rules and regulations of the SEC. There were no such waivers in 2014.

For the year ended December 31, 2014, our Board of Directors had six members. The Board of Directors has nominated six candidates for election as directors for a one year term ending at the 2016 annual meeting of the Company s stockholders and when their successors are duly elected and qualified. If a quorum is achieved at the Annual Meeting, a director will be elected if the number of votes cast FOR that director exceeds the number of votes cast AGAINST that director.

The Board does not have a policy regarding the separation of the roles of Chief Executive Officer (CEO) and Chairman of the Board as the Board believes it is in the best interests of the Company for the Board to have the flexibility to make the determination whether the same person should serve as both the CEO and Chairman of the Board at any given point in time, or whether the roles should be separate, depending, among other factors, on the position and direction of the Company and the membership of the Board. The Board believes that its current leadership structure, with the separation of the Chairman and the CEO position, is appropriate for the Company because it separates the leadership of the Board from the day to day leadership of the Company. The Board believes that, in addition to the independent Lead Director, separating the position of Chairman from the CEO better positions the Board to evaluate the performance of management and enables the Chairman to provide guidance to the CEO.

In his role as Chairman of the Board, Mr. Liebowitz is responsible for enhancing Board effectiveness, in particular by ensuring the Board works as a cohesive team; ensuring that the Board has adequate resources and that there is a process in place to assure that the Board is presented with full, timely and relevant information; ensuring that there is a process in place to monitor best practices that relate to the responsibilities of the Board; and assessing the effectiveness of the overall Board, and individual directors on a regular basis. He is also responsible for Board management, in particular by providing oversight on the agendas for Board meetings; consulting with the CEO regarding the membership and the chairs for Board committees ensuring that the independent directors meet regularly without management present to discuss the effectiveness of the CEO and the Board, and by chairing Board meetings.

In his role as the CEO, Mr. Driscoll is responsible for setting a strategic vision for the Company and seeking to align the Company, internally and externally, with that strategic vision. In addition, Mr. Driscoll, as CEO, is responsible for day to day leadership of the Company, promoting Company performance through his leadership, and leading the Company in the execution of its business plan. Our CEO also serves on our Board, which we believe helps the CEO serve as a bridge between management and the Board of Directors, ensuring that both groups act with a common purpose. We believe that the CEO s presence on the Board enhances his ability to provide insight and direction on important strategic initiatives to both management and the independent directors and, at the same time, ensures that the appropriate level of independent oversight is applied to all decisions by the Board.

Role of Board of Directors in Risk Oversight

It is management s responsibility to assess and manage the various risks the Company faces and the Board s responsibility to oversee management in this effort. In exercising its oversight, the Board has delegated primary responsibility for risk assessment and risk management oversight to the Audit Committee. Under its Charter, the Audit Committee s responsibilities include discussing with management the Company s policies with respect to risk assessment and risk management, and the Company s material financial risk exposures and the actions management has taken to limit, monitor or control such exposure. The Audit Committee receives periodic reports from management on the Company s enterprise risk management practices and our risk mitigation efforts. The Audit Committee also oversees the Company s legal and regulatory compliance programs and internal audit function. Our full Board periodically reviews the Company s strategic plans and objectives, including the risks that may affect the achievement of these strategic plans and objectives.

Independence of Directors

The Board of Directors has determined that Messrs. Cooper, Coviello, Montag and Safenowitz are independent as defined in the listing standards of the NYSE. In making these determinations, the Board of Directors considered all relevant facts and circumstances, including the independence standards set forth in Section 303A.02 of the rules of the New York Stock Exchange. The Board of Directors affirmatively determined that none of the directors, or any of their respective family members, other than (a) Mr. Liebowitz, by reason of his having been an employee of the Company within the last three years, and (b) Mr. Driscoll, who is the President and Chief Executive Officer of the Company, has had any relationship with Getty (either directly or as a partner, stockholder or officer of an organization that has a relationship with the Company), other than as a stockholder and director of Getty, within the last three years. Accordingly, the Board of Directors has affirmatively determined that each of the directors, other than Mr. Liebowitz and Mr. Driscoll, is independent.

It has been and will continue to be the practice of the Board of Directors to meet at least quarterly each year and have Mr. Liebowitz, as Chairman, chair such meetings. Additionally, it has been the practice of the independent directors to meet in executive session at least quarterly each year, and to have Mr. Safenowitz, who has served since February 25, 2010 as the Company s Lead Independent Director, chair such sessions.

Directors Meetings

During the year ended December 31, 2014, the Board of Directors held five (5) meetings (including four (4) regular meetings and one (1) special meeting). Each of the directors attended all of the meetings of the Board of Directors, and of the Committees of the Board on which the director served. Each of the directors also attended the annual meeting of stockholders in May 2014.

Committees

The Board of Directors has an Audit Committee, a Nominating/Corporate Governance Committee and a Compensation Committee, the membership and functions of which are described below.

Audit Committee

The Audit Committee met eight (8) times in 2014. The Audit Committee consisted of Messrs. Coviello (Chairman), Montag, and Safenowitz. The Audit Committee selects the firm of independent public accountants that audits the consolidated financial statements of Getty and its subsidiaries, discusses the scope and the results of the audit with the accountants and discusses Getty s financial accounting and reporting practices. The Audit Committee also examines and discusses the adequacy of Getty s internal control over financial reporting with the accountants and with management. The Board has designated the Audit Committee to take the lead in overseeing our risk assessment and risk management, along with compliance with our Business Conduct Guidelines. In addition to regular meetings, at least one Audit Committee member meets telephonically with management and Getty s

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independent auditors to review the Company s quarterly reports and other reports, as appropriate, prior to their filing with the SEC. The Audit Committee met with management and Getty s independent auditors to review the Company s audited financial statements for the year ended December 31, 2014 and recommended to the Board of Directors that the financial statements be included in the Company s Annual Report on Form 10-K for such year. See Role of Board of Directors in Risk Oversight on page 10 of this Proxy Statement for a discussion of the Audit Committee s role in risk assessment and risk management oversight. Additionally, the Audit Committee reviews and discusses with management, management s specific disclosures contained in Management s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K and Quarterly Reports on Form 10-Q. Please also see the Audit Committee Report included in this Proxy Statement.

The Board of Directors determined that for the year ended December 31, 2014, each member of the Audit Committee (a) was (1) independent and (2) financially literate as such terms are defined in the listing standards of the NYSE and (b) met the independence tests set forth in Section 301 of the Sarbanes-Oxley Act of 2002 and regulations promulgated thereunder by the SEC. The Board of Directors also determined that for the year ended December 31, 2014, Mr. Coviello and Mr. Montag each qualified as an audit committee financial expert under the relevant rules of the SEC, and that each of Messrs. Coviello and Montag had the requisite accounting/financial management expertise required by the listing standards of the NYSE.

The Charter of the Audit Committee provides that members of the Audit Committee may not be members of the audit committee of three or more other public companies unless such other memberships have been disclosed to the Board and the Board has determined that such simultaneous service does not impair the ability of such member to serve effectively on the Audit Committee. None of the Audit Committee members served on the audit committee of three or more other public companies during 2014.

Nominating/Corporate Governance Committee

The Nominating/Corporate Governance Committee met two (2) times in 2014. The Nominating/Corporate Governance Committee consisted of Messrs. Safenowitz (Chairman), Cooper, and Coviello. The Nominating/Corporate Governance Committee recommends nominees for election to the Board and reviews the role, composition and structure of the Board and its committees. As part of this review, the Committee evaluates (i) whether to have a Lead Director, (ii) the responsibilities of the positions of Chairman of the Board and Lead Director, and (iii) the qualifications for those positions, including whether the position of Chairman of the Board of Directors should be held by the Chief Executive Officer, an independent director, or a non-independent director other than the Chief Executive Officer. The Nominating/Corporate Governance Committee also recommends candidates to the Board for election as officers.

For a discussion of the specific experience, qualifications, attributes or skills of the nominees for election to the Board, see the Nominees for Election at the Annual Meeting section on page 5 of this Proxy Statement.

The Nominating/Corporate Governance Committee does not have a formal policy with regard to the consideration of diversity in identifying director nominees. However, consistent with the Committee s charter, when identifying director nominees the Committee considers general principles of diversity, and does so in the broadest sense. The Nominating/Corporate Governance Committee seeks to recommend the nomination of directors who represent different qualities and attributes and can represent a mix of backgrounds and experiences that will enhance the quality of the Board s deliberations and oversight of the Company s business.

The Board of Directors has determined that each member of the Nominating/Corporate Governance Committee is independent as such term is defined in the listing standards of the NYSE. The Nominating/Corporate Governance Committee Charter includes policies with regard to stockholder recommendations of nominees to the Board of Directors.

Stockholders wishing to recommend candidates for election to the Board must supply information in writing regarding the candidate to Mr. Joshua Dicker, Senior Vice President, General Counsel and Secretary of the Company, at the Company s executive offices. This information should include the candidate s name, biographical data and an analysis of the candidate based on the director candidate criteria described below. The recommendation must also include all information relating to the proposed director nominee that would be required to be disclosed in a solicitation of proxies for election of directors in an election contest under applicable securities law. Stockholders wishing to nominate a candidate must comply with the advance notice requirements in our By-Laws. Please refer to our By-Laws for more specific information. Additional information regarding any proposed nominees may be requested by the Nominating/Corporate Governance Committee.

Each nominee must possess fundamental qualities of intelligence, honesty, good judgment, and high standards of ethics, integrity, fairness and responsibility. The Nominating/Corporate Governance Committee also will consider the following criteria, among other criteria the Committee deems appropriate, including the specific needs of the Board at the time:

experience in corporate management, such as serving as an officer or former officer of a publicly held company, and a general understanding of marketing, finance and other elements relevant to the success of a publicly-traded company in today s business environment;

the director s past attendance at meetings and participation in and contributions to the activities of the Board (if applicable);

experience in our industry and with relevant social policy concerns;

understanding of our business on a technical level;

educational and professional background and/or academic experience in an area of our operations;

experience as a board member of another publicly held company;

practical and mature business judgment, including ability to make independent analytical inquiries;

independence, as defined by the NYSE listing standards;

financial literacy;

standing in the community; and

ability to foster a diversity of backgrounds and views and to complement the Board s existing strengths.

On the basis of the information gathered in this process, the Nominating/Corporate Governance Committee will determine which nominees to recommend to the Board. Recommendations and related information received prior to any Nominating/Corporate Governance Committee meeting where director nominees are to be considered will be considered at that meeting. The Nominating/Corporate Governance Committee uses the same process for evaluating all nominees, regardless of the source of the recommendation. This process includes, among other things, personal interviews, discussions with professional references, background checks, credit checks and resume verification.

The Nominating/Corporate Governance Committee has not received any recommendation for a director nominee from any stockholder or group of stockholders.

Compensation Committee

The Compensation Committee met two (2) times in 2014. The Compensation Committee consisted of Messrs. Cooper (Chairman), Coviello, Montag and Safenowitz. The Compensation Committee is responsible for developing and, with the approval of the Board, implementing the compensation plans, policies and programs of the Company and producing an annual report on executive compensation for inclusion in the Company s proxy materials in accordance with applicable rules and regulations. It is the Compensation Committee s responsibility to ensure that compensation programs are designed to encourage high performance and promote accountability and assure that employee interests are aligned with the interests of the Company s stockholders. The Board has determined that each member of the Compensation Committee is independent as such term is defined in the listing standards of the NYSE.

The Compensation Committee also administers the Supplemental Retirement Plan for Executives of Getty Realty Corp. and Participating Subsidiaries (the Supplemental Retirement Plan) and the Getty Realty Corp. Amended and Restated 2004 Omnibus Incentive Compensation Plan (the 2004 Plan) and reviews, and recommends to the Board, for Board approval, the compensation of the directors and each of the executive officers of Getty.

The Compensation Committee s Charter provides that the Committee may delegate any or all of its responsibilities, except that the Committee may not delegate its responsibilities with respect to:

- its annual review and approval of compensation for officers, directors and certain highly compensated employees;
- its recommendation to the Chairman of the Board of any changes in non-management director compensation;
- its management and annual review of, and responsibilities with respect to, all bonus, incentive compensation, equity-based compensation, and employee pension and welfare benefit plans;
- any other matters that involve executive compensation; or
- any matters where the Committee has determined that compensation is intended to comply with Section 162(m) of the Internal Revenue Code of 1986, as amended (the Code) by virtue of being approved by a committee of outside directors or is intended to be exempt from Section 16(b) under the Securities Exchange Act of 1934, as amended (the Exchange Act) pursuant to Rule 16b-3 by virtue of being approved by a committee of non-employee directors.

Compensation of Getty s executive officers (with the exception of the CEO) is recommended by the CEO to the Compensation Committee and is discussed, reviewed and established by the Compensation Committee. The compensation of the CEO is discussed, reviewed and approved by the Compensation Committee. No executive officer other than the CEO plays a role in determining or recommending the amount or form of executive and director compensation.

Contacting the Board of Directors

Stockholders and other interested parties who wish to communicate with the Board of Directors may do so by sending written communications to the Board of Directors at the following address: Board of Directors, Getty Realty Corp., Two Jericho Plaza, Wing C, Suite 110, Jericho, New York 11753. Stockholders and other interested parties who wish to direct communications to only the independent (non-management) directors of Getty may do so by sending written communications to the following address: Independent Directors c/o Getty Realty Corp., Two Jericho Plaza, Wing C, Suite 110, Jericho, New York 11753. Concerns relating to accounting, internal controls or auditing matters are handled in accordance with procedures established by the Audit Committee with respect to such matters.

Executive Officers

The Company s executive officers are as follows:

Mr. David B. Driscoll, age 60, President of Getty since April 2010 and Chief Executive Officer since May 2010. Mr. Driscoll is also a Director of the Company. Prior to his employment with the Company, Mr. Driscoll was a Managing Director of Morgan Joseph and Co. Inc., where he was a founding shareholder. Prior to his work at Morgan Joseph, Mr. Driscoll led real estate practices at various leading investment banking firms.

Mr. Mark J. Olear, age 51, Executive Vice President and Chief Investment Officer of Getty since May 2014. Prior to joining Getty, Mr. Olear held various positions in real estate with TD Bank, Home Depot, Toys R Us and A&P.

Mr. Kevin C. Shea, age 55, Executive Vice President of Getty since 2004 (Vice President since 2001). Mr. Shea has been with Getty since 1984. Prior to 2001, he was Director of National Real Estate Development for the Company.

Mr. Joshua Dicker, age 54, Senior Vice President, General Counsel and Secretary of Getty (Vice President since February 2009, General Counsel and Secretary since February 2008). Mr. Dicker joined Getty in February 2008. Prior to joining Getty, he was a partner in the law firm Arent Fox LLP, resident in its New York City office, specializing in corporate and transactional matters.

Mr. Christopher J. Constant, age 36, Vice President, Chief Financial Officer and Treasurer of Getty since December 2013. Mr. Constant joined the Company in November 2010 as Director of Planning and Corporate Development and was later promoted to Treasurer in May 2012 and Vice President in May 2013. Prior to joining Getty, Mr. Constant was a Vice President in the corporate finance department of Morgan Joseph & Co. Inc. and began his career in the corporate finance department at ING Barings.

There are no family relationships between any of the Company s directors or executive officers.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT OF SHARES

The following table sets forth the beneficial ownership of Getty common stock as of March 16, 2015 of (i) each person who is a beneficial owner of more than 5% of the outstanding shares of Getty common stock, (ii) each director, (iii) the Named Executive Officers (as defined below), and (iv) all directors and executive officers as a group. The number of shares column includes shares as to which voting power and/or investment power may be acquired within 60 days of March 16, 2015 (such as upon exercise of outstanding stock options or settlement of Restricted Stock Units (RSUs)) because such shares are deemed to be beneficially owned under the rules of the Securities and Exchange Commission (the SEC).

Name and Address of Beneficial Owner[1]	Shares of Common Stock Beneficially Owned	Approximate Percent of Class [2]
BlackRock, Inc. 40 East 52nd Street New York, NY 10055	2,805,904[3]	8.4
The Vanguard Group, Inc. 100 Vanguard Blvd. Malvern, PA 19355	3,786,041[4]	11.32
Vanguard Specialized Funds Vanguard REIT Index Fund 100 Vanguard Blvd. Malvern, PA 19355	1,987,493[5]	5.94
Leo Liebowitz, *Chairman of the Board*	3,192,049[6]	9.55
Milton Cooper, *Director* c/o Kimco Realty Corporation 3333 New Hyde Park Road New York, NY 11042	1,378,322[7]	4.12
Philip E. Coviello, *Director*	79,787[8]	*
David B. Driscoll, *Director, CEO and President*	55,790[9]	*
Richard E. Montag, *Director*	78,856[10]	*
Howard B. Safenowitz, *Director* Includes shares attributable to: Safenowitz Family Corp. - 2,442,197 [12] shares (7.31%) and Safenowitz Partners LP - 1,837,894 shares (5.5%)	3,004,553[11]	8.99

Joshua Dicker, *Senior Vice President, General Counsel and Secretary*	22,470[13]	*
Kevin C. Shea, *Executive Vice President*	46,109[14]	*
Mark J. Olear, *Executive Vice President and Chief Investment Officer*	1,010[15]	*
Christopher J. Constant, *Vice President, Treasurer and Chief Financial Officer*	7,490[16]	*
Directors and executive officers as a group (10 persons)	7,866,436	23.54

* Total shares beneficially owned constitute less than one percent of the outstanding shares.

(1) Unless otherwise indicated, the address of each of the named individual is c/o Getty Realty Corp., Two Jericho Plaza, Wing C, Suite 110, Jericho, NY 11735.

(2) The percentage is determined for each stockholder listed by dividing (A) the number of shares shown for such stockholder, by (B) the aggregate number of shares outstanding as of March 16, 2015 plus shares that may be acquired by such stockholder pursuant to our stock option plan and our Amended and Restated 2004 Incentive Compensation Plan within 60 days of that date.

(3) The information is derived from a Schedule 13G filed by BlackRock, Inc. on January 23, 2015.

(4) The information is derived from a Schedule 13G filed by The Vanguard Group, Inc. (Vanguard) on February 10, 2015.

(5) The information is derived from a Schedule 13G filed by Vanguard Specialized Funds-Vanguard REIT Index Fund on February 6, 2015.

(6) Includes 303,623 shares held by Mr. Liebowitz s wife as to which he disclaims beneficial ownership, 55,724 shares held by a charitable foundation of which Mr. Liebowitz is a co-trustee, 20,000 shares held by Liebowitz Family LLC, of which Mr. Liebowitz is the manager, as to which he disclaims beneficial ownership, 419 shares held in the Getty Realty Corp. Retirement and Profit Sharing Plan, 450,000 shares held by Liebowitz Realty, LLC, of which Mr. Liebowitz is co-grantor and manager, 600,000 shares held by Liebowitz Realty II LLC, of which Mr. Liebowitz is the sole member/manager, 310,957 of the shares held by CLS General Partnership Corp., of which Mr. Liebowitz is a stockholder and 16,700 vested RSUs.

(7) Includes 10,311 shares held in a partnership of which Mr. Cooper is a partner, 68,037 shares held by his wife as to which he disclaims beneficial ownership, 2,421 shares held in a qualified pension plan for the benefit of Mr. Cooper, 227,107 shares held by a charitable foundation of which Mr. Cooper is the president, 23,503 shares held in the Getty Realty Corp. Retirement and Profit Sharing Plan, 4,887 shares held by a retirement fund of which Mr. Cooper is a beneficiary, 134,052 of the shares held by CLS General Partnership Corp., of which Mr. Cooper is a stockholder and 16,700 vested RSUs.

(8) Includes 25,656 shares held by a charitable remainder trust of which Mr. Coviello is the trustee, 16,700 vested RSUs and 931 shares in a testamentary trust formed under Mr. Coviello s father s will for the benefit of Mr. Coviello and his children, of which he is a co-trustee.

(9) Includes stock options covering 5,000 shares and 35,750 vested RSUs.

(10) Includes 20,190 shares held by Mr. Montag s wife as to which he disclaims beneficial ownership and 11,700 vested RSUs.

(11) Includes 2,442,197 shares attributable to Safenowitz Family Corp., which, in turn, includes 1,837,894 shares held by Safenowitz Partners, LP, 515,000 shares held by Safenowitz Family Partnership, LP and 89,303 shares held by Safenowitz Investment Partners. Also includes 45,000 shares held as custodian for three children (as to which he disclaims beneficial ownership), 11,523 shares held by his wife (as to which he disclaims beneficial ownership) and 320,540 shares beneficially owned by The Marilyn Safenowitz Irrevocable Trust u/a/d 4/13/00, of which Mr. Safenowitz is the trustee. Also includes 16,700 vested RSUs.

(12) Includes 1,837,894 shares held by Safenowitz Partners, LP, 515,000 shares held by Safenowitz Family Partnership, LP, and 89,303 shares held by Safenowitz Investment Partners. Safenowitz Family Corp. is the general partner of each of Safenowitz Partners, LP, Safenowitz Family Partnership, LP and Safenowitz Investment Partners. Mr. Safenowitz is the president of Safenowitz Family Corp.

(13) Includes 22,400 vested RSUs.

(14) Includes 290 shares held in the Getty Realty Corp. Retirement and Profit Sharing Plan and 31,900 vested RSUs.

(15) Includes 1,000 vested RSUs.

(16) Includes 6,950 vested RSUs.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

The Compensation Committee is responsible for setting and administering the compensation policies and practices for the executive officers of the Company. The Company s executive compensation program consists primarily of the following elements: base salary, cash incentive compensation, equity compensation and retirement plans. We do not utilize compensation policies or practices that create risks which are reasonably likely to have a material adverse effect on the Company. This Compensation Discussion and Analysis section describes generally the compensation policies and practices that the Company applies to our Chief Executive Officer (the CEO), our Chief Financial Officer (CFO), and our three other most highly compensated executive officers (collectively, the Named Executive Officers or NEOs).

__2014 Company Performance and Compensation Highlights__

The following presents a summary of operational and financial highlights achieved by the Company in 2014 which, among other factors, were considered by the Compensation Committee in reaching its determinations regarding NEO performance and compensation. (See our filings with the SEC, including our Annual Report on Form 10-K for the year ended December 31, 2014, for additional details regarding each of these highlights.)

Strong Financial Performance. For the year ended December 31, 2014, the Company reported net earnings of $23.4 million, or $0.69 per share, funds from operations (FFO) of $45.3 million or $1.34 per fully-diluted share and adjusted funds from operations (AFFO) of $42.6 million, or $1.26 per share.[1] The Company s 2014 AFFO was almost double its 2013 AFFO, excluding the payments the Company received in 2013 from the settlement (the Lukoil Settlement) of an adversary proceeding brought in the U.S. Bankruptcy Court by Getty Petroleum Marketing, Inc. (Marketing) against Lukoil Americas Corporation and certain of its affiliates (collectively, Lukoil).

Dividend Increase. In 2014, the Company increased its dividend by 10% and issued a special dividend of $0.14 per share at the end of the year.

Continued Success in Dispositions and Leasing of Former Marketing Sites. The Company continued a process, commenced in 2012, of repositioning properties formerly leased by Marketing, including disposing of transitional properties that were determined to be non-core to our long-term business objectives, and re-leasing other properties on a long term triple net basis. In 2014, the Company sold 93 properties for an aggregate price of more than $31 million, and leased 20 transitional properties on a triple net basis which are expected to generate more than $1 million in additional annual rent. In total, as of December 31, 2014, the Company has entered into 13 long-term triple-net leases covering approximately 440 properties that were returned in the Marketing bankruptcy. In 2014, the Company was able to reduce its rental property expenses by $5.6 million due to its continuing efforts to dispose of non-core properties and re-lease other properties on a triple-net basis.

Positioning the Company s Balance Sheet for Growth Initiatives. As a result of our disciplined approach to investing, at the end of 2014, the Company s net debt was less than $120 million and its ratio of net debt to EBITDA was less than 2.3x, which were both the lowest they have been in the last three years. The Company believes that its conservatively leveraged balance sheet and enhanced cash flow positions it with capacity and flexibility to support growth initiatives.

Growth with Redeployed Capital. For the year ended December 31, 2014, the Company acquired fee or leasehold title to ten gasoline station and convenience store properties at an aggregate purchase price of $17.6 million. For these acquisitions, the Company successfully structured forward and reverse 1031

[1] AFFO and FFO are non-GAAP measures. For a description of how Getty calculates AFFO and FFO and for a reconciliation of these non-GAAP measures to the nearest comparable GAAP measure, see Item 6 (Selected Financial Data) in the Annual Report on our Form 10-K for the year ended December 31, 2014.

exchanges enabling us to use in excess of $11 million of accumulated proceeds and also to protect for future use approximately $2 million of additional proceeds to be accumulated from the Company s ongoing property dispositions, allowing the Company to defer a meaningful portion of its taxable gains from property dispositions.

Successful Efforts toward Conclusion of Claims against Marketing. The Company s executive team continued to be instrumental in managing a successful strategy to maximize the Company s recovery of losses incurred in the Marketing bankruptcy. The Company expects to receive additional distributions from the Getty Petroleum Marketing Inc. Liquidating Trust (the GPMI Trust) on account of its unsecured claims and amounts owing under its funding agreement with the GPMI Trust. For example, on March 3, 2015, the Company announced that it had entered into a settlement agreement (the Settlement Agreement) with the GPMI Trust pursuant to which the Company expects to receive an interim distribution from the GPMI Trust of approximately $6.5 million within 15 days of the approval of the Settlement Agreement by the U.S. Bankruptcy Court.

Successful Enforcement of Property Rights. In 2014, the Company continued to successfully enforce property rights through legal proceedings against former Marketing subtenants (or sub-subtenants) who wrongfully remained in occupancy of properties after the master lease with Marketing was terminated. For example, in January 2015, the Connecticut Supreme Court affirmed lower court rulings in our favor against Marketing holdover subtenants at numerous gas stations throughout Connecticut enabling us to regain and reposition these sites, and in 2014 the Company obtained various NY State Supreme Court rulings awarding damages for use and occupancy and legal fees against an affiliated group of Marketing holdover subtenants at various gas stations in New York.

The compensation of every NEO (except for the CEO) is recommended by the CEO to the Compensation Committee and is discussed, reviewed and established by the Compensation Committee. After consideration of various factors, including the operational and financial achievements noted above and the individual contributions of the NEOs which advanced those achievements, the Compensation Committee made the following determinations in February 2015:

Awarded cash bonuses to the NEOs.

Base salaries were increased for 2015 by 10.4 percent for Mr. Constant, 7.1 percent for Mr. Dicker, and 3.0 percent for Mr. Olear, and otherwise maintained at the same level for the remaining NEOs.

Profit sharing contributions, matching contributions to the Company s 401(k) retirement savings plan and contributions to the Supplemental Retirement Plan stayed substantially the same for each NEO as the amounts contributed by the Company for the past three years.

The annual discretionary grant of restricted stock units (RSUs) under the 2004 Plan was increased by 25% for Messrs. Constant and Dicker and maintained at the prior year s level for Mr. Shea, and Mr. Olear was also awarded an annual discretionary grant of RSUs with respect to his service to the Company in 2014. Mr. Olear had been granted 5,000 RSUs by the Compensation Committee in May 2014 in connection with his hiring as the Company s Chief Investment Officer. See the Summary Compensation Table on page 24 for additional details.

Overview of Getty s Compensation Program

Getty s compensation program for executive officers is designed to effectively manage the Company s aggregate annual compensation expense while providing executive officers with a total compensation package that is adequate to retain them, encourage and motivate their high performance and promote their accountability. Getty s compensation policies are also designed to promote increased stockholder value by aligning the financial interests of Getty s executive officers with those of its stockholders. The Compensation Committee believes that its current policies, plans and programs are adequate for these purposes.

Getty s executive compensation program involves a combination of annual cash compensation, incentive compensation (cash incentive awards and equity incentive awards like RSUs with dividend equivalents), retirement and other plans, and perquisites and other benefits. Although the Compensation Committee has not adopted any formal policies for allocating compensation among the foregoing compensation components, in conducting its review and rendering its determinations, the Compensation Committee evaluates whether each executive officer is provided with a total compensation opportunity that achieves the key objectives of the compensation program while maintaining an appropriate cost structure.

Base salary levels for executive officers are, in combination with other compensation components, considered by the Compensation Committee to be sufficient to achieve the objectives of Getty s compensation program. Total compensation, including discretionary annual cash incentive awards and RSU grants (including dividend equivalents paid with respect to such RSUs), are in aggregate amounts which the Compensation Committee considers sufficient to retain its executive officers and to align their interests with those of Getty s stockholders.

Total compensation determinations for each NEO are influenced in large part by the particular responsibilities of the applicable executive position with additional consideration given to such NEO s individual performance. Our CEO reviews the performance of each NEO (other than himself) and provides compensation recommendations for the NEOs (other than himself) to the Compensation Committee with respect to base salary amounts, cash bonuses and the grants of equity based awards under the 2004 Plan consisting of RSUs (including dividend equivalents with respect to such RSUs). The Compensation Committee reviews and deliberates upon the CEO recommendations and establishes the compensation for the NEOs. Although the Compensation Committee takes the CEO s recommendations under advisement, it independently evaluates the compensation recommendations for each NEO and in all instances exercises its discretion in making final compensation decisions in accordance with its authority and formal responsibilities set forth in its charter. The Compensation Committee also has direct knowledge of the performance of the NEOs through regular and special reports by these executives to the Board of Directors and board committees and through other interactions. The compensation of the CEO is discussed, deliberated upon and approved solely by the Compensation Committee.

The Compensation Committee may periodically engage outside professional firms to assist in understanding compensation levels and programs in the broader marketplace. The Compensation Committee will periodically assess its decision to engage outside firms based on need and the Company s financial situation. In 2014, the Compensation Committee did not engage the services of a compensation consultant or benchmark compensation elements against a peer group.

Section 162(m) of the Internal Revenue Code denies publicly-held corporations the federal income tax deduction for compensation in excess of $1.0 million paid to its chief executive officer and the three most highly compensated executive officers during a year (other than the CEO and CFO) unless the compensation is qualified performance-based compensation. At this time the compensation paid to our CEO and other executive officers does not approach the $1.0 million limit on non-performance based deductible compensation imposed by Section 162(m) of the Internal Revenue Code. In the event that the compensation of any executive officer is anticipated to exceed the Section 162(m) limitation in the future, the Compensation Committee will consider such limitation in determining such officer s total compensation. It is the policy of the Compensation Committee to periodically evaluate the qualification of compensation for exclusion from the $1.0 million deduction limit under Section 162(m) of the Internal Revenue Code, as well as other sections of the Internal Revenue Code, while maintaining flexibility to take actions with respect to compensation that it deems to be in the interest of the Company and its stockholders which may not qualify for tax deductibility.

The primary elements of compensation for our NEOs are the following:

Base salary;
Incentive compensation (discretionary annual cash incentive awards and equity incentive awards like RSUs with dividend equivalents);
Retirement and other plans; and
Perquisites and other benefits.

Base Salary

The Compensation Committee examines whether each executive s base salary is competitive and appropriate in view of such person s role, level of responsibility, experience and value to the Company, and relative to achieving the overall goals of the compensation program for all executive officers. The Compensation Committee reviews base salaries annually, and in the interim if an executive officer s position or responsibilities change or if the Committee believes it is otherwise necessary or appropriate. Salaries are not automatically increased on an annual basis if the Committee believes that a raise is not warranted by either individual or Company performance, or that other forms of compensation are more appropriate to further compensation program objectives.

As part of its process and in order to achieve the overall goals of Getty s executive compensation program, the Compensation Committee determined to increase base salaries in 2015 from those in effect in 2014 by the following amounts for the following NEOs: 10.4 percent for Mr. Constant, 7.1 percent for Mr. Dicker, and 3.0 percent for Mr. Olear. Base salaries in 2015 remained the same as those in effect in 2014 for Messrs. Driscoll and Shea.

Incentive Compensation

Cash Bonus

The Compensation Committee believes that discretionary cash bonuses are useful on a case by case basis to motivate and reward executives for their contribution to annual operating results and Company achievements that help create value for our stockholders. Cash bonuses for executive officers are not guaranteed, but have been awarded from time to time at the discretion of the Compensation Committee. In deciding whether to award discretionary cash bonuses, the Compensation Committee makes its determinations based upon recommendations from the Company s CEO (except as to the CEO himself) and upon the Compensation Committee s informed judgment in view of the Company s operational and financial performance, the individual executive s responsibilities and efforts, such executive s contribution to the Company s overall performance and success, the complexity or difficulty of the objectives that have been achieved by the executive, the relative significance of a cash bonus award toward meeting the overall goals of Getty s compensation program, and other relevant considerations. These factors are considered subjectively and no one factor is accorded any specific weight. In February 2015, the Compensation Committee awarded a discretionary cash bonus to each NEO as reflected in the Summary Compensation Table for 2014. Specifically, Mr. Constant was paid a cash bonus of $150,000, Mr. Dicker was paid a cash bonus of $135,000 and Mr. Shea was paid a cash bonus of $125,000. Mr. Olear, who joined the Company in May 2014, was paid a cash bonus of $100,000.

Mr. Driscoll s Executive Employment Agreement contemplates Mr. Driscoll s eligibility for a discretionary annual cash bonus based on his performance relative to the achievement of goals, benchmarks, and other criteria to be established by the Compensation Committee in consultation with Mr. Driscoll on an annual basis. Although no such benchmarks or criteria for a cash bonus were formally established for 2014, in recognition of Mr. Driscoll s leadership and significant contributions which advanced Company achievements including those described in the 2014 Company Performance and Compensation Highlights section above, as well as other relevant factors, in February 2015, the Compensation Committee awarded a cash bonus to Mr. Driscoll in the amount of $200,000 for 2014. This amount is reflected in the Summary Compensation Table for 2014.

Equity Incentive Awards

The Company maintains the stockholder-approved 2004 Plan for officers and other valued employees of the Company and its subsidiaries, and members of the Board. The 2004 Plan allows for the grant of various types of stock-based awards, other than stock options, to eligible individuals. The 2004 Plan is administered by the Compensation Committee which has the power to determine eligibility, the types and sizes of awards, the price and timing of awards, terms of vesting, the acceleration or waiver of any vesting restriction and the timing and manner of settling vested awards.

Generally, to better align the interests of the Company s executive officers with the interests of the Company s stockholders and to promote performance that will have a positive long-term impact on total stockholder return, the Compensation Committee annually grants equity based awards under the 2004 Plan to the Company s executive officers consisting of RSUs (including dividend equivalents paid with respect to such RSUs). These RSU awards generally vest over a five year period subject to continued employment through the vesting date and, for all such RSU awards granted since 2009, are settled in shares of the Company s common stock upon the earlier of ten years after grant or termination of employment.

In February 2014, the Compensation Committee approved RSU grants in the following amounts to the following NEOs under the annual equity grant program, based on each such NEO s individual performance during 2013: 10,000 RSUs to Mr. Driscoll, 6,000 RSUs to Messrs. Dicker, Shea and Constant. In May 2014, the Compensation Committee granted 5,000 RSUs to Mr. Olear in connection with his hiring as the Company s Chief Investment Officer. These RSU grants are reflected in the 2014 Grants of Plan-Based Awards table on page 26 of this Proxy Statement. The Compensation Committee s determination in February 2014 to grant RSUs under the annual equity grant program to each executive officer was in keeping with its annual practice of using RSUs as part of the compensation program and was based on the Committee s determination that an annual grant of RSUs fosters the equivalent of stock ownership by the Company s executive officers, thereby aligning their personal interests with the long term interests of the Company s stockholders, and also encourages executive retention because the awards vest over a five year period. The size of the annual equity award granted to each NEO is commensurate with the role and responsibilities of such NEO and with historical trends.

In February 2015, the Compensation Committee approved RSU grants to each of the NEOs in accordance with its annual equity grant program, based on such NEO s individual performance during 2014, in the following amounts: 10,000 RSUs to Mr. Driscoll, 7,500 RSUs to Messrs. Olear, Constant and Dicker, and 6,000 to Mr. Shea. These RSU grants will be reflected in the 2015 Grants of Plan-Based Awards table that will be included in our Proxy Statement for the annual meeting of stockholders to be held in 2016. All such RSU grants include related dividend equivalents. The Compensation Committee s decision to increase the number of RSUs granted to certain of the NEOs was in furtherance of the overall goals of Getty s executive compensation program and in order to bring the Company s incentive compensation practices more in line with comparative practices at other REITs.

In making executive compensation determinations, the Compensation Committee has also considered the results of the non-binding, advisory stockholder votes on our executive compensation program. Our stockholders approved the Company s executive compensation program each year since the advisory vote has first been sought, most recently approving it by 94% of votes cast on the say-on-pay proposal in our 2014 proxy statement. The Compensation Committee was mindful of our stockholders endorsement of the Compensation Committee s decisions and policies and has maintained its general approach to executive compensation for decisions made to date. The Compensation Committee will continue to consider the results from this year s and future advisory stockholder votes regarding the executive compensation program.

Retirement Plans

Getty has a retirement and profit-sharing plan with 401(k) deferred savings plan provisions (the Retirement Plan) for employees, including the NEOs, meeting certain service requirements. An annual discretionary profit sharing contribution to the Retirement Plan is determined by the Board of Directors. The contribution is calculated as a percentage of the sum of (i) the employee s compensation (as defined in the Retirement Plan) up to the maximum allowed under Internal Revenue Service regulations, and (ii) the excess of that amount over the social security taxable wage base. For 2014, the Board of Directors elected to contribute 1% of that sum for each eligible employee. This percentage was consistent with prior years. Under the terms of the Retirement Plan, the Company matches 50% of each participating employee s elective contribution to the Retirement Plan, but in no event more than 3% of the employee s compensation. The Company s contributions to the Retirement Plan vest in accordance with a six-year vesting schedule and are paid upon retirement, death, disability, or termination of employment, as described more fully in the Retirement Plan.

Getty also has the Supplemental Retirement Plan for executive officers and other senior management employees. The Board of Directors has sole discretion to select annually the eligible employees for whom contributions will be made. Under the Supplemental Retirement Plan, which is not qualified for purposes of

Section 401(a) of the Internal Revenue Code, a participating employee may receive in his trust account an amount equal to 10% of his compensation (as defined in the Supplemental Retirement Plan), reduced by the amount of any contributions allocated to the employee by the Company under the Retirement Plan. The amounts held in trust under the Supplemental Retirement Plan may be used to satisfy claims of general creditors in the event of Getty s or any of its subsidiaries bankruptcy. An employee s account vests in the same manner as under the Retirement Plan and is paid upon separation of service from the Company. Under the Supplemental Retirement Plan, during any year, the Board of Directors may elect not to make any payment to the account of any or all eligible employees.

Driscoll Employment Agreement

On April 26, 2010, the Company entered into an employment agreement with David B. Driscoll (the Employment Agreement) which provides for an annual base salary of not less than $500,000 and eligibility to receive an annual cash bonus as determined by the Compensation Committee in its discretion based on Mr. Driscoll s performance relative to the achievement of goals, benchmarks, and other criteria to be established by the Compensation Committee in consultation with Mr. Driscoll on an annual basis. The Employment Agreement also provides for Mr. Driscoll s eligibility to participate in the Company s equity incentive compensation plan, supplemental retirement plan for Company executives, and all other employee benefit plans available to the Company s employees. The Employment Agreement also provides Mr. Driscoll with an automobile allowance consistent with the Company s policies for its CEO.

The Employment Agreement has an initial term of employment that commenced April 1, 2010 and ended May 20, 2013, but is subject to annual successive one-year renewal terms unless either the Company or Mr. Driscoll notifies the other of non-renewal at least ninety (90) days prior to the end of the initial term or then-current one-year renewal term, as applicable. Neither the Company nor Mr. Driscoll has given notice of such non-renewal. If Mr. Driscoll s employment is terminated as the result of death or Significant Disability (as defined in the Employment Agreement), then, in addition to base salary through the date of termination, the Company will pay Mr. Driscoll (or his designated beneficiary) six months of base salary in one lump sum. If Mr. Driscoll s employment is terminated without Cause (as defined in the Employment Agreement), or if Mr. Driscoll terminates his employment with the Company for Good Reason (as defined in the Employment Agreement), then the Company will (i) continue to pay Mr. Driscoll s base salary and provide to Mr. Driscoll all employment benefits as if his employment had continued until the end of the initial term or then-current renewal term, as applicable, or for one year, whichever is greater, and (ii) pay Mr. Driscoll for each full or partial calendar year remaining in the initial term or the then-current renewal term, as applicable, an amount equal to the amount of the annual cash bonus, if any, paid to Mr. Driscoll for the last completed year before his employment terminated. See Potential Payments upon Termination or Change of Control on page 29 of this Proxy Statement for more information about the amounts payable under the Employment Agreement.

The Employment Agreement prohibits Mr. Driscoll from (i) disclosing information that is confidential to the Company at any time during or after the termination of his employment with the Company; (ii) engaging in competition with the Company (as defined in the Employment Agreement) while employed by the Company and during the period in which he is receiving severance benefits following a termination without Cause or a resignation with Good Reason or for a period of one year following termination of employment under circumstances where no severance is paid; and (iii) soliciting the Company s customers, clients, landlords, owners, tenants, and business partners with whom he has had contact while working for the Company, or soliciting or hiring the Company s employees, sales representatives or agents, during the period in which he is prohibited from engaging in competition with the Company and for a period of six months following the expiration of the initial term or then-current renewal term, as applicable, of Mr. Driscoll s employment under the Employment Agreement.

Compensation Committee Report

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with management as required by Item 402(b) of Regulation S-K, and based on such review and discussions, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this Proxy Statement for filing with the Securities and Exchange Commission and incorporated by reference into the Company s Annual Report on Form 10-K for the year ended December 31, 2014.

Compensation Committee:
Milton Cooper (Chairman)
Philip E. Coviello
Howard B. Safenowitz
Richard E. Montag

Summary Compensation Table

The following table sets forth information about the compensation of the CEO and each of the other Named Executive Officers for services in all capacities to Getty and its subsidiaries during the periods indicated.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Stock Awards [1] ($)	Option Awards ($)	Non-Equity Incentive Plan Compen-sation ($)	Change in Pension Value and Nonqualified Deferred Compensation Earnings ($)	All Other Compen-sation [2] ($)	Total Compen-sation ($)
David B. Driscoll	2014	519,231	200,000	191,700	0	0	0	69,156	980,087
President and Chief									
Executive Officer	2013	500,000	375,000	378,375	0	0	0	66,656	1,320,031
	2012	500,000	300,000	124,275	0	0	0	68,268	992,543
Christopher J.	2014	236,538	150,000	115,020	0	0	0	35,765	537,323
Constant									
Vice President, Chief	2013	201,923	160,000	136,215	0	0	0	29,592	527,730
Financial Officer and									
Treasurer									
Kevin C. Shea	2014	276,538	125,000	115,020	0	0	0	40,226	556,784
Executive Vice									
President	2013	265,000	135,000	252,250	0	0	0	38,553	690,803
	2012	265,000	150,000	82,850	0	0	0	39,988	537,838

Joshua Dicker	2014	276,538	135,000	115,020	0	0	0	40,226	566,784
Senior Vice President, General Counsel and	2013	265,000	205,000	252,250	0	0	0	38,553	760,803
Secretary	2012	265,000	150,000	82,850	0	0	0	39,988	537,838
Mark J. Olear, *Executive Vice President and Chief Investment Officer*	2014	195,000	100,000	98,800	0	0	0	27,056	420,856

(1) Stock awards are in the form of RSUs. The amount reflected is the grant date fair value calculated based on the closing price of the Company s common stock on the grant date without consideration of the five-year vesting period of the restricted stock award. The value of future dividends is assumed to be reflected in the closing per share price of the common stock, and, consequently, in the fair value of each award. Therefore, the dividend equivalents paid on RSUs are not shown separately in this table. The Company pays dividends on RSUs only to the extent dividends are declared on shares of its common stock.

(2) All Other Compensation includes (w) perquisites and other personal benefits received by the Named Executive Officers that exceeded $10,000 in the aggregate for the year, specified below, (x) Company contributions to the Retirement Plan (including contributions under both the profit-sharing and 401(k) components of the Retirement Plan (without consideration of the six-year vesting period applicable to such contributions), (y) Company contributions to the Supplemental Retirement Plan (without consideration of the six-year vesting period applicable to such contributions), and (z) life insurance premiums, as set forth in the following table.

Name	Year	Profit Sharing Contribution	Company Match Under 401(k) Provisions	Supplemental Retirement Plan	Life Insurance[(a)]	Perquisites and Other Personal Benefits [(b)]	Total All Other Compen-sation
		($)	($)	($)	($)	($)	($)
David B. Driscoll	2014	4,030	7,800	40,670	3,456	13,200	69,156
	2013	3,963	7,650	38,387	3,456	13,200	66,656
	2012	3,899	7,500	38,701	4,968	13,200	68,268
Christopher J. Constant	2014	4,030	7,800	12,170	2,765	9,000	35,765
	2013	3,693	7,245	11,562	2,592	4,500	29,592
Kevin C. Shea	2014	4,030	7,800	16,170	3,226	9,000	40,226
	2013	3,963	7,650	14,887	3,053	9,000	38,553
	2012	3,899	7,500	15,201	4,388	9,000	39,988
Joshua Dicker	2014	4,030	7,800	16,170	3,226	9,000	40,226
	2013	3,963	7,650	14,887	3,053	9,000	38,553
	2012	3,899	7,500	15,201	4,388	9,000	39,988
Mark J. Olear	2014	4,030	4,560	9,760	3,456	5,250	27,056

(a) All life insurance policy premiums relate to term life insurance policies.
(b) Perquisites and Other Personal Benefits consist only of an automobile allowance.

2014 Grants of Plan-Based Awards

Name	Board Action Date	Grant Date	Estimated Future Payouts Under Non-Equity Incentive Plan Awards			Estimated Future Payouts Under Equity Incentive Plan Awards			All Other Stock Awards: Number of Shares of Stock or Units (#)(1)	All Other Option Awards: Number of Securities Underlying Options (#)	Grant Date Fair Value of Stock and Option Awards ($)(2)
			Threshold ($)	Target ($)	Maximum ($)	Threshold (#)	Target (#)	Maximum (#)			
David B. Driscoll	2/5/2014	3/1/2014	0	0	0	0	0	0	10,000	0	191,700
Christopher J. Constant	2/5/2014	3/1/2014	0	0	0	0	0	0	6,000	0	115,020
Kevin C. Shea	2/5/2014	3/1/2014	0	0	0	0	0	0	6,000	0	115,020
Joshua Dicker	2/5/2014	3/1/2014	0	0	0	0	0	0	6,000	0	115,020

Mark J. Olear	5/13/2014	5/13/2014	0	0	0	0	0	0	5,000	0	98,800

(1) Stock awards are in the form of RSUs that vest over a five-year period on the anniversary of the grant date.

(2) Grant date fair value is calculated based on the closing price of Getty common stock on the grant date without consideration of the five-year vesting period of the restricted stock award.

2014 Outstanding Equity Awards at Year-End

The following table provides information as to outstanding Stock Options and RSUs held by each of the NEOs at December 31, 2014.

Name	Option Awards						Stock Awards			
	Number of Securities Underlying Unexercised Options	Number of Securities Underlying Unexercised Options	Equity Incentive Plan Awards: Number of Securities Underlying Unexercised Unearned Options	Option Exercise Price	Option Expiration Date	Grant Date	Number of Shares or Units of Stock That Have Not Vested (1)	Market Value of Shares or Units of Stock That Have Not Vested	Equity Incentive Plan Awards: Number of Unearned Shares, Units or Other Rights That Have Not Vested	Equity Incentive Plan Awards: Market or Payout Value of Unearned Shares, Units or Other Rights That Have Not Vested
	(#) Exercisable	(#) Unexercisable	(#)	($)			(#)	($)	(#)	($)
David B. Driscoll (2)						3/1/14	10,000	182,100		
						3/1/13	6,750	122,918		
						3/1/13	6,000	109,260		
						3/2/12	4,500	81,945		

0.76% 0.71%

- Non-Core 0.64% 1.16% 0.31% 0.43%

Note:

(1) Retail & Commercial (R&C) comprises the UK Retail, UK Corporate, Wealth, Global Transaction Services, Ulster Bank and US Retail & Commercial divisions.

Key points

2011 compared with 2010

· Group net interest income was 11% lower largely driven by the run-off of balances and exit of higher margin, higher risk segments in Non-Core.

·

Group NIM was 14 basis points lower, reflecting the cost of carrying a higher liquidity portfolio and by the impact of non-performing assets in the Non-Core division.

· R&C NIM was up 7 basis points, with strengthening asset margins in the first half of the year offsetting the impact of a competitive deposit market.

Q4 2011 compared with Q3 2011

· Group net interest income remained stable in Q4 2011, as reduced interest expense from repayment of high cost government-guaranteed debt offset modest margin pressure in R&C.

· R&C NIM was 2 basis points lower, largely driven by competitive pricing on UK deposits and a continued decline in long-term swap rate returns on current accounts.

· Overall Group interest-earning assets were broadly stable. R&C interest-earning assets were flat, while elsewhere in the Group higher central bank cash balances offset asset run-off in GBM and Non-Core.

Q4 2011 compared with Q4 2010

· R&C NIM was down 4 basis points, with continued tightening of liability margins and a decline in long-term swap rate returns on current accounts more than offsetting asset repricing actions.

· Average interest-earning assets were up slightly at £665 billion, with growth in UK mortgage balances and in liquidity holdings offsetting Non-Core run-off.

Analysis of results (continued)

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Non-interest income	£m	£m	£m	£m	£m
Net fees and commissions	4,924	5,982	1,017	1,148	1,603
Income from trading activities					
- Asset Protection Scheme (APS)	(906)	(1,550)	(209)	(60)	(725)
- movements in the fair value of own debt	225	(75)	(170)	470	110
- other	3,382	6,142	141	547	979
Gain/(loss) on redemption of own debt	255	553	(1)	1	-
Other operating income					
- strategic disposals	(24)	171	2	49	502
- movements in the fair value of own debt*	1,621	249	(200)	1,887	472
- other	2,525	1,059	403	448	29
Non-interest income (excluding insurance net premium income)	12,002	12,531	983	4,490	2,970
Insurance net premium income	4,256	5,128	981	1,036	1,272
Total non-interest income	16,258	17,659	1,964	5,526	4,242
* Fair value of own debt impact:					
Income from trading activities	225	(75)	(170)	470	110
Other operating income	1,621	249	(200)	1,887	472
Fair value of own debt (FVOD)	1,846	174	(370)	2,357	582

Key points

2011 compared with 2010

- Non-interest income decreased by 8% to £16,258 million in 2011. Excluding movements in the fair value of own debt £1,846 million, a charge on the APS of £906 million, gain on redemption of own debt of £255 million, a loss on strategic disposals of £24 million and other losses of £1 million, non-interest income decreased by £3,374 million to £15,088 million. This was principally driven by lower trading income in GBM and Non-Core and a fall in insurance net premium income.

- Volatile market conditions led to a reduction in GBM trading income, driven by the deterioration in global credit markets as sovereign difficulties in the eurozone grew.

- Non-Core trading losses increased by £690 million, reflecting costs incurred as part of the division's focus on reducing capital trading assets, with activity including the restructuring of monoline exposures, which mitigated both significant immediate and future regulatory uplifts in risk-weighted assets.

· Insurance net premium income fell by 17% largely driven by RBS Insurance's exit from certain business segments, along with reduced volumes reflecting the de-risking of the motor book. Insurance net premium income in Non-Core also decreased as legacy policies ran-off.

· 2010 results included £482 million of income recorded for GMS prior to its disposal in November 2010.

· A gain of £502 million on strategic disposals for Q4 2010 largely reflected the £837 million gain on the sale of Global Merchant Services, partially offset by losses on Non-Core project finance assets.

2011 compared with 2010 (continued)

- A full year gain on FVOD of £1,846 million as a result of Group credit spreads widening partially offset the 2011 charges. This compares with a smaller gain of £174 million in 2010.

- The APS fair value charge was £906 million in 2011. The cumulative charge for the APS was £2,456 million as at 31 December 2011.

Q4 2011 compared with Q3 2011

- Non-interest income fell 6% to £1,964 million. Excluding movements in the fair value of own debt of £370 million, a charge on the APS of £209 million, a gain on strategic disposals of £2 million and other adjustments of £2 million, non-interest income was £1,964 million.

- GBM trading income included a £368 million change in own credit on derivative liabilities, partially offset by an improved credit hedging (CEM) position of £235 million. Excluding these items, GBM trading income was £542 million versus £551 million in Q3 2011.

- Insurance premium income fell, largely reflecting the continued de-risking of the motor portfolio.

- The Group's credit spreads narrowed in the fourth quarter resulting in a FVOD charge of £370 million. This compares with a widening of spreads in Q3 2011 and a significant gain of £2,357 million.

Q4 2011 compared with Q4 2010

- Non-interest income fell 54% to £1,964 million.

- More challenging market conditions reduced trading and fee income in GBM.

- In Q4 2011 the Group recorded a loss of £370 million on FVOD, as Group credit spreads tightened. Wider credit spreads in Q4 2010 resulted in a gain of £582 million.

- The Q4 2011 APS fair value charge was £209 million compared with a charge of £725 million in Q4 2010, reflecting improved credit spreads in the quarter, as well as a further reduction in assets covered to £131.8 billion at 31 December 2011.

Analysis of results (continued)

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Operating expenses	£m	£m	£m	£m	£m
Staff expenses	8,678	9,671	1,993	2,076	2,194
Premises and equipment	2,451	2,402	674	604	709
Other administrative expenses					
-Payment Protection Insurance costs	850	-	-	-	-
-Integration and restructuring costs	1,059	1,032	478	233	299
-Bank levy	300		300		
-Other	2,722	2,963	518	729	749
Administrative expenses	16,060	16,068	3,963	3,642	3,951
Depreciation and amortisation					
-amortisation of purchased intangible assets	222	369	53	69	96
-other	1,653	1,781	460	416	450
Write down of goodwill and other intangible assets					
-Goodwill relating to UK branch-based businesses	80	-	80	-	-
-other	11	10	11	-	10
Operating expenses	18,026	18,228	4,567	4,127	4,507
General insurance	2,968	4,698	529	734	1,151
Bancassurance	-	85	-	-	31
Insurance net claims	2,968	4,783	529	734	1,182
Staff costs as a % of total income	30%	30%	40%	24%	28%

Key points

2011 compared with 2010

- Group expenses were £18,026 million, 1% lower in 2011. Excluding Payment Protection Insurance costs of £850 million, integration and restructuring costs of £1,059 million, bank levy charges of £300 million, goodwill relating to the sale of UK branch-based business of £80 million and other adjustments of £259 million, Group expenses fell by 7% to £15,478 million. This decrease was driven by cost savings achieved as a result of the cost reduction programme and Non-Core run-off, largely reflecting the disposal of RBS Sempra and specific country exits.

- Staff expenses fell 10%, driven by lower GBM variable compensation as a result of its decrease in revenues, and in Non-Core, given the impact of a 32% reduction in headcount and continued business disposals and country exits.

- General insurance claims were £1,730 million lower, mainly due to the non-repeat of bodily injury reserve strengthening in 2010, de-risking of the motor book, more benign weather in 2011 and claims in Non-Core decreasing as legacy policies ran-off.

- The Group's cost reduction programme delivered cost savings with an underlying run rate of over £3 billion by the end of 2011.

- Integration and restructuring costs remained broadly flat at £1,059 million, reflecting significant GBM restructuring in 2011.

Q4 2011 compared with Q3 2011

- Group expenses increased by 10% to £4,567 million. Excluding integration and restructuring costs of £478 million, bank levy charges of £300 million, amortisation of purchased intangible assets of £53 million, goodwill relating to the sale of UK branch-based business of £80 million and other losses of £12 million, Group expenses fell by 5% to £3,644 million. This was significantly driven by a reduction in GBM variable compensation accrued in the first half of 2011. Core R&C expenses declined by 3% in part reflecting lower deposit insurance levies in Wealth and US R&C and continued benefits from the cost reduction programme.

- Non-Core expenses fell 3% largely driven by ongoing rundown of the division.

- Q4 2011 integration and restructuring costs increased to £478 million, largely reflecting the GBM headcount reduction announced in 2011, as well as property exit costs.

Q4 2011 compared with Q4 2010

- Group expenses were £60 million, or 1% higher than in the prior year. Excluding integration and restructuring costs of £478 million, bank levy charges of £300 million, amortisation of purchased intangible assets of £53 million, goodwill relating to the sale of UK branch-based business of £80 million and other losses of £12 million, Group expenses were £437 million, or 11% lower than in the prior year. Non-Core expenses were down 35% reflecting the impact of business disposals and country exits and significantly lower current year variable compensation in GBM.

- General insurance claims fell by 54% as net claims in RBS Insurance fell by £309 million, reflecting an improved risk mix, more benign weather in Q4 2011 and the exit of certain business segments. Legacy business run-off in Non-Core also reduced claims.

- Integration and restructuring costs increased from £299 million in Q4 2010 to £478 million in Q4 2011 largely reflecting significant restructuring within GBM along with continued business and country exits.

Analysis of results (continued)

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Impairment losses	£m	£m	£m	£m	£m
Loan impairment losses	7,241	9,144	1,654	1,452	2,155
Securities impairment losses					
-Sovereign debt impairment (1)	1,099	-	224	142	-
-Interest rate hedge adjustments on available-for-sale Greek government bonds	169	-	-	60	-
-other	200	112	40	84	(14)
Group impairment losses	8,709	9,256	1,918	1,738	2,141
Loan impairment losses					
- latent	(545)	(121)	(190)	(60)	(116)
- collectively assessed	2,591	3,070	591	689	729
- individually assessed	5,195	6,208	1,253	823	1,555
Customer loans	7,241	9,157	1,654	1,452	2,168
Bank loans	-	(13)	-	-	(13)
Loan impairment losses	7,241	9,144	1,654	1,452	2,155
Core	3,403	3,737	924	817	912
Non-Core	3,838	5,407	730	635	1,243
Group	7,241	9,144	1,654	1,452	2,155
Customer loan impairment charge as a % of gross loans and advances (2)					
Group	1.5%	1.7%	1.3%	1.1%	1.6%
Core	0.8%	0.9%	0.9%	0.8%	0.9%
Non-Core	4.8%	4.9%	3.7%	2.8%	4.4%

Notes:

(1) The Group holds Greek government bonds with a notional amount of £1.45 billion. In the second quarter of 2011, the Group recorded an impairment loss of £733 million in respect of these bonds as a result of Greece's continuing fiscal difficulties. This charge (c.50% of notional) wrote the bonds down to their market price as at 30 June 2011. In the third quarter of 2011, an additional impairment loss of £142 million was recorded to write the bonds down to their market price as at 30 September 2011 (c.37% of notional). In the fourth quarter of 2011, an additional impairment loss of £224 million was recorded to write the bonds down to their market price as at 31 December 2011 (c.21% of notional).

(2)

Customer loan impairment charge as a percentage of gross customer loans and advances excluding reverse repurchase agreements and including disposal groups.

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Analysis of results (continued)

Key points

2011 compared with 2010

· Group loan impairment losses decreased by 21% compared with 2010, driven largely by a £1,569 million reduction in Non-Core loan impairments, despite continuing challenges in Ulster Bank and corporate real estate portfolios.

· R&C loan impairment losses fell by £199 million, driven by improving credit metrics in UK Retail and US Retail & Commercial partially offset by increases in Ulster Bank, largely reflecting a deterioration in credit metrics on the mortgage portfolio, and a single name provision in GTS.

· Total Core and Non-Core Ulster Bank loan impairment losses decreased by 3%, as the £223 million increase in Core Ulster Bank losses was more than offset by a decrease in losses recognised in Non-Core.

· The Group customer loan impairment charge as a percentage of loans and advances fell to 1.5% compared with 1.7% for 2010. For Core, the comparable percentages are 0.8% and 0.9%.

· An impairment of £1,099 million was taken on the Group’s AFS bond portfolio in 2011 as a result of the decline in the value of Greek sovereign bonds. As of 31 December 2011, the bonds were marked at 21% of par value.

Q4 2011 compared with Q3 2011

· Group loan impairment losses increased by 14% in Q4 2011, largely reflecting a small number of corporate provisions in GBM and a small increase in Non-Core impairments related to the UK Corporate portfolio.

· Total Core and Non-Core Ulster Bank loan impairments fell by £38 million compared with Q3 2011, £570 million versus £608 million, driven by a 14% decrease in Non-Core Ulster Bank impairments. Core Ulster Bank impairments were broadly flat as lower losses on the corporate portfolio were offset by an increase in mortgage losses.

· An additional impairment of £224 million was taken in Q4 2011 as a result of the continuing decline in the value of Greek sovereign bonds.

Q4 2011 compared with Q4 2010

· Group loan impairment losses fell 23% largely driven by a reduction in Non-Core impairment losses reflecting a reduction in Ulster Bank provisions in the quarter.

· Total Ulster Bank loan impairment losses (Core and Non-Core) were £570 million in Q4 2011, compared with £1,159 million in Q4 2010, driven by the decrease in Non-Core impairments.

· Loan impairment losses in R&C fell by £51 million, driven by improvements in UK Retail, US Retail & Commercial and Ulster Bank, partially offset by a single name provision in GTS and higher specific provisions in UK Corporate.

· Provision coverage of risk elements in lending was 49% at the end of Q4 2011, compared with 47% a year earlier.

Bank levy

The Finance Act 2011 introduced an annual bank levy in the UK. The levy is collected through the existing quarterly Corporation Tax collection mechanism starting with payment dates on or after 19 July 2011.

The levy is based on the total chargeable equity and liabilities as reported in the balance sheet at the end of a chargeable period. The first chargeable period for the Group was the year ended 31 December 2011. In determining the chargeable equity and liabilities the following amounts are excluded: adjusted Tier 1 capital; certain "protected deposits" (for example those protected under the Financial Services Compensation Scheme); liabilities that arise from certain insurance business within banking groups; liabilities in respect of currency notes in circulation; Financial Services Compensation Scheme liabilities; liabilities representing segregated client money; and deferred tax liabilities, current tax liabilities, liabilities in respect of the levy, revaluation of property liabilities, liabilities representing the revaluation of business premises and defined benefit retirement liabilities. It is also permitted in specified circumstances to reduce certain liabilities: by netting them against certain assets; offsetting assets on the relevant balance sheets that would qualify as high quality liquid assets (in accordance with the FSA definition); and repo liabilities secured against sovereign and supranational debt.

The levy will be set at a rate of 0.088 per cent from 2012. Three different rates applied during 2011, these average to 0.075 per cent. Certain liabilities are subject to only a half rate, namely any deposits not otherwise excluded, (except for those from financial institutions and financial traders) and liabilities with a maturity greater than one year at the balance sheet date. The levy is not charged on the first £20 billion of chargeable liabilities. The cost of the levy to the Group for 2011 is £300 million (included in 'Other administrative expenses' - see page 21). As the Group continues to target a reduction in wholesale funding, the cost should decline over time absent further rate increases.

Analysis of results (continued)

Capital resources and ratios	31 December 2011	30 September 2011	31 December 2010
Core Tier 1 capital	£46bn	£48bn	£50bn
Tier 1 capital	£57bn	£58bn	£60bn
Total capital	£61bn	£62bn	£65bn
Risk-weighted assets			
- gross	£508bn	£512bn	£571bn
- benefit of the Asset Protection Scheme	(£69bn)	(£89bn)	(£106bn)
Risk-weighted assets	£439bn	£423bn	£465bn
Core Tier 1 ratio (1)	10.6%	11.3%	10.7%
Tier 1 ratio	13.0%	13.8%	12.9%
Total capital ratio	13.8%	14.7%	14.0%

Note:

(1) The benefit of APS in Core Tier 1 ratio is 0.9% at 31 December 2011 (30 September 2011 - 1.3%; 31 December 2010 - 1.2%).

Key points

2011 compared with 2010

· The Group's Core Tier 1 ratio remained strong at 10.6%. Core Tier 1 ratio fell 10 basis points compared with 2010, reflecting the PPI charge, the impairment taken on the Group's AFS bond portfolio in relation to Greek sovereign bonds, the bank levy and the implementation of CRD III.

· Gross risk-weighted assets fell £63 billion, or 11% in 2011. Net of the APS scheme the decline was £26 billion. The fall in risk-weighted assets was largely driven by Non-Core run-off and business exits, combined with specific actions taken in Non-Core to reduce capital intensive assets. These were partially offset by CRD III related uplifts which added £21 billion.

Q4 2011 compared with Q3 2011

· The Core Tier 1 ratio declined 70 basis points versus Q3 2011, reflecting a £21 billion uplift in risk-weighted assets from the implementation of CRD III, along with the quarter's attributable loss.

· Gross risk-weighted assets were broadly flat on the previous quarter, with the CRD III related uplift offset by Non-Core risk-weighted assets reduction from run-off and restructuring activity.

· The Q4 2011 capital relief from APS declined to 0.9%, versus 1.3% in Q3 2011, due to the significant decline in covered assets in Non-Core of £20 billion.

Analysis of results (continued)

Balance sheet	31 December 2011	30 September 2011	31 December 2010
Funded balance sheet (1)	£977bn	£1,035bn	£1,026bn
Total assets	£1,507bn	£1,608bn	£1,454bn
Loans and advances to customers (2)	£454bn	£486bn	£503bn
Customer deposits (3)	£414bn	£434bn	£429bn
Loan:deposit ratio - Group (4)	110%	112%	118%

Notes:
(1) Funded balance sheet represents total assets less derivatives.
(2) Excluding reverse repurchase agreements and stock borrowing.
(3) Excluding repurchase agreements and stock lending.
(4) Net of provisions. Including disposal groups, the loan:deposit ratio at 31 December 2011 was 108%.

Key points

· Funded assets declined £58 billion in the quarter to close the year at £977 billion. GBM's funded assets fell £35 billion in 2011, to £362 billion, with further reductions to circa £300 billion of funded assets targeted as RBS restructures its wholesale businesses. Non-Core funded assets fell by £11 billion in the quarter, £44 billion in the year, closing 2011 with funded assets of £94 billion, ahead of its revised target of £96 billion.

· Loans and advances to customers were down 7% from Q3 2011. Loans and advances to customers, including disposal groups of £19 billion, were down 3% from Q3 2011, and down 7% from Q4 2010, largely reflecting run-off in Non-Core. Loans and advances in R&C were broadly flat in the year.

· Customer deposits were down 5% from Q3 2011. Including disposal groups of £23 billion, customer deposits increased by £6 billion from Q4 2010. R&C deposits increased by £10 billion, 3%, from 2010, partially offset by a decrease in Non-Core as business disposals and country exits continued. Customer deposits also increased by £3 billion compared with Q3 2011, as UK Retail attracted £3 billion of new deposits and UK Corporate attracted £2 billion of new deposits, partially offset by reductions in GBM and Ulster Bank.

· The Group loan:deposit ratio improved to 108% at 31 December 2011, a 900 basis point improvement from 31 December 2010. The Core loan:deposit ratio also improved to 94% compared with 96% a year earlier.

Further discussion of the Group's liquidity and funding position is included on pages 141 to 150.

Divisional performance

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

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Operating profit/(loss) by division					
UK Retail	1,991	1,372	461	499	558
UK Corporate	1,414	1,463	275	301	333
Wealth	321	304	96	71	87
Global Transaction Services	743	1,088	197	195	267
Ulster Bank	(1,024)	(761)	(239)	(219)	(271)
US Retail & Commercial	479	306	157	115	64
Retail & Commercial	3,924	3,772	947	962	1,038
Global Banking & Markets	1,561	3,364	(95)	112	527
RBS Insurance	454	(295)	125	123	(9)
Central items	156	577	85	67	115
Core	6,095	7,418	1,062	1,264	1,671
Non-Core	(4,203)	(5,505)	(1,308)	(997)	(1,616)
Managed basis	1,892	1,913	(246)	267	55
Reconciling items					
Fair value of own debt	1,846	174	(370)	2,357	582
Asset Protection Scheme	(906)	(1,550)	(209)	(60)	(725)
Payment Protection Insurance costs	(850)	-	-	-	-
Sovereign debt impairment	(1,099)	-	(224)	(142)	-
Amortisation of purchased intangible assets	(222)	(369)	(53)	(69)	(96)
Integration and restructuring costs	(1,064)	(1,032)	(478)	(233)	(299)
Gain/(loss) on redemption of own debt	255	553	(1)	1	-
Strategic disposals	(104)	171	(82)	(49)	502
Bank levy	(300)	-	(300)	-	-
Other	(214)	(259)	(13)	(68)	(27)
Statutory basis	(766)	(399)	(1,976)	2,004	(8)

Divisional performance (continued)

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Impairment losses/(recoveries) by division					
UK Retail	788	1,160	191	195	222
UK Corporate	785	761	234	228	219
Wealth	25	18	13	4	6
Global Transaction Services	166	9	47	45	3
Ulster Bank	1,384	1,161	327	327	376
US Retail & Commercial	325	517	65	84	105
Retail & Commercial	3,473	3,626	877	883	931
Global Banking & Markets	49	151	68	(32)	(5)
Central items	(2)	3	(4)	3	4
Core	3,520	3,780	941	854	930
Non-Core	3,919	5,476	751	682	1,211
Group impairment losses	7,439	9,256	1,692	1,536	2,141

	Year ended		Quarter ended		
	31 December 2011 %	31 December 2010 %	31 December 2011 %	30 September 2011 %	31 December 2010 %
Net interest margin by division					
UK Retail	3.92	3.91	3.75	3.90	4.05
UK Corporate	2.58	2.51	2.55	2.48	2.55
Wealth	3.59	3.37	3.86	3.46	3.29
Global Transaction Services	5.52	6.73	5.29	5.33	6.14
Ulster Bank	1.77	1.84	1.81	1.85	1.77
US Retail & Commercial	3.06	2.85	3.03	3.09	3.00
Retail & Commercial	3.21	3.14	3.17	3.19	3.21
Global Banking & Markets	0.73	1.05	0.76	0.71	0.93
Non-Core	0.64	1.16	0.31	0.43	1.09
Group net interest margin	1.92	2.06	1.84	1.84	

Divisional performance (continued)

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Risk-weighted assets by division					
UK Retail	48.4	48.7	(1%)	48.8	(1%)
UK Corporate	76.1	75.7	1%	81.4	(7%)
Wealth	12.9	13.0	(1%)	12.5	3%
Global Transaction Services	17.3	18.6	(7%)	18.3	(5%)
Ulster Bank	36.3	34.4	6%	31.6	15%
US Retail & Commercial	58.8	56.5	4%	57.0	3%
Retail & Commercial	249.8	246.9	1%	249.6	-
Global Banking & Markets	151.1	134.3	13%	146.9	3%
Other	10.8	9.8	10%	18.0	(40%)
Core	411.7	391.0	5%	414.5	(1%)
Non-Core	93.3	117.9	(21%)	153.7	(39%)
Group before benefit of Asset Protection Scheme	505.0	508.9	(1%)	568.2	(11%)
Benefit of Asset Protection Scheme	(69.1)	(88.6)	(22%)	(105.6)	(35%)
Group before RFS Holdings minority interest	435.9	420.3	4%	462.6	(6%)
RFS Holdings minority interest	3.1	3.0	3%	2.9	7%
Group	439.0	423.3	4%	465.5	(6%)

For the purposes of the divisional return on equity ratios, notional equity has been calculated as a percentage of the monthly average of divisional risk-weighted assets, adjusted for capital deductions. Currently, 9% has been applied to the Retail & Commercial divisions and 10% to Global Banking & Markets. However, these will be subject to modification as the final Basel III rules and ICB recommendations are considered.

Employee numbers by division (full time equivalents in continuing operations rounded to the nearest hundred)	31 December 2011	30 September 2011	31 December 2010
UK Retail	27,700	27,900	28,200
UK Corporate	13,500	13,600	13,100
Wealth	5,700	5,600	5,200
Global Transaction Services	2,600	2,700	2,600
Ulster Bank	4,200	4,400	4,200
US Retail & Commercial	15,200	15,300	15,700
Retail & Commercial	68,900	69,500	69,000
Global Banking & Markets	17,000	18,900	18,700

RBS Insurance	14,900	15,200	14,500
Group Centre	6,200	6,100	4,700
Core	107,000	109,700	106,900
Non-Core	4,700	5,300	6,900
	111,700	115,000	113,800
Business Services	34,000	34,200	34,400
Integration and restructuring	1,100	1,100	300
Group	146,800	150,300	148,500

UK Retail

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Income statement					
Net interest income	4,272	4,078	1,036	1,074	1,088
Net fees and commissions	1,066	1,100	242	259	316
Other non-interest income	140	322	35	33	86
Non-interest income	1,206	1,422	277	292	402
Total income	5,478	5,500	1,313	1,366	1,490
Direct expenses					
- staff	(839)	(889)	(200)	(206)	(208)
- other	(437)	(480)	(116)	(102)	(71)
Indirect expenses	(1,423)	(1,514)	(345)	(364)	(400)
	(2,699)	(2,883)	(661)	(672)	(679)
Insurance net claims	-	(85)	-	-	(31)
Impairment losses	(788)	(1,160)	(191)	(195)	(222)
Operating profit	1,991	1,372	461	499	558
Analysis of income by product					
Personal advances	1,089	993	276	260	275
Personal deposits	961	1,102	214	236	271
Mortgages	2,277	1,984	577	576	557
Cards	950	962	238	231	251
Other, including bancassurance	201	459	8	63	136
Total income	5,478	5,500	1,313	1,366	1,490
Analysis of impairments by sector					
Mortgages	182	177	32	34	30
Personal	437	682	116	120	131
Cards	169	301	43	41	61
Total impairment losses	788	1,160	191	195	222

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	0.2%	0.2%	0.1%	0.1%	0.1%
Personal	4.3%	5.8%	4.6%	4.7%	4.5%
Cards	3.0%	4.9%	3.0%	2.9%	4.0%
Total	0.7%	1.1%	0.7%	0.7%	0.8%

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	26.4%	18.0%	25.1%	26.7%	25.2%
Net interest margin	3.92%	3.91%	3.75%	3.90%	4.05%
Cost:income ratio	49%	52%	50%	49%	46%
Adjusted cost:income ratio (2)	49%	53%	50%	49%	47%

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross) (3)					
- mortgages	95.0	94.2	1%	90.6	5%
- personal	10.1	10.3	(2%)	11.7	(14%)
- cards	5.7	5.6	2%	6.1	(7%)
	110.8	110.1	1%	108.4	2%
Customer deposits (excluding bancassurance) (3)	101.9	98.6	3%	96.1	6%
Assets under management (excluding deposits)	5.5	5.6	(2%)	5.7	(4%)
Risk elements in lending (3)	4.6	4.7	(2%)	4.6	-
Loan:deposit ratio (excluding repos)	106%	109%	(300bp)	110%	(400bp)
Risk-weighted assets	48.4	48.7	(1%)	48.8	(1%)

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

(2) Adjusted cost:income ratio is based on total income after netting insurance claims and operating expenses.

(3) Includes disposal groups: loans and advances to customers £7.3 billion; risk elements in lending £0.5 billion; customer deposits £8.8 billion.

Key points

In 2010, UK Retail set out an aspiration to become the UK's most helpful bank and launched the Customer Charter. In 2011, we made good progress on our Customer Charter commitments and the roll-out of innovation that actually helps customers. In December 2011, UK Retail refined its staff incentive scheme to further strengthen the role of customer service and to help build long lasting customer relationships.

Progress against the Customer Charter commitments is independently assessed and has shown encouraging results. By the end of 2011, we achieved the goal of serving 80% of our customers in less than 5 minutes in our busiest branches.

Branch opening hours have also been extended and standardised, which means that our branches are now open for an additional 5,000 hours per week at times our customers have told us suit them.

Innovation has supported the delivery of Helpful Banking by focusing on solutions that make it easier for customers to bank with RBS and NatWest. An important example has been giving customers access to 24 hour emergency cash from NatWest and RBS ATMs when their cards are lost or stolen. We also updated our market-leading iPhone application and by the end of the year 1 million customers had downloaded the application. With successful apps also launched for iPad, Android and Blackberry, RBS is now the leading mobile bank in the UK.

Key points (continued)

2011 compared with 2010

- UK Retail delivered strong full year results, as operating profit increased by £619 million to £1,991 million, despite continued uncertainty in the economic climate and the low interest rate environment. Profit before impairments was up £247 million or 10%, while impairments fell by £372 million, with further improvements in the unsecured book and continued careful mortgage underwriting. Return on equity improved to 26.4%.

- The division continued to focus on growing secured lending while at the same time building customer deposits, thereby reducing the Group's reliance on wholesale funding. Loans and advances to customers grew 2%, with a change in mix from unsecured to secured as the Group actively sought to improve its risk profile. Mortgage balances grew by 5%, while unsecured lending contracted by 11%.

  o Mortgage growth reflected continued strong new business levels. Gross mortgage lending market share of 10% continues above our stock position of 8%.

  o Customer deposits grew 6%, outperforming the market total deposit growth of 3%. Savings balances grew by £6 billion, or 9%, with 1.5 million accounts opened, demonstrating the strength of our customer franchise and our strategy to further develop primary banking relationships.

- Net interest income increased by 5% to £4,272 million, driven by strong balance sheet growth. Net interest margin remained broadly flat with recovering asset margins largely offset by more competitive savings rates and lower long term swap rate returns adversely impacting liability margins.

- Non-interest income declined 15% to £1,206 million, primarily driven by lower investment and protection income as a result of the dissolution of the bancassurance joint venture. In addition, a number of changes have been made to support delivery of Helpful Banking, such as 'Act Now' text alerts, which have decreased fee income.

- Overall expenses decreased by 6%, with the adjusted cost:income ratio improving from 53% to 49%. Cost reductions were driven by a clear management focus on process re-engineering and operational efficiency together with benefits from the dissolution of the bancassurance joint venture, partly offset by higher inflation rates in utility and mail costs.

- Impairment losses decreased 32% to £788 million reflecting the impact of a strengthened risk appetite, and a more stable economic environment.

- Risk-weighted assets were broadly stable, with volume growth in lower risk secured mortgages partly offset by a decrease in the unsecured portfolio.

Q4 2011 compared with Q3 2011

- UK Retail achieved strong deposit growth of £3.3 billion or 3% in the quarter, with competitive fixed rate bond and ISA offerings helping to deliver strong growth in savings balances. With interest rates falling and declining consumer activity, this strong deposit-gathering performance was balanced by narrowing liability margins and lower fee income, resulting in a 4% drop in income and operating profit of £461 million, £38 million lower than in the previous quarter.

UK Retail (continued)

Key points (continued)

Q4 2011 compared with Q3 2011 (continued)

- Mortgage balances increased £0.8 billion and RBS's share of gross new lending remained strong at 10% in the quarter, above its share of stock at 8%. Unsecured lending declined 1% as the Group continued to focus on lower risk secured lending. In conjunction with the strong deposit growth recorded during the quarter, this resulted in an improvement in the loan to deposit ratio to 106% from 109% in Q3 2011.

- Net interest income fell 4%, £38 million, driven by the continued tightening of liability margins, with competitive pricing on savings balances and a continued decline in long-term swap rate returns on current accounts. Overall the net interest margin declined 15 basis points to 3.75%.

- Non-interest income declined by 5%, £15 million, as subdued consumer spending activity continued to depress transaction volumes.

- Overall expenses decreased by 2%, £11 million, with direct staff costs down 3%, £6 million, due to headcount reductions and lower staff compensation. Indirect costs decreased by 5%, £19 million, driven by further cost saving initiatives linked to compensation costs and technology savings.

- Impairment losses decreased by 2% or £4 million during the period.

Mortgage impairment losses were £32 million on a total book of £95 billion, £2 million lower than Q3 2011. Arrears rates were stable and remained below the Council of Mortgage Lenders industry average. Provision coverage levels remain stable.

The unsecured portfolio impairment charge of £159 million, on a book of almost £16 billion, was broadly flat. Default levels remained stable. Industry benchmarks for cards arrears remain stable, with RBS continuing to perform better than the market.

Q4 2011 compared with Q4 2010

- Operating profit decreased by £97 million, with income down 10%, costs down 3% and impairments 14% lower than in Q4 2010.

- Net interest income was 5% lower, with strong mortgage and deposit balance growth more than offset by a reduction in net interest margin. Liability margins fell as a result of continued competitive pressure on new business savings margins and lower long term swap rate returns adversely impacting current account income.

- Customer deposits were up 6%, with savings balances 9% higher, significantly outperforming the market. This strong deposit growth contributed to a reduction of the loan to deposit ratio from 110% to 106%.

- Non-interest income declined by 31%, £125 million, largely driven by the dissolution of the bancassurance joint venture combined with lower spending and investment activity reflecting the general economic environment.

- Overall expenses were 3% lower, despite increased charges relating to the Financial Services Compensation Scheme, reflecting continued implementation of process efficiencies and lower average staff compensation and benefits from the dissolution of the bancassurance joint venture.

- Impairment losses decreased by 14%, £31 million, primarily reflecting improvements in default rates on the unsecured book.

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UK Corporate

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Income statement					
Net interest income	2,585	2,572	634	621	653
Net fees and commissions	948	952	229	244	251
Other non-interest income	327	371	62	83	79
Non-interest income	1,275	1,323	291	327	330
Total income	3,860	3,895	925	948	983
Direct expenses					
- staff	(780)	(778)	(195)	(184)	(198)
- other	(335)	(359)	(86)	(88)	(93)
Indirect expenses	(546)	(534)	(135)	(147)	(140)
	(1,661)	(1,671)	(416)	(419)	(431)
Impairment losses	(785)	(761)	(234)	(228)	(219)
Operating profit	1,414	1,463	275	301	333
Analysis of income by business					
Corporate and commercial lending	2,676	2,598	634	647	657
Asset and invoice finance	660	617	169	176	166
Corporate deposits	683	728	170	172	184
Other	(159)	(48)	(48)	(47)	(24)
Total income	3,860	3,895	925	948	983
Analysis of impairments by sector					
Banks and financial institutions	20	20	(2)	6	12
Hotels and restaurants	59	52	16	22	18
Housebuilding and construction	103	131	27	29	47
Manufacturing	34	1	13	9	(9)
Other	163	127	37	36	(12)
Private sector education, health, social work, recreational and community services	113	30	81	20	21
Property	170	245	19	82	84
Wholesale and retail trade, repairs	85	91	29	24	31

Asset and invoice finance	38	64	14	-	27
Total impairment losses	785	761	234	228	219

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UK Corporate (continued)

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Banks and financial institutions	0.4%	0.3%	(0.1%)	0.4%	0.8%
Hotels and restaurants	1.0%	0.8%	1.0%	1.4%	1.1%
Housebuilding and construction	2.6%	2.9%	2.8%	2.9%	4.2%
Manufacturing	0.7%	-	1.1%	0.8%	(0.7%)
Other	0.5%	0.4%	0.5%	0.4%	(0.2%)
Private sector education, health, social work, recreational and community services	1.3%	0.3%	3.7%	0.9%	0.9%
Property	0.6%	0.8%	0.3%	1.1%	1.1%
Wholesale and retail trade, repairs	1.0%	0.9%	1.4%	1.1%	1.3%
Asset and invoice finance	0.4%	0.6%	0.5%	-	1.1%
Total	0.7%	0.7%	0.9%	0.8%	0.8%

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	12.4%	12.1%	10.2%	11.1%	11.8%
Net interest margin	2.58%	2.51%	2.55%	2.48%	2.55%
Cost:income ratio	43%	43%	45%	44%	44%

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Total third party assets	111.8	112.7	(1%)	114.6	(2%)
Loans and advances to customers (gross) (2)					
- banks and financial institutions	5.7	5.7	-	6.1	(7%)
- hotels and restaurants	6.1	6.3	(3%)	6.8	(10%)
- housebuilding and construction	3.9	4.0	(3%)	4.5	(13%)
- manufacturing	4.6	4.7	(2%)	5.3	(13%)
- other	32.6	32.6	-	31.0	5%
- private sector education, health, social	8.7	8.7	-	9.0	(3%)

work, recreational and community services					
- property	28.2	29.0	(3%)	29.5	(4%)
- wholesale and retail trade, repairs	8.5	8.9	(4%)	9.6	(11%)
- asset and invoice finance	10.4	10.1	3%	9.9	5%
	108.7	110.0	(1%)	111.7	(3%)
Customer deposits (2)	100.9	98.9	2%	100.0	1%
Risk elements in lending (2)	5.0	4.9	2%	4.0	25%
Loan:deposit ratio (excluding repos)	106%	109%	(300bp)	110%	(400bp)
Risk-weighted assets	76.1	75.7	1%	81.4	(7%)

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax, divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

(2) Includes disposal groups: loans and advances to customers £12.2 billion; risk elements in lending £1.0 billion; customer deposits £21.8 billion.

Key points
In 2011, UK Corporate focused on supporting its customers through challenging economic times.

As a result of over 5,000 hours of customer research, UK Corporate launched the 'Ahead for Business' promise to its small and medium-sized enterprise (SME) customers.

To deliver on this, the division launched a number of initiatives to improve the service it offers to customers. For example, the 'Working with You' initiative, has seen over 4,600 visits to customer businesses since its launch in Q2 2011. Additionally, following the launch of the relationship manager accreditation programme, also in Q2 2011, almost all relationship managers have gained full accreditation in the initial phase.

UK Corporate continued to support new and existing businesses during 2011:

- launching its best ever fixed rate loan product for SMEs;
- reacting quickly after the August riots to give affected businesses access to special interest rate and fee free lending products;
- answering over 4,000 calls on the Start-up Hotline, offering free advice and a complementary business plan review service; and
- supporting more debt capital and loan market deals for larger corporates than any other bank

The division also took measures to reduce the risk retained in the business allowing for quicker and more consistent decisions by simplifying the credit underwriting process and improving automated decision making.

2011 compared with 2010

- Operating profit decreased 3% to £1,414 million, as lower income and higher impairments were only partially offset by a decrease in expenses.
- Net interest income remained broadly flat. Net interest margin improved 7 basis points with benefits from re-pricing the lending portfolio and the revision to income deferral assumptions in Q1 2011 partially offset by increased funding costs together with continued pressure on deposit margins. A 1% increase in deposit balances supported an improvement in the loan to deposit ratio to 106%.
- Non-interest income decreased by 4% as a result of lower GBM cross-sales and fee income, partially offset by increased Invoice Finance and Lombard income.
- Excluding the £29 million OFT penalty in 2010, total costs increased by 1%, largely reflecting increased investment in the business and higher costs of managing the non-performing book.
- Impairments of £785 million were 3% higher due to increased specific impairments and collectively assessed provisions, partially offset by lower latent loss provisions.

Key points (continued)

Q4 2011 compared with Q3 2011

- Operating profit of £275 million was 9% lower, with increased net interest income more than offset by higher impairments and lower non-interest income.
- Net interest income rose by 2% and net interest margin by 7 basis points, with improved lending margins more than offsetting continued pressure on deposit margins. Strong growth in customer deposits, up £2 billion or 2%, contributed to an improvement in the loan to deposit ratio from 109% to 106%.
- Non-interest income fell by 11%, due to a number of valuation adjustments, including derivative close out costs associated with impaired assets.
- Total costs decreased 1% due to lower indirect costs, partially offset by higher discretionary staff costs.
- Impairment losses increased £6 million due to a small number of specific provisions, partially offset by an improvement in collectively assessed balances and latent provision releases.

Q4 2011 compared with Q4 2010

- Operating profit decreased 17%, driven by lower income and increased impairments.
- Net interest income decreased 3%, impacted by higher funding and liquidity costs. Excluding these costs of £39 million, income increased 1% with net interest margin up 11 basis points, reflecting the benefit from re-pricing the lending portfolio.
- Non-interest income decreased 12%, largely driven by a number of valuation adjustments, including derivative close out costs associated with impaired assets.
- Total costs decreased 3%, despite the higher operational costs of managing the non-performing book in Q4 2011, largely reflecting a decrease in staff incentive costs.
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- Impairment losses increased £15 million reflecting higher specific provisions.

Wealth

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	£m	£m	£m	£m	£m
Income statement					
Net interest income	718	609	191	178	160
Net fees and commissions	375	376	89	95	94
Other non-interest income	84	71	23	23	17
Non-interest income	459	447	112	118	111
Total income	1,177	1,056	303	296	271
Direct expenses					
- staff	(413)	(382)	(96)	(106)	(96)
- other	(195)	(142)	(43)	(57)	(29)
Indirect expenses	(223)	(210)	(55)	(58)	(53)
	(831)	(734)	(194)	(221)	(178)
Impairment losses	(25)	(18)	(13)	(4)	(6)
Operating profit	321	304	96	71	87
Analysis of income					
Private banking	975	857	255	244	220
Investments	202	199	48	52	51
Total income	1,177	1,056	303	296	271

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	18.7%	18.9%	22.1%	16.3%	21.0%
Net interest margin	3.59%	3.37%	3.86%	3.46%	3.29%
Cost:income ratio	71%	70%	64%	75%	66%

	31 December 2011	30 September 2011	31 December 2010

	£bn	£bn	Change	£bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	8.3	8.3	-	7.8	6%
- personal	6.9	7.2	(4%)	6.7	3%
- other	1.7	1.5	13%	1.6	6%
	16.9	17.0	(1%)	16.1	5%
Customer deposits (2)	38.2	37.4	2%	37.1	3%
Assets under management (excluding deposits) (2)	30.9	29.9	3%	33.9	(9%)
Risk elements in lending	0.2	0.2	-	0.2	-
Loan:deposit ratio (excluding repos) (2)	44%	45%	(100bp)	43%	100bp
Risk-weighted assets	12.9	13.0	(1%)	12.5	3%

Notes:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

(2) 31 December 2010 comparatives were revised in Q3 2011 to reflect the current reporting methodology.

Key points

2011 has been a significant year for the Coutts businesses from a strategic perspective. In Q1 2011, a new divisional strategy was defined with the execution of early changes already making an impact.

Key strategic changes in 2011 included:

- A refreshed Coutts brand bringing Coutts UK and RBS Coutts under one single contemporary brand.

- A refocus on territories where the businesses have the opportunity for greatest scale or growth such as UK, Asia, Middle East, and Eastern Europe.

- Further development of client propositions as well as the portfolio of products and services for key international markets.

- Strategic investment in technology leading to the development of a single global technology platform for the Wealth division. The platform was successfully deployed in Adam & Company in 2011 with Coutts UK to follow in 2012.

- Strengthening the connectivity between Wealth and other Group divisions including referrals in international jurisdictions and improved connectivity with UK Corporate.

- Continued activity to ensure the division responds to new or expected regulatory changes with proactive solution design and preparation.

- Injection of new management into key roles from both internal and external sources including key segment heads, marketing, products & services, and international executive leadership.

Following the establishment of a single global brand in Q4 2011, focus turned to the reorganisation of key global functions such as marketing and product & services, as well as some local management structures. These reorganisations have realigned the division to maximise execution of the divisional strategy.

The execution plan for the strategy will continue into 2012 and position Wealth strongly against its peers.

2011 compared with 2010

- Operating profit increased by 6% on 2010 to £321 million, driven by a 11% growth in income partially offset by increases in expenses and impairments.

- Income increased by £121 million with a 24 basis points improvement in lending margins, strong treasury income and increases in lending and deposit volumes. Non-interest income rose 3%, with investment income growing 2% despite turbulent market conditions.

- Expenses increased by £97 million, largely driven by adverse foreign exchange movements and headcount growth to service the increased revenue base. Additional strategic investment in technology enhancement, rebranding and programmes to support regulatory change also contributed to the increase.

- Client assets and liabilities managed by the division decreased by 1%. Customer deposits grew 3% in a competitive environment and lending volumes grew 5%. Assets under management declined 9%, with fund outflows contributing 3% of the decrease and market conditions making up the balance.

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Wealth (continued)

Key points (continued)

Q4 2011 compared with Q3 2011

- Operating profit increased 35% to £96 million in the quarter with a small increase in income and lower expenses partially offset by a rise in impairments.

- Income increased 2% in Q4 2011 with a 7% increase in net interest income partially offset by a 5% decline in non-interest income. The growth in net interest income reflects continued growth in lending margins and strong treasury income. Non-interest income declined with turbulent market conditions resulting in a decrease in investment and brokerage income.

- Expenses decreased 12% largely driven by a decrease in Financial Services Compensation Scheme levies and lower incentive costs, assisted by a favourable movement in exchange rates.

- Client assets and liabilities managed by the division increased by 2%. Lending volumes were stable and deposit volumes increased 2%, primarily in the UK, as result of a successful fixed term deposit campaign. Assets under management grew 3% with stable net new business and positive market movements.

Q4 2011 compared with Q4 2010

- Operating profit increased 10% with a 12% growth in income partially offset by higher expenses and impairments.

- Income increased due to a 19% rise in net interest income with a 57 basis points improvement in net interest margin reflecting strong treasury income, higher lending margins and growth in deposit volumes. Non-interest income increased 1%.

- Expenses rose 9% reflecting adverse movements in exchange rates and continued investment in private banker recruitment, strategic initiatives and regulatory project spend.

Global Transaction Services

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Income statement					
Net interest income	1,076	974	277	276	263
Non-interest income	1,175	1,587	296	300	375
Total income	2,251	2,561	573	576	638
Direct expenses					
- staff	(375)	(411)	(95)	(89)	(105)
- other	(113)	(159)	(26)	(26)	(51)
Indirect expenses	(854)	(894)	(208)	(221)	(212)
	(1,342)	(1,464)	(329)	(336)	(368)
Impairment losses	(166)	(9)	(47)	(45)	(3)
Operating profit	743	1,088	197	195	267
Analysis of income by product					
Domestic cash management	866	818	221	216	207
International cash management	868	801	222	220	223
Trade finance	318	309	77	90	81
Merchant acquiring	16	451	5	4	80
Commercial cards	183	182	48	46	47
Total income	2,251	2,561	573	576	638

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	30.4%	42.8%	33.0%	31.0%	42.7%
Net interest margin	5.52%	6.73%	5.29%	5.33%	6.14%
Cost:income ratio	60%	57%	57%	58%	58%

31 December	30 September	31 December

	2011 £bn	2011 £bn	Change	2010 £bn	Change
Capital and balance sheet					
Total third party assets	25.9	29.9	(13%)	25.2	3%
Loans and advances	15.8	19.5	(19%)	14.4	10%
Customer deposits	71.7	71.4	-	69.9	3%
Risk elements in lending	0.2	0.2	-	0.1	100%
Loan:deposit ratio (excluding repos)	22%	28%	(600bp)	21%	100bp
Risk-weighted assets	17.3	18.6	(7%)	18.3	(5%)

Note:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

Key points

In Q4 2011, Global Transaction Services (GTS) maintained operating profit levels with continued focus on cost management and an improved funding contribution.

GTS recognises the important role international trade plays in a strong global economy and throughout 2011 the division supported UK companies, both in the UK and overseas, to do more business internationally. This support included delivering a series of UK Government-backed ‘Doing Business in Asia’ events.

During the year, GTS invested in improving existing products and services and also in developing new ones. To help corporate treasurers manage their global positions, the division launched a global Liquidity Solutions Portal, giving its customers a view of their operational and investment balances and rates all in one place, improving transparency, and enabling them to execute and redeem investments effectively.

2011 compared with 2010

- Operating profit was down 32%, partly reflecting the sale of Global Merchant Services (GMS) which completed on 30 November 2010. Adjusting for the disposal, operating profit decreased 16%, driven by an impairment provision on a single name in 2011.

- Excluding GMS income of £451 million, income was 7% higher driven by the success of deposit-gathering initiatives, as deposits increased £2 billion in a competitive environment.

- Excluding GMS expenses of £244 million, expenses increased by 10%, reflecting business improvement initiatives and investment in technology and support infrastructure.

- Impairment losses increased to £166 million compared with £9 million in 2010 reflecting a single name impairment.

- For the eleven months in 2010 before completion of the disposal, GMS generated income of £451 million, total expenses of £244 million and an operating profit of £207 million.

Q4 2011 compared with Q3 2011

- Operating profit was in line with Q3 2011 reflecting resilient income and slightly higher impairment charges, offset by lower expenses.

- Income fell by 1% as a result of seasonally lower trade finance activity.

- Total expenses fell by 2% largely driven by a reduction in technology and infrastructure support costs, partially offset by lower discretionary staff costs in Q3 2011.

- Q4 2011 impairment losses of £47 million, up 4%, largely related to additional provisioning on an existing single name impairment.

- Customer deposits held up well in a competitive environment despite the adverse effect of a weakened Euro exchange rate.

- Third party assets decreased 13% as a result of reduced trade finance activity and the positive impact of balance sheet efficiency initiatives.

- Risk-weighted assets fell 7%, primarily benefitting from lower loans and advances.

Global Transaction Services (continued)

Key points (continued)

Q4 2011 compared with Q4 2010

- Operating profit was down 26%, driven by a provision on a single name in 2011. Adjusting for the sale of GMS, which completed on 30 November 2010 with an operating profit of £207 million, operating profit decreased 17%.

- Excluding GMS income of £451 million, income increased by 3%, driven by strong deposit gathering initiatives. Excluding GMS expenses of £244 million, expenses increased by 3%, reflecting business improvement initiatives and investment in technology and support infrastructure.

- In the two months in Q4 2010 before completion of the disposal, GMS recorded income of £80 million, total expenses of £50 million and an operating profit of £30 million.

Ulster Bank

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Income statement					
Net interest income	696	761	171	185	187
Net fees and commissions	142	156	28	41	40
Other non-interest income	69	58	21	19	16
Non-interest income	211	214	49	60	56
Total income	907	975	220	245	243
Direct expenses					
- staff	(221)	(237)	(53)	(55)	(57)
- other	(67)	(74)	(15)	(17)	(17)
Indirect expenses	(259)	(264)	(64)	(65)	(64)
	(547)	(575)	(132)	(137)	(138)
Impairment losses	(1,384)	(1,161)	(327)	(327)	(376)
Operating loss	(1,024)	(761)	(239)	(219)	(271)
Analysis of income by business					
Corporate	435	521	98	107	122
Retail	428	465	101	116	124
Other	44	(11)	21	22	(3)
Total income	907	975	220	245	243
Analysis of impairments by sector					
Mortgages	570	294	133	126	159
Corporate					
- property	324	375	83	78	69
- other corporate	434	444	100	111	135
Other lending	56	48	11	12	13
Total impairment losses	1,384	1,161	327	327	376
Loan impairment charge as % of gross					

customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	2.8%	1.4%	2.7%	2.4%	3.0%
Corporate					
- property	6.8%	6.9%	6.9%	6.1%	5.1%
- other corporate	5.6%	4.9%	5.2%	5.4%	6.0%
Other lending	3.5%	3.7%	2.8%	3.2%	4.0%
Total	4.1%	3.1%	3.8%	3.7%	4.1%

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Key metrics

	Year ended 31 December 2011	Year ended 31 December 2010	Quarter ended 31 December 2011	Quarter ended 30 September 2011	Quarter ended 31 December 2010
Performance ratios					
Return on equity (1)	(26.1%)	(21.0%)	(23.3%)	(21.2%)	(29.8%)
Net interest margin	1.77%	1.84%	1.81%	1.85%	1.77%
Cost:income ratio	60%	59%	60%	56%	57%

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	20.0	20.7	(3%)	21.2	(6%)
- corporate					
- property	4.8	5.1	(6%)	5.4	(11%)
- other corporate	7.7	8.2	(6%)	9.0	(14%)
- other lending	1.6	1.5	7%	1.3	23%
	34.1	35.5	(4%)	36.9	(8%)
Customer deposits	21.8	23.4	(7%)	23.1	(6%)
Risk elements in lending					
- mortgages	2.2	2.1	5%	1.5	47%
- corporate					
- property	1.3	1.5	(13%)	0.7	86%
- other corporate	1.8	1.8	-	1.2	50%
- other lending	0.2	0.2	-	0.2	-
Total risk elements in lending	5.5	5.6	(2%)	3.6	53%
Loan:deposit ratio (excluding repos)	143%	141%	200bp	152%	(900bp)
Risk-weighted assets	36.3	34.4	6%	31.6	15%
Spot exchange rate - €/£	1.196	1.162		1.160	

Note:
(1) Divisional return on equity is based on divisional operating loss after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

Key points
2011 was another difficult year for the business due to the continued challenging economic environment. This was reflected in the financial performance, with ongoing pressure on income and a further increase in impairment losses.

Ulster Bank continues to make progress on its customer commitments and deposit gathering strategy, while cost management and targeting growth in areas that leverage competitive advantage, remain priorities. In 2011, customer numbers increased by 2%, representing a strong performance in current and savings accounts, driven by the enhanced customer service highlighted by our 'Help for what matters' programme.

Following a review of the cost base and operating model, 950 proposed job losses were announced in January 2012, the majority of which are expected by the end of 2012. This decision is a necessary part of the changes required to build a stronger sustainable business for the future.

Key points (continued)

2011 compared with 2010

· Operating profit before impairment losses decreased by £40 million in 2011 with lower income partially mitigated by cost savings. Impairment losses of £1,384 million increased by 19% from 2010 resulting in an operating loss of £1,024 million, 35% higher than 2010.

· Income fell by 7% driven by a contracting performing loan book coupled with higher funding costs. Loans and advances to customers decreased by 8% during 2011.

· Expenses fell by 5% reflecting tight management of the cost base across the business.

· Impairment losses increased by 19% largely reflecting the deterioration in credit metrics on the mortgage portfolio driven by a combination of higher debt flow and further fall in asset prices.

· Despite intense competition, retail and small business deposit balances have grown strongly throughout 2011, driven by the benefits of a focused deposit gathering strategy. However, total customer deposit balances fell by 6% largely driven by the outflow of wholesale customer balances due to rating downgrades.

· Risk-weighted assets increased by 15% in 2011 reflecting the deterioration in credit risk metrics.

Q4 2011 compared with Q3 2011

· Operating loss for the quarter increased by £20 million to £239 million largely as higher funding costs in both wholesale and deposit markets continue to outweigh the impact of loan re-pricing initiatives and tight expense management.

· Net interest income decreased by £14 million driven by a reduction in income earning assets coupled with an increase in funding costs. Customer loan balances reduced by 4%, reflecting amortisation of the loan book, which continued to exceed new business volume growth. Net interest margin declined by 4 basis points in the quarter to 1.81%, with the decrease in income partly offset by lower asset balances.

· Non-interest income fell by £11 million largely due to a one-off foreign exchange gain in Q3 2011.

· Expenses remained broadly flat in the quarter, but continued focus on cost management is driving towards a declining trend.

· Impairment losses were flat, with lower losses on the corporate portfolio offset by an increase in mortgage losses.

· Customer deposit balances decreased by 7% reflecting an outflow of wholesale balances due to rating downgrades.

Key points (continued)

Q4 2011 compared with Q4 2010

- Operating loss was £32 million lower primarily driven by a decrease in impairment charges on both the mortgage and corporate portfolios.
- Net interest income fell by 9%, reflecting the impact of a reducing loan book coupled with higher funding costs. Net interest margin increased by 4 basis points primarily driven by progress made on initiatives to improve customer loan margins during 2011.
- Non-interest income decreased by 13%, partially reflecting the loss of income from the merchant services business disposed of in Q4 2010.
- Expenses were broadly flat with an 8% fall in direct expenses.

US Retail & Commercial (£ Sterling)

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Income statement					
Net interest income	1,896	1,917	493	483	467
Net fees and commissions	709	729	164	190	169
Other non-interest income	295	300	94	67	62
Non-interest income	1,004	1,029	258	257	231
Total income	2,900	2,946	751	740	698
Direct expenses					
- staff	(819)	(784)	(211)	(206)	(204)
- other	(544)	(569)	(133)	(152)	(124)
Indirect expenses	(733)	(770)	(185)	(183)	(201)
	(2,096)	(2,123)	(529)	(541)	(529)
Impairment losses	(325)	(517)	(65)	(84)	(105)
Operating profit	479	306	157	115	64
Average exchange rate - US$/£	1.604	1.546	1.573	1.611	1.581
Analysis of income by product					
Mortgages and home equity	464	509	128	119	128
Personal lending and cards	420	476	94	111	113
Retail deposits	918	903	235	236	206
Commercial lending	580	580	147	149	141
Commercial deposits	292	320	76	75	75
Other	226	158	71	50	35
Total income	2,900	2,946	751	740	698
Analysis of impairments by sector					
Residential mortgages	35	58	9	7	3
Home equity	99	126	19	29	26
Corporate and commercial	54	202	8	7	54
Other consumer	57	97	17	11	6
Securities	80	34	12	30	16
Total impairment losses	325	517	65	84	105

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.6%	1.0%	0.6%	0.5%	0.2%
Home equity	0.7%	0.8%	0.5%	0.8%	0.7%
Corporate and commercial	0.2%	1.0%	0.1%	0.1%	1.1%
Other consumer	0.8%	1.4%	0.9%	0.7%	0.3%
Total	0.5%	1.0%	0.4%	0.4%	0.7%

US Retail & Commercial (£ Sterling) (continued)

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	6.3%	3.6%	8.0%	6.0%	3.3%
Net interest margin	3.06%	2.85%	3.03%	3.09%	3.00%
Cost:income ratio	72%	72%	70%	73%	76%

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Total third party assets	74.5	72.9	2%	71.2	5%
Loans and advances to customers (gross)					
- residential mortgages	6.1	5.9	3%	6.1	-
- home equity	14.9	14.9	-	15.2	(2%)
- corporate and commercial	22.8	22.1	3%	20.4	12%
- other consumer	7.6	6.6	15%	6.9	10%
	51.4	49.5	4%	48.6	6%
Customer deposits (excluding repos)	59.5	58.5	2%	58.7	1%
Risk elements in lending					
- retail	0.6	0.6	-	0.4	50%
- commercial	0.4	0.4	-	0.5	(20%)
Total risk elements in lending	1.0	1.0	-	0.9	11%
Loan:deposit ratio (excluding repos)	85%	83%	200bp	81%	400bp
Risk-weighted assets	58.8	56.5	4%	57.0	3%
Spot exchange rate - US$/£	1.548	1.562		1.552	

Note:
(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of the monthly average of divisional RWAs, adjusted for capital deductions).

Key points

· Sterling weakened relative to the US dollar during the fourth quarter, with the average exchange rate decreasing by 2% compared with Q3 2011.

· Performance is described in full in the US dollar-based financial statements set out on pages 50 and 51.

US Retail & Commercial (US Dollar)

	Year ended		Quarter ended		
	31 December 2011 $m	31 December 2010 $m	31 December 2011 $m	30 September 2011 $m	31 December 2010 $m
Income statement					
Net interest income	3,042	2,962	777	778	739
Net fees and commissions	1,138	1,126	258	306	267
Other non-interest income	473	465	148	109	100
Non-interest income	1,611	1,591	406	415	367
Total income	4,653	4,553	1,183	1,193	1,106
Direct expenses					
- staff	(1,313)	(1,212)	(331)	(332)	(322)
- other	(874)	(880)	(211)	(245)	(197)
Indirect expenses	(1,176)	(1,189)	(291)	(295)	(317)
	(3,363)	(3,281)	(833)	(872)	(836)
Impairment losses	(521)	(799)	(101)	(136)	(168)
Operating profit	769	473	249	185	102
Analysis of income by product					
Mortgages and home equity	744	786	202	192	201
Personal lending and cards	673	735	147	179	179
Retail deposits	1,474	1,397	370	381	329
Commercial lending	931	896	232	240	223
Commercial deposits	469	495	120	121	119
Other	362	244	112	80	55
Total income	4,653	4,553	1,183	1,193	1,106
Analysis of impairments by sector					
Residential mortgages	56	90	14	12	5
Home equity	160	194	29	48	40
Corporate and commercial	87	312	13	11	87
Other consumer	92	150	26	17	11
Securities	126	53	19	48	25
Total impairment losses	521	799	101	136	168

Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.6%	1.0%	0.6%	0.5%	0.2%
Home equity	0.7%	0.8%	0.5%	0.8%	0.7%
Corporate and commercial	0.2%	1.0%	0.1%	0.1%	1.1%
Other consumer	0.8%	1.4%	0.9%	0.7%	0.4%
Total	0.5%	1.0%	0.4%	0.5%	0.8%

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	6.3%	3.6%	8.0%	6.0%	3.3%
Net interest margin	3.06%	2.85%	3.03%	3.09%	3.00%
Cost:income ratio	72%	72%	70%	73%	76%

	31 December 2011 $bn	30 September 2011 $bn	Change	31 December 2010 $bn	Change
Capital and balance sheet					
Total third party assets	115.3	113.8	1%	110.5	4%
Loans and advances to customers (gross)					
- residential mortgages	9.4	9.1	3%	9.4	-
- home equity	23.1	23.3	(1%)	23.6	(2%)
- corporate and commercial	35.3	34.5	2%	31.7	11%
- other consumer	11.8	10.4	13%	10.6	11%
	79.6	77.3	3%	75.3	6%
Customer deposits (excluding repos)	92.1	91.3	1%	91.2	1%
Risk elements in lending					
- retail	1.0	0.9	11%	0.7	43%
- commercial	0.6	0.6	-	0.7	(14%)
Total risk elements in lending	1.6	1.5	7%	1.4	14%
Loan:deposit ratio (excluding repos)	85%	83%	200bp	81%	400bp
Risk-weighted assets	91.1	88.2	3%	88.4	3%

Note:

(1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 9% of monthly average of divisional RWAs, adjusted for capital deductions).

Key points

US R&C continued to focus on its back-to-basics strategy, with good progress made in developing the division's customer franchise during 2011. The bank continued to re-energise the franchise through new branding, product development and competitive pricing.

To strengthen retail alignment and improve efficiencies, US R&C formed a consolidated Consumer Banking division by combining management of the retail banking franchise with the consumer lending division during H2 2011. This continued focus on alignment is expected to further contribute to the improved penetration of loan products to deposit households, which has already increased in ten consecutive quarters. The penetration of on-line banking customers, a key indicator of customer retention, also continued to improve during 2011.

To enhance the customer experience, in Q4 2011, Consumer Banking introduced four core Customer Commitments, built around feedback received from customers in Massachusetts. In Q1 2012, the Commitments will be rolled out to Citizens Financial Group's (CFG's) entire branch footprint.

Key points (continued)
Significant organisational changes and investment in Commercial Banking, including unification under the RBS Citizens brand, has been important in positioning the business for growth. The enhanced sales training programme for managers and sales colleagues in this business has begun to deliver results with both higher credit balances and increased client satisfaction. External researchers TNS awarded Citizens the second highest score in relationship manager satisfaction among its competitors for 2011.

Risk management was also an important focus for 2011 and in Q4 2011, CFG's Board of directors approved a new formal risk appetite statement aimed at ensuring sustained predictable earnings and further strengthening the control environment.

2011 compared with 2010

- Operating profit increased to £479 million ($769 million) from £306 million ($473 million), an increase of £173 million ($296 million), or 56%. Excluding a credit of £73 million ($113 million) related to changes to the defined benefit plan in Q2 2010, operating profit increased £246 million ($409 million), or 106%, substantially driven by lower impairments and improved income.

- The macroeconomic operating environment remained challenging, with low rates, high unemployment, a soft housing market, sluggish consumer activity and the continuing impact of legislative changes including the Durbin Amendment in the Dodd-Frank Act which became effective on 1 October 2011.

- The Durbin Amendment lowers the allowable interchange on debit transactions to $0.23-$0.24 per transaction. The current annualised impact of the Durbin Amendment is estimated at £94 million ($150 million).

- Net interest income was down £21 million, or 1% (up $80 million in US dollar terms). Net interest margin improved by 21 basis points to 3.06% reflecting changes in deposit mix, continued discipline around deposit pricing and the positive impact from the balance sheet restructuring programme carried out during Q3 2010 combined with strong commercial loan growth, partially offset by run-off of consumer loans.

- Non-interest income was down £25 million (up $20 million in US dollar terms), or 1%. The increase in US dollars primarily driven by higher account and transaction fees, partially offset by the impact of legislative changes on debit card and deposit fees.

- Excluding the defined benefit plan credit of £73 million ($113 million) in Q2 2010, total expenses were down £100 million ($31 million), or 5%, due to a number of factors including lower Federal Deposit Insurance Corporation (FDIC) deposit insurance levies, and lower litigation and marketing costs, partially offset by higher regulatory costs.

- Impairment losses declined by £192 million ($278 million), or 37%, largely reflecting an improved credit environment slightly offset by higher impairments related to securities. Loan impairments as a percent of loans and advances improved to 0.5% from 1.0%.

- Customer deposits were up 1% with particularly strong growth achieved in checking balances. Consumer checking balances grew by 6%, while small business checking balances grew by 5% over the year.

US Retail & Commercial (US Dollar) (continued)

Key points (continued)

Q4 2011 compared with Q3 2011

- US Retail & Commercial posted an operating profit of £157 million ($249 million) compared with £115 million ($185 million) in the prior quarter, an increase of £42 million ($64 million), or 37%, driven by a decrease in expenses and impairments.

- Net interest income was £493 million ($777 million) compared with £483 million ($778 million) in the prior quarter. Loans and advances were up £2 billion ($2 billion), or 4%, from the previous quarter partially due to strong growth in commercial loan volumes partly offset by some continued planned run-off of long term fixed rate consumer products.

- Non-interest income was in line with the previous quarter, reflecting lower debit card fees impacted by legislative changes within the Durbin Amendment.

- Total expenses were down £12 million ($39 million), or 2%, reflecting lower mortgage servicing rights impairment and FDIC deposit insurance levies.

- Impairment losses were down £19 million ($35 million), or 22%, reflecting lower impairments related to securities. Loan impairments as a percent of loans and advances improved slightly to 0.4% from 0.5%.

Q4 2011 compared with Q4 2010

- Operating profit increased to £157 million ($249 million) from £64 million ($102 million), an increase of £93 million ($147 million), or 145%, substantially driven by lower impairments and improved income.

- Net interest income was up £26 million ($38 million), or 6%. Net interest margin improved by 3 basis points to 3.03% reflecting changes in deposit mix and continued discipline around deposit pricing combined with strong commercial loan growth partially offset by run-off of consumer loans.

- Non-interest income was up £27 million ($39 million), or 12%, reflecting securities gains. Higher account and transaction fees as a result of new pricing initiatives, were offset by lower debit card fees.

- Total expenses were broadly in line with Q4 2010 reflecting a positive movement on the valuation of mortgage servicing rights in Q4 2010, not repeated in Q4 2011, and higher costs related to regulatory challenges, offset by lower litigation costs.

- Impairment losses declined by £40 million ($67 million), or 38%, reflecting an improved credit environment. Loan impairments as a percentage of loans and advances improved to 0.4% from 0.8%.

Global Banking & Markets

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Income statement					
Net interest income from banking activities	707	1,252	171	171	225
Funding cost of rental assets	(42)	(37)	(12)	(10)	(11)
Net interest income	665	1,215	159	161	214
Net fees and commissions receivable	1,049	1,283	188	222	381
Income from trading activities	4,735	5,218	395	1,892	957
Other operating income	(508)	196	170	(1,176)	35
Non-interest income	5,276	6,697	753	938	1,373
Total income	5,941	7,912	912	1,099	1,587
Direct expenses					
- staff	(2,454)	(2,693)	(459)	(527)	(554)
- other	(928)	(842)	(240)	(243)	(292)
Indirect expenses	(949)	(862)	(240)	(249)	(219)
	(4,331)	(4,397)	(939)	(1,019)	(1,065)
Impairment (losses)/recoveries	(49)	(151)	(68)	32	5
Operating profit/(loss)	1,561	3,364	(95)	112	527
Analysis of income by product					
Rates - money markets	(212)	65	(78)	(19)	(65)
Rates - flow	1,668	1,985	465	113	413
Currencies	868	870	183	227	178
Credit and asset backed markets	1,424	2,215	9	93	433
Fixed income & currencies	3,748	5,135	579	414	959
Portfolio management and origination	1,343	1,777	277	305	396
Equities	781	933	158	114	183
Total excluding fair value derivative liabilities	5,872	7,845	1,014	833	1,538
Fair value derivative liabilities	69	67	(102)	266	49
Total income	5,941	7,912	912	1,099	1,587
Analysis of impairments by sector					

Manufacturing and infrastructure	(139)	51	(62)	-	(2)
Property and construction	(42)	(74)	(25)	(11)	(10)
Banks and financial institutions	54	(177)	(11)	44	(54)
Other	78	49	30	(1)	71
Total impairment (losses)/recoveries	(49)	(151)	(68)	32	5
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	0.1%	0.2%	0.4%	(0.2%)	-

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Global Banking & Markets (continued)

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on equity (1)	7.7%	16.6%	(1.8%)	2.3%	10.2%
Net interest margin	0.73%	1.05%	0.76%	0.71%	0.93%
Cost:income ratio	73%	56%	103%	93%	67%
Compensation ratio (2)	41%	34%	50%	48%	35%
Compensation ratio - continuing business	39%	32%			

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Loans and advances to customers	74.7	73.1	2%	75.1	(1%)
Loans and advances to banks	29.9	34.1	(12%)	44.5	(33%)
Reverse repos	100.5	100.6	-	94.8	6%
Securities	111.0	124.5	(11%)	119.2	(7%)
Cash and eligible bills	28.1	33.3	(16%)	38.8	(28%)
Other	17.5	33.0	(47%)	24.3	(28%)
Total third party assets (excluding derivatives mark-to-market)	361.7	398.6	(9%)	396.7	(9%)
Net derivative assets (after netting)	37.0	45.6	(19%)	37.4	(1%)
Customer deposits (excluding repos)	37.4	39.5	(5%)	38.9	(4%)
Risk elements in lending	1.8	1.6	13%	1.7	6%
Risk-weighted assets	151.1	134.3	13%	146.9	3%

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) Compensation ratio is based on staff costs as a percentage of total income.

Key points

During Q4 2011, the market environment continued to weaken. Market volatility remained elevated and liquidity depressed as markets reacted to developments in the European sovereign debt crisis. Deal flow was weak reflecting investor pessimism about the outlook for the world economy. Throughout the year, GBM continued to deliver core products and innovative solutions to clients, while also focusing on management of its cost base and on tight control of its risk positions.

On 12 January 2012 the Group announced changes to its wholesale banking operations in light of a changed market and regulatory environment. The changes will see the reorganisation of RBS's wholesale businesses into 'Markets' and 'International Banking' and the exit and downsizing of selected activities. The changes will ensure the wholesale businesses continue to deliver against the Group's strategy.

2011 compared with 2010

- Operating profit fell by 54%, from £3,364 million for 2010 to £1,561 million for 2011, driven by a 25% decrease in revenue. The year was characterised by volatile and deteriorating credit markets, especially during the second half of the year when the European sovereign debt crisis drove a sharp widening in credit spreads.

Key points (continued)

2011 compared with 2010 (continued)

- Due to this deterioration in the markets both the Rates and Credit businesses suffered significantly, and income from trading activities fell from £5,218 million in 2010, to £4,735 million in 2011. The heightened volatility increased risk aversion amongst clients and limited opportunities for revenue generation in the secondary markets.

- Portfolio Management and Origination revenue also fell sharply as clients curtailed new activity and continued to repay existing debt.

- Equities revenue fell 16% as wider market conditions reduced investor confidence, resulting in lower client issuance and reduced activity in the secondary markets.

- Total costs fell by 2% despite increased investment costs in 2011, which included a programme to meet new regulatory requirements. The compensation ratio in GBM excluding discontinued businesses was 39%, driven by fixed salary costs and prior year deferred awards. Variable compensation accrued in the first half of the year were reduced in the second half of the year, leaving the 2011 variable compensation awards 58% lower than 2010, compared with a 54% fall in operating profit, as detailed on page 89.

- Third party assets fell from £396.7 billion in 2010 to £361.7 billion in 2011 as a result of lower levels of activity and careful management of balance sheet exposures.

- A 3% increase in risk-weighted assets reflected the impact of significant regulatory changes, with a £21 billion uplift as a result of CRD III, largely offset by the impact of the division's focus on risk management.

Q4 2011 compared with Q3 2011

- An operating loss of £95 million was driven by a swing in the fair value of GBM's own derivative liabilities (FVDL) of £368 million, due to improving credit spreads (similar to fair value of own debt movements), partially offset by a movement of £235 million in counterparty exposure management (CEM) (positive movement of £20 million in Q4 2011 versus a negative movement of £215 million in Q3 2011).

- Excluding the movements in FVDL and CEM, revenue decreased by 5%, to £994 million compared with £1,048 million in Q3 2011, as the market environment remained challenging for a number of businesses:

  Rates Money Markets continued to record negative revenue as the cost of the division's funding activities more than offset the revenue generated by the client facing business.

  Rates Flow showed some recovery from a weak Q3 2011 largely driven by a turnaround in counterparty exposure management activities. Trading conditions for the underlying business remained difficult.

  Currencies declined on weaker options performance. The spot FX business continued to perform consistently well.

Credit and Asset Backed Markets continued to incur losses in the flow credit business, albeit at a lower level than prior quarter. Earnings from asset backed products were also down, reflecting increased risk aversion in both GBM and the wider market.

Equities revenue increased from a very weak Q3 2011, although client activity remained subdued.

The fall in Portfolio Management and Origination reflected exceptional gains from credit hedging activity in Q3 2011. Origination and loan income remained broadly flat; client activity, especially in EMEA, was weak.

Key points (continued)

Q4 2011 compared with Q3 2011 (continued)

- Total costs fell £80 million driven by reductions in headcount and a reduction in variable compensation accrued during the first half of the year, while a range of other cost saving initiatives were partially offset by higher legal costs. The compensation ratio rose compared with the prior quarter due to lower levels of revenue earned.

- Impairments of £68 million resulted from a small number of corporate provisions.

- Third party assets were driven £37 billion lower during Q4 2011, and activity was managed carefully amidst the volatile credit environment. Further reductions in the funded balance sheet to circa £300 billion are targeted to take place over the up to three year implementation period of the wholesale business restructuring.

- Risk-weighted assets increased by 13% to £151 billion as CRD III regulations were implemented on the last day of Q4 2011, resulting in an increase of £21 billion. Excluding the impact of this regulatory change, risk-weighted assets remained tightly controlled.

- The negative return on equity in the quarter was driven by the significant fall in revenue. The impact of the increase in risk-weighted assets was minimal as average risk-weighted assets remained low across the quarter.

Q4 2011 compared with Q4 2010

- The operating loss of £95 million in Q4 2011 compares with an operating profit of £527 million in Q4 2010. The deterioration in performance was due to the sharp decline in revenue, reflecting the difficult credit environment and low levels of investor confidence.

- Rates Flow benefited from a favourable counter party credit development. Excluding the impact of this, the business weakened amidst heightened market volatility, especially relating to sovereign bond valuations.

- Earnings from Credit and Asset Backed Markets fell sharply. Losses on flow credit trading contrasted with a gain in Q4 2010 and gains on asset backed products were constrained in Q4 2011 as both the market and the business became increasingly risk averse.

- The fall in Portfolio Management and Origination reflected limited client activity, especially in EMEA, and the net repayment of existing debt during the year.

- The decline in total costs reflected significantly lower current year variable compensation, the realisation of benefits from a number of cost saving initiatives and the non-repeat of a significant legal expense incurred during Q4 2010.

RBS Insurance

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	£m	£m	£m	£m	£m
Income statement					
Earned premiums	4,221	4,459	1,043	1,057	1,100
Reinsurers' share	(252)	(148)	(71)	(67)	(40)
Net premium income	3,969	4,311	972	990	1,060
Fees and commissions	(400)	(410)	(161)	(83)	(133)
Instalment income	138	159	33	35	38
Investment income	265	277	60	72	77
Other income	100	179	19	19	70
Total income	4,072	4,516	923	1,033	1,112
Direct expenses					
- staff expenses	(288)	(287)	(75)	(67)	(72)
- other expenses	(333)	(325)	(79)	(88)	(77)
Indirect expenses	(225)	(267)	(55)	(60)	(74)
	(846)	(879)	(209)	(215)	(223)
Net claims	(2,772)	(3,932)	(589)	(695)	(898)
Operating profit/(loss)	454	(295)	125	123	(9)
Analysis of income by product					
Personal lines motor excluding broker					
- own brands	1,874	1,962	460	475	504
- partnerships	228	373	36	49	100
Personal lines home excluding broker					
- own brands	490	488	126	121	123
- partnerships	378	408	83	97	104
Personal lines rescue and other excluding broker					
- own brands	185	197	47	44	51
- partnerships	132	168	(15)	48	5
Commercial	365	341	95	98	90
International	346	333	88	90	83
Other (1)	74	246	3	11	52
Total income	4,072	4,516	923	1,033	1,112

For the notes to this table refer to page 60.

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
In-force policies (000s)					
Personal lines motor excluding broker					
- own brands	3,787	4,162	3,787	3,832	4,162
- partnerships	320	645	320	388	645
Personal lines home excluding broker					
- own brands	1,811	1,797	1,811	1,832	1,797
- partnerships	2,497	2,530	2,497	2,504	2,530
Personal lines rescue and other excluding broker					
- own brands	1,844	1,966	1,844	1,886	1,966
- partnerships	7,307	7,497	7,307	7,714	7,497
Commercial	422	352	422	410	352
International	1,387	1,082	1,387	1,357	1,082
Other (1)	1	644	1	44	644
Total in-force policies (2)	19,376	20,675	19,376	19,967	20,675
Gross written premium (£m)					
Personal lines motor excluding broker					
- own brands	1,584	1,647	348	438	370
- partnerships	137	257	28	36	59
Personal lines home excluding broker					
- own brands	474	478	112	133	116
- partnerships	549	556	132	144	137
Personal lines rescue and other excluding broker					
- own brands	174	178	40	48	41
- partnerships	174	159	44	48	39
Commercial	435	397	102	101	96
International	570	425	142	125	123
Other (1)	1	201	2	4	7
Total gross written premium	4,098	4,298	950	1,077	988

For the notes to this table refer to page 60.

RBS Insurance (continued)

Key metrics (continued)

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Return on regulatory capital (3)	11.3%	(7.9%)	12.5%	12.3%	(0.9%)
Return on tangible equity (4)	10.3%	(6.8%)	11.0%	11.0%	(0.8%)
Loss ratio (5)	70%	91%	61%	70%	85%
Commission ratio (6)	10%	10%	17%	8%	13%
Expense ratio (7)	20%	20%	22%	20%	23%
Combined operating ratio (8)	100%	121%	100%	98%	121%
Balance sheet					
Total insurance reserves - (£m) (9)			7,284	7,545	7,643

Notes:

(1) ‘Other’ predominantly consists of the personal lines broker business.

(2) Total in-force policies include travel and creditor policies sold through RBS Group. These comprise travel policies included in bank accounts e.g. Royalties Gold Account, and creditor policies sold with bank products including mortgage, loan and card payment protection.

(3) Return on regulatory capital required is based on annualised operating profit/(loss) after tax divided by average notional regulatory equity.

(4) Return on tangible equity is based on annualised operating profit/(loss) after tax divided by average tangible equity.

(5) Loss ratio is based on net claims divided by net premium income.

(6) Commission ratio is based on fees and commissions divided by gross written premium.

(7) Expense ratio is based on expenses divided by gross written premium.

(8) Combined operating ratio is the sum of the loss, commission and expense ratios.

(9) Consists of general and life insurance liabilities, unearned premium reserve and liability adequacy reserve.

Key points

RBS Insurance continues to make good progress ahead of its divestment from the Group. Q4 2011 operating profit of £125 million was the fifth successive quarter of year-on-year improvement. Operating profit of £454 million for 2011 shows a return to full year profitability and represents close to a £750 million turnaround from 2010. These results demonstrate the success of the first phase of management’s transformation plan - to return to profit in 2011. The full year combined operating ratio improved to 100% (2010 - 121%) with a full year return on equity of 10.3% compared with a negative return of 6.8% in 2010.

The second phase of the RBS Insurance transformation plan, to build competitive advantage, is underway and tangible benefits are already being delivered. All new Churchill, Direct Line and Privilege motor claims, as well as all new Churchill home claims, are now being processed through a new claims management system. Within motor, the rollout of a new rating engine and new pricing tools ensured more accurate and tailored pricing with the aim of generating greater value from RBS Insurance's multi-brand, multi-distribution strategy.

Key points (continued)
As part of the plan to build competitive advantage, the rationalisation of occupied sites continues, with 15 site exits by the end of 2011. The consolidation of the four UK general insurance underwriting entities within the RBS Insurance Group was successfully completed in December 2011. All UK general insurance business is now written through one underwriter with the aim of improving operational and capital efficiency.

Marking a significant new partnership, RBS Insurance signed a five-year contract with Sainsbury's Finance in 2011 to provide underwriting, sales, service and claims management for its car insurance customers. Following the successful launch and development of the car insurance partnership, a further contract was signed early in 2012 to provide home insurance for Sainsbury's customers. Building on RBS Insurance's established successful relationship with Nationwide Building Society, a deal was concluded to extend its provision of home insurance until the end of 2015. RBS Insurance is also concluding terms with RBS Group's UK Retail bank on the details of a five-year agreement for the continued provision of general insurance products post separation. The term would commence from the point of initial divestment.

While overall gross written premium fell by 5% in 2011, it increased by 10% in Commercial, which includes NIG, the commercial broker business, and Direct Line for Business, the direct SME insurer. A new brand identity was unveiled for NIG and work continued to improve its product offering and service to brokers. Direct Line for Business continued to develop well.

RBS Insurance's international division showed strong growth in gross written premiums primarily in Italy, assisted by the first full year of its sales agreements with FGA Capital, a joint venture between Fiat and Credit Agricole. The German business also showed good growth following improvements in the second half of 2011 to its direct and partnership business, including strengthening its relationship with Renault.

Ahead of the planned divestment in the second half of 2012, RBS Insurance has begun separating its activities and operations from RBS Group. Its corporate functions have been strengthened, arm's length agreements are under discussion with the Group where appropriate, a new corporate brand, Direct Line Group was announced on 15 February 2012 and a new risk and control framework has been implemented, in readiness for standalone status.

Overall, RBS Insurance has powerful brands, improved earnings, a robust balance sheet and is executing the second phase of its transformation plan to rebuild competitive advantage.

Key points (continued)

2011 compared with 2010

- Operating profit rose by £749 million in 2011, principally due to the non repeat of the bodily injury reserve strengthening in 2010, de-risking of the motor book, exit of certain business segments and more benign weather in 2011.

- Gross written premium fell £200 million, 5%, as the business continued to drive improved profitability through reduced volumes in unattractive segments. This was partially offset by growth in Commercial and International.

- Total income fell £444 million, 10%, following the exit of personal lines broker, a decline in premiums reflecting reduced motor volumes and higher reinsurance costs to reduce the risk profile of the book.

- Net claims fell £1,160 million, 30%, due to the non recurrence of bodily injury reserve strengthening in 2010, actions taken to de-risk the book, the exit of certain business segments and more benign weather in 2011.

- Total direct expenses rose by £9 million principally driven by project activity to support the transformation plan.

- Investment income fell £12 million, 4%, reflecting decreased yields on the portfolio in 2011, partially offset by higher realised gains.

- At the end of 2011, RBS Insurance's investment portfolios comprised primarily cash, gilts and investment grade bonds. Within the UK portfolio, £8.9 billion, and the International portfolio, £827 million, there was no exposure to sovereign debt issued by Portugal, Ireland, Italy, Greece or Spain.

- Total in-force policies fell 6% in the year due to planned de-risking of the motor book and the exiting of certain other segments and partnerships, including personal lines broker.

Q4 2011 compared with Q3 2011

- Operating profit of £125 million rose by £2 million, 2%, compared with Q3 2011 as lower income was offset by a decrease in net claims, partially reflecting more benign weather.

- Gross written premium of £950 million fell £127 million, 12%, as a result of seasonality and a reduction of in-force policies following continued improvements to the risk profile of the motor book. This was partially offset by growth in International, largely due to the partnership with FGA Capital.

- Total income of £923 million fell £110 million, 11%, due to lower volumes and higher commissions payable, including £57 million to UK Retail.

- Net claims fell £106 million to £589 million partially reflecting a £57 million release of claims reserves relating to creditor insurance. This release was matched by the payment to UK Retail within fees and commissions. Excluding the release and commission payment, the loss ratio would have been 6 percentage points higher and commission ratio 6 percentage points lower.

- Total direct expenses of £154 million were broadly flat.

Key points (continued)

Q4 2011 compared with Q3 2011 (continued)

· Investment income of £60 million was down by £12 million, 17%, due to lower disposal gains.

· Total in-force policies fell by 3% driven by the planned de-risking of the motor book and the exit of certain business segments and partnerships, partially offset by growth in International and Commercial.

Q4 2011 compared with Q4 2010

· Operating profit rose by £134 million due to a significant turnaround in the technical result, driven by a 34% decrease in net claims.

· Gross written premium fell £38 million, 4%, as a result of reduced in-force policies aimed at improving the risk profile of the book, partially offset by growth in International.

· Total income fell £189 million, 17%, reflecting lower motor volumes and higher fees and commissions payable.

· Net claims were down by £309 million, 34%, through a combination of improved risk mix, more benign weather in 2011, and the exit of certain business segments.

· Total direct expenses increased by £5 million, 3%, due to the transfer of certain Group services to RBS Insurance in preparation for separation.

· Investment income was down £17 million, or 22%, due to lower disposal gains and decreased yields.

· Total in-force policies reduced by 6% principally due to the planned de-risking of the motor book and the exiting of certain other segments and partnerships, including personal lines broker, partially offset by growth in International.

Central items

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	£m	£m	£m	£m	£m
Central items not allocated	156	577	85	67	115

Funding and operating costs have been allocated to operating divisions based on direct service usage, the requirement for market funding and other appropriate drivers where services span more than one division.

Residual unallocated items relate to volatile corporate items that do not naturally reside within a division.

Key points

2011 compared with 2010

- Central items not allocated represented a credit of £156 million in 2011, a decline of £421 million compared with 2010.

- 2010 benefitted from c£300 million of accounting gains on hybrid securities, c£150 million of which was amortised during 2011.

- A VAT recovery of £176 million in 2010 compared with £85 million recovered in 2011.

Q4 2011 compared with Q3 2011

- Central items not allocated represented a credit of £85 million in the quarter, an increase of £18 million compared with Q3 2011.

Q4 2011 compared with Q4 2010

- Central items not allocated represented a credit of £85 million, £30 million lower than Q4 2010.

Non-Core

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Income statement					
Net interest income	881	1,959	129	163	419
Funding costs of rental assets	(215)	(276)	(56)	(53)	(61)
Net interest income	666	1,683	73	110	358
Net fees and commissions	(38)	471	(47)	(85)	166
Loss from trading activities	(721)	(31)	(407)	(246)	(152)
Insurance net premium income	291	695	10	45	185
Other operating income					
- rental income	953	1,035	218	235	275
- other (1)	55	(889)	(151)	(13)	(511)
Non-interest income	540	1,281	(377)	(64)	(37)
Total income/(loss)	1,206	2,964	(304)	46	321
Direct expenses					
- staff	(375)	(731)	(82)	(93)	(105)
- operating lease depreciation	(347)	(452)	(91)	(82)	(108)
- other	(256)	(573)	(57)	(62)	(141)
Indirect expenses	(317)	(500)	(84)	(86)	(127)
	(1,295)	(2,256)	(314)	(323)	(481)
Insurance net claims	(195)	(737)	61	(38)	(245)
Impairment losses	(3,919)	(5,476)	(751)	(682)	(1,211)
Operating loss	(4,203)	(5,505)	(1,308)	(997)	(1,616)

Note:

(1) Includes losses on disposals (year ended 31 December 2011 - £127 million; year ended 31 December 2010 - £504 million; quarter ended 31 December 2011 - £36 million; quarter ended 30 September 2011 - £37 million; quarter ended 31 December 2010 - £247 million).

Non-Core (continued)

	Year ended 31 December 2011 £m	Year ended 31 December 2010 £m	Quarter ended 31 December 2011 £m	Quarter ended 30 September 2011 £m	Quarter ended 31 December 2010 £m
Analysis of income/(loss)by business					
Banking & portfolios	1,474	1,673	(168)	214	157
International businesses	419	778	92	101	84
Markets	(687)	513	(228)	(269)	80
Total income/(loss)	1,206	2,964	(304)	46	321
Loss from trading activities					
Monoline exposures	(670)	(5)	(243)	(230)	(57)
Credit derivative product companies	(85)	(139)	(19)	(5)	(38)
Asset-backed products (1)	29	235	(22)	(51)	33
Other credit exotics	(175)	77	(8)	(7)	21
Equities	(11)	(17)	1	(11)	11
Banking book hedges	(1)	(82)	(36)	73	(70)
Other (2)	192	(100)	(80)	(15)	(52)
	(721)	(31)	(407)	(246)	(152)
Impairment losses					
Banking & portfolios	3,833	5,328	714	656	1,258
International businesses	82	200	30	17	59
Markets	4	(52)	7	9	(106)
Total impairment losses	3,919	5,476	751	682	1,211
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) (3)					
Banking & portfolios	4.9%	5.0%	3.6%	2.8%	4.6%
International businesses	3.7%	4.4%	5.3%	2.7%	5.2%
Markets	(3.0%)	0.2%	(8.8%)	(0.4%)	(38.4%)
Total	4.8%	4.9%	3.7%	2.8%	4.4%

Notes:

(1) Asset-backed products include super senior asset-backed structures and other asset-backed products.

(2) Includes profits in RBS Sempra Commodities JV (year ended 31 December 2011 - £4 million; year ended 31 December 2010 - £372 million; quarter ended 31 December 2011 - £1 million; quarter ended 30 September 2011 - £1 million; quarter ended 31 December 2010 - £19 million).

(3) Includes disposal groups.

Non-Core (continued)

Key metrics

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
Performance ratios					
Net interest margin	0.64%	1.16%	0.31%	0.43%	1.09%
Cost:income ratio	107%	76%	nm	nm	150%
Adjusted cost:income ratio	128%	101%	nm	nm	nm

	31 December 2011 £bn	30 September 2011 £bn	Change	31 December 2010 £bn	Change
Capital and balance sheet					
Total third party assets (excluding derivatives) (1)	93.7	105.1	(11%)	137.9	(32%)
Total third party assets (including derivatives) (1)	104.7	117.7	(11%)	153.9	(32%)
Loans and advances to customers (gross) (2)	79.4	88.9	(11%)	108.4	(27%)
Customer deposits (2)	3.5	4.3	(19%)	6.7	(48%)
Risk elements in lending (2)	24.0	24.6	(2%)	23.4	3%
Risk-weighted assets (1)	93.3	117.9	(21%)	153.7	(39%)

nm = not meaningful

Notes:

(1) Includes RBS Sempra Commodities JV (31 December 2011 third party assets, excluding derivatives (TPAs) £0.1 billion, RWAs £1.6 billion; 30 September 2011 TPAs £0.3 billion, RWAs £1.7 billion; 31 December 2010 TPAs £6.7 billion, RWAs £4.3 billion).

(2) Excludes disposal groups.

	31 December 2011 £bn	30 September 2011 £bn	31 December 2010 £bn
Gross customer loans and advances			
Banking & portfolios	77.3	86.6	104.9
International businesses	2.0	2.2	3.5
Markets	0.1	0.1	-
	79.4	88.9	108.4

Risk-weighted assets			
Banking & portfolios	64.8	66.6	83.5
International businesses	4.1	4.5	5.6
Markets	24.4	46.8	64.6
	93.3	117.9	153.7
Third party assets (excluding derivatives)			
Banking & portfolios	81.3	91.0	113.9
International businesses	2.9	3.3	4.4
Markets	9.5	10.8	19.6
	93.7	105.1	137.9

Non-Core (continued)

Third party assets (excluding derivatives)

Year ended 31 December 2011

	31 December 2010 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	31 December 2011 £bn
Commercial real estate	42.6	(5.6)	(2.4)	0.7	(3.4)	(0.4)	31.5
Corporate	59.8	(8.5)	(11.3)	2.5	(0.1)	(0.2)	42.2
SME	3.7	(1.6)	-	0.1	(0.1)	-	2.1
Retail	9.0	(1.1)	(1.4)	-	(0.3)	(0.1)	6.1
Other	2.5	(0.6)	-	-	-	-	1.9
Markets	13.6	(2.9)	(1.8)	1.0	-	(0.1)	9.8
Total (excluding derivatives)	131.2	(20.3)	(16.9)	4.3	(3.9)	(0.8)	93.6
Markets - RBS Sempra Commodities JV	6.7	(1.3)	(5.0)	-	-	(0.3)	0.1
Total (1)	137.9	(21.6)	(21.9)	4.3	(3.9)	(1.1)	93.7

Quarter ended 31 December 2011

	30 September 2011 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	31 December 2011 £bn
Commercial real estate	35.3	(1.8)	(1.1)	0.1	(0.6)	(0.4)	31.5
Corporate	46.9	(1.6)	(3.6)	0.6	(0.1)	-	42.2
SME	2.4	(0.3)	-	0.1	(0.1)	-	2.1
Retail	7.4	(0.2)	(1.1)	-	-	-	6.1
Other	1.9	-	-	-	-	-	1.9
Markets	10.9	(0.2)	(1.0)	-	-	0.1	9.8
Total (excluding derivatives)	104.8	(4.1)	(6.8)	0.8	(0.8)	(0.3)	93.6
Markets - RBS Sempra Commodities JV	0.3	-	(0.2)	-	-	-	0.1
Total (1)	105.1	(4.1)	(7.0)	0.8	(0.8)	(0.3)	93.7

Quarter ended 30 September 2011

	30 June 2011 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	30 September 2011 £bn
Commercial real estate (2)	36.6	0.3	(0.6)	0.2	(0.5)	(0.7)	35.3

Corporate (2)	50.4	(2.4)	(1.3)	0.5	-	(0.3)	46.9
SME	2.7	(0.3)	-	-	-	-	2.4
Retail	8.0	(0.3)	(0.3)	-	(0.1)	0.1	7.4
Other	2.3	(0.4)	-	-	-	-	1.9
Markets	11.5	(0.9)	(0.4)	0.6	-	0.1	10.9
Total (excluding derivatives)	111.5	(4.0)	(2.6)	1.3	(0.6)	(0.8)	104.8
Markets - RBS Sempra Commodities JV	1.1	(0.5)	(0.3)	-	-	-	0.3
Total (1)	112.6	(4.5)	(2.9)	1.3	(0.6)	(0.8)	105.1

Notes:

(1) Disposals of £0.2 billion have been signed as at 31 December 2011 but are pending completion (30 September 2011 - £1 billion; 31 December 2010 - £12 billion).

(2) Business restructuring in Q3 2011 resulted in third party assets of £1 billion transferring from Corporate to Commercial Real Estate resulting in run-off totalling £0.3 billion in Q3 2011.

Non-Core (continued)

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Impairment losses by donating division and sector					
UK Retail					
Mortgages	5	5	-	1	1
Personal	(27)	8	(28)	1	2
Total UK Retail	(22)	13	(28)	2	3
UK Corporate					
Manufacturing and infrastructure	76	26	26	3	5
Property and construction	224	437	83	92	103
Transport	52	3	6	-	(20)
Banking and financial institutions	5	69	1	-	51
Lombard	75	129	20	12	50
Other	96	166	21	18	50
Total UK Corporate	528	830	157	125	239
Ulster Bank					
Mortgages	-	42	-	-	-
Commercial real estate					
- investment	609	630	151	74	206
- development	1,552	1,759	77	162	596
Other corporate	173	251	15	45	(19)
Other EMEA	15	52	2	2	6
Total Ulster Bank	2,349	2,734	245	283	789
US Retail & Commercial					
Auto and consumer	58	82	7	14	37
Cards	(9)	23	1	-	3
SBO/home equity	201	277	33	57	51
Residential mortgages	16	4	2	4	(1)
Commercial real estate	40	185	14	(4)	31
Commercial and other	(3)	17	7	(1)	2
Total US Retail & Commercial	303	588	64	70	123
Global Banking & Markets					
Manufacturing and infrastructure	57	(290)	42	23	15

Property and construction	752	1,296	241	189	176
Transport	(3)	33	10	(6)	24
Telecoms, media and technology	68	9	18	27	(23)
Banking and financial institutions	(98)	196	(31)	(29)	19
Other	(20)	14	25	(1)	(163)
Total Global Banking & Markets	756	1,258	305	203	48
Other					
Wealth	1	51	-	1	-
Global Transaction Services	1	-	4	-	7
Central items	3	2	4	(2)	2
Total Other	5	53	8	(1)	9
Total impairment losses	3,919	5,476	751	682	1,211

Non-Core (continued)

	31 December 2011 £bn	30 September 2011 £bn	31 December 2010 £bn
Gross loans and advances to customers (excluding reverse repurchase agreements) by donating division and sector			
UK Retail			
Mortgages	1.4	1.4	1.6
Personal	0.1	0.3	0.4
Total UK Retail	1.5	1.7	2.0
UK Corporate			
Manufacturing and infrastructure	0.1	0.1	0.3
Property and construction	5.9	6.5	11.4
Transport	4.5	4.8	5.4
Banking and financial institutions	0.6	0.5	0.8
Lombard	1.0	1.2	1.7
Other	7.5	7.5	7.4
Total UK Corporate	19.6	20.6	27.0
Ulster Bank			
Commercial real estate			
- investment	3.9	3.9	4.0
- development	8.5	8.7	8.4
Other corporate	1.6	1.7	2.2
Other EMEA	0.4	0.4	0.4
Total Ulster Bank	14.4	14.7	15.0
US Retail & Commercial			
Auto and consumer	0.8	1.9	2.6
Cards	0.1	0.1	0.1
SBO/home equity	2.5	2.6	3.2
Residential mortgages	0.6	0.6	0.7
Commercial real estate	1.0	1.1	1.5
Commercial and other	0.4	0.5	0.5
Total US Retail & Commercial	5.4	6.8	8.6
Global Banking & Markets			
Manufacturing and infrastructure	6.6	7.0	8.7
Property and construction	15.3	17.8	19.6
Transport	3.2	3.9	5.5

Telecoms, media and technology	0.7	0.9	0.9
Banking and financial institutions	5.6	8.3	12.0
Other	6.8	6.7	9.0
Total Global Banking & Markets	38.2	44.6	55.7
Other			
Wealth	0.2	0.3	0.4
Global Transaction Services	0.2	0.3	0.3
RBS Insurance	-	-	0.2
Central items	(0.2)	(0.3)	(1.0)
Total Other	0.2	0.3	(0.1)
Gross loans and advances to customers (excluding reverse repurchase agreements)	79.3	88.7	108.2

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Non-Core (continued)

Key points
Non-Core third party assets fell to £94 billion, below the revised year end target of £96 billion and significantly ahead of the original guidance of £118 billion. Further reductions will include the sale of RBS Aviation Capital for £4.7 billion, which was signed in January 2012. Since the division was formed in 2009, the reduction totals £164 billion, or 64%. By the end of 2011, the Non-Core funded balance sheet equated to less than 10% of the Group funded balance sheet compared with 21% when the division was created.

The division focused on reducing capital intensive trading assets, with activity including the restructuring of monoline exposures, which, at a cost of c.£600 million in 2011, achieved a reduction of £32 billion in risk-weighted assets.

An operating loss of £4,203 million for 2011 was £1,302 million lower than 2010. Income declined by £1,758 million reflecting continued divestment, including business and country exits. The decrease was partially offset by a reduction in expenses of £961 million, largely driven by the fall in headcount. Impairment losses fell by £1,557 million despite ongoing challenges in the real estate and Ulster Bank portfolios.

2011 compared with 2010

- Operating loss of £4,203 million in 2011 was £1,302 million lower than the loss recorded in 2010. The continued divestment of Non-Core businesses and portfolios has reduced revenue streams as well as the cost base.

- Losses from trading activities increased by £690 million compared with 2010, principally as a result of the disposal of RBS Sempra Commodities in 2010 and costs incurred as part of the division's focus on reducing capital intensive trading assets and mitigating future regulatory uplifts in risk-weighted assets.

- Impairment losses fell by £1,557 million despite ongoing challenges in the real estate and Ulster Bank portfolios, reflecting improvements in other asset classes.

- Third party assets declined by £44 billion (32%) reflecting disposals of £22 billion and run-off of £22 billion.

- Risk-weighted assets were £60 billion lower than 2010, principally driven by significant disposal activity on trading book assets combined with run-off.

- Headcount declined by 2,189 (32%) to 4,669 in 2011, largely reflecting the divestment activity in relation to Asia, Non-Core Insurance and RBS Sempra Commodities.

Q4 2011 compared with Q3 2011

- Non-Core continued to reduce the size of its balance sheet, with third party assets declining by £11 billion to £94 billion, driven by disposals of £7 billion and run-off of £4 billion.

- Risk-weighted assets fell by £25 billion in Q4 2011 primarily reflecting the restructuring of monoline exposures and run-off.

- The increased operating loss reported in Q4 2011 reflected trading losses associated with the ongoing reduction of capital intensive trading assets and market movements. Additionally, other income losses increased in Q4 2011 as a result of valuation movements of £131 million recorded on equity and asset positions.

Non-Core (continued)

Key points (continued)

Q4 2011 compared with Q4 2010

- Q4 2011 operating loss of £1,308 million was 19% lower than the loss recorded in Q4 2010.

- Impairments were £460 million lower in Q4 2011 reflecting a reduction in impairments reported in the Ulster Bank portfolio, following substantial provisioning of land development values earlier in 2011.

- Non-interest income fell principally as a result of trading losses incurred in Q4 2011.

- Ongoing disposal activity reduced the balance sheet and headcount, resulting in lower net interest income, fees and commissions, net premium income, claims, and expenses.

Condensed consolidated income statement
for the period ended 31 December 2011

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Interest receivable	21,410	22,776	5,234	5,371	5,612
Interest payable	(8,731)	(8,567)	(2,160)	(2,294)	(2,032)
Net interest income	12,679	14,209	3,074	3,077	3,580
Fees and commissions receivable	6,384	8,193	1,590	1,452	2,052
Fees and commissions payable	(1,460)	(2,211)	(573)	(304)	(449)
Income from trading activities	2,701	4,517	(238)	957	364
Gain on redemption of own debt	255	553	(1)	1	-
Other operating income (excluding insurance premium income)	4,122	1,479	205	2,384	1,003
Insurance net premium income	4,256	5,128	981	1,036	1,272
Non-interest income	16,258	17,659	1,964	5,526	4,242
Total income	28,937	31,868	5,038	8,603	7,822
Staff costs	(8,678)	(9,671)	(1,993)	(2,076)	(2,194)
Premises and equipment	(2,451)	(2,402)	(674)	(604)	(709)
Other administrative expenses	(4,931)	(3,995)	(1,296)	(962)	(1,048)
Depreciation and amortisation	(1,875)	(2,150)	(513)	(485)	(546)
Write-down of goodwill and other intangible assets	(91)	(10)	(91)	-	(10)
Operating expenses	(18,026)	(18,228)	(4,567)	(4,127)	(4,507)
Profit before insurance net claims and impairment losses	10,911	13,640	471	4,476	3,315
Insurance net claims	(2,968)	(4,783)	(529)	(734)	(1,182)
Impairment losses	(8,709)	(9,256)	(1,918)	(1,738)	(2,141)
Operating (loss)/profit before tax	(766)	(399)	(1,976)	2,004	(8)
Tax (charge)/credit	(1,250)	(634)	186	(791)	3
	(2,016)	(1,033)	(1,790)	1,213	(5)

(Loss)/profit from continuing operations					
Profit/(loss) from discontinued operations, net of tax	47	(633)	10	6	55
(Loss)/profit for the period	(1,969)	(1,666)	(1,780)	1,219	50
Non-controlling interests	(28)	665	(18)	7	(38)
Preference share and other dividends	-	(124)	-	-	-
(Loss)/profit attributable to ordinary and B shareholders	(1,997)	(1,125)	(1,798)	1,226	12
Basic (loss)/earnings per ordinary and B share from continuing operations	(1.8p)	(0.5p)	(1.7p)	1.1p	-
Diluted (loss)/earnings per ordinary and B share from continuing operations	(1.8p)	(0.5p)	(1.7p)	1.1p	-
Basic (loss)/earnings per ordinary and B share from discontinued operations	-	-	-	-	-
Diluted (loss)/earnings per ordinary and B shares from discontinued operations	-	-	-	-	-

Condensed consolidated statement of comprehensive income
for the period ended 31 December 2011

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
(Loss)/profit for the period	(1,969)	(1,666)	(1,780)	1,219	50
Other comprehensive income/(loss)					
Available-for-sale financial assets (1)	2,258	(389)	(107)	996	(1,132)
Cash flow hedges	1,424	1,454	124	939	(353)
Currency translation	(440)	81	(117)	(22)	34
Actuarial (losses)/gains on defined benefit plans	(581)	158	(581)	-	158
Other comprehensive income/(loss) before tax	2,661	1,304	(681)	1,913	(1,293)
Tax (charge)/credit	(1,472)	(309)	(500)	(480)	393
Other comprehensive income/(loss) after tax	1,189	995	(1,181)	1,433	(900)
Total comprehensive (loss)/income for the period	(780)	(671)	(2,961)	2,652	(850)
Total comprehensive (loss)/income is attributable to:					
Non-controlling interests	(24)	(197)	(12)	(6)	52
Preference shareholders	-	105	-	-	-
Paid-in equity holders	-	19	-	-	-
Ordinary and B shareholders	(756)	(598)	(2,949)	2,658	(902)
	(780)	(671)	(2,961)	2,652	(850)

Note:
(1) Analysis provided on page 117.

Key points

- The movement in available-for-sale financial assets reflects net unrealised gains on high quality sovereign bonds.

- Actuarial losses on defined benefit plans reflect changes in assumptions of £1,017 million, primarily due to a reduction in the real discount rate in the UK and US, partially offset by £436 million net experience gains.

- The tax charge for the year and Q4 2011 includes £664 million write-off of deferred tax assets in The Netherlands.

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Condensed consolidated balance sheet
at 31 December 2011

	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Assets			
Cash and balances at central banks	79,269	78,445	57,014
Net loans and advances to banks	43,870	52,602	57,911
Reverse repurchase agreements and stock borrowing	39,440	48,127	42,607
Loans and advances to banks	83,310	100,729	100,518
Net loans and advances to customers	454,112	485,573	502,748
Reverse repurchase agreements and stock borrowing	61,494	54,132	52,512
Loans and advances to customers	515,606	539,705	555,260
Debt securities	209,080	229,657	217,480
Equity shares	15,183	14,888	22,198
Settlement balances	7,771	21,526	11,605
Derivatives	529,618	572,344	427,077
Intangible assets	14,858	14,744	14,448
Property, plant and equipment	11,868	17,060	16,543
Deferred tax	3,878	4,988	6,373
Prepayments, accrued income and other assets	10,976	10,598	12,576
Assets of disposal groups	25,450	3,044	12,484
Total assets	1,506,867	1,607,728	1,453,576
Liabilities			
Bank deposits	69,113	78,370	66,051
Repurchase agreements and stock lending	39,691	36,227	32,739
Deposits by banks	108,804	114,597	98,790
Customer deposits	414,143	433,660	428,599
Repurchase agreements and stock lending	88,812	95,691	82,094
Customer accounts	502,955	529,351	510,693
Debt securities in issue	162,621	194,511	218,372
Settlement balances	7,477	17,983	10,991
Short positions	41,039	48,495	43,118
Derivatives	523,983	561,790	423,967
Accruals, deferred income and other liabilities	23,125	22,938	23,089
Retirement benefit liabilities	2,239	1,855	2,288
Deferred tax	1,945	1,913	2,142
Insurance liabilities	6,312	6,628	6,794
Subordinated liabilities	26,319	26,275	27,053
Liabilities of disposal groups	23,995	2,516	9,428
Total liabilities	1,430,814	1,528,852	1,376,725

Equity			
Non-controlling interests	1,234	1,433	1,719
Owners' equity*			
Called up share capital	15,318	15,318	15,125
Reserves	59,501	62,125	60,007
Total equity	76,053	78,876	76,851
Total liabilities and equity	1,506,867	1,607,728	1,453,576
* Owners' equity attributable to:			
Ordinary and B shareholders	70,075	72,699	70,388
Other equity owners	4,744	4,744	4,744
	74,819	77,443	75,132

Total assets of £1,506.9 billion at 31 December 2011 were up £53.3 billion, 4%, compared with 31 December 2010. This principally reflects an increase in cash and balances at central banks and the mark-to-market value of derivatives in Global Banking & Markets, partly offset by decreases in debt securities and equity shares and the continuing disposal and run-off of Non-Core assets.

Cash and balances at central banks were up £22.3 billion, 39%, to £79.3 billion due to improvements in the Group's structured liquidity position during 2011.

Loans and advances to banks decreased by £17.2 billion, 17%, to £83.3 billion. Reverse repurchase agreements and stock borrowing ('reverse repos') were down £3.2 billion, 7%, to £39.4 billion and bank placings declined £14.0 billion, 24%, to £43.9 billion, primarily as a result of the reduction in exposure to eurozone banks and lower cash collateral requirements.

Loans and advances to customers were down £39.7 billion, 7%, to £515.6 billion. Within this, reverse repurchase agreements were up £9.0 billion, 17%, to £61.5 billion. Customer lending decreased by £48.7 billion, 10%, to £454.1 billion or £46.9 billion, 9%, to £473.9 billion before impairment provisions. This reflected the transfer to disposal groups of £19.5 billion of customer balances relating to the UK branch-based businesses. There were also planned reductions in Non-Core of £28.1 billion, together with declines in UK Corporate, £2.9 billion and Ulster Bank, £2.0 billion, together with the effect of exchange rate and other movements, £1.9 billion. These were partially offset by growth in Global Banking & Markets, £0.2 billion, Global Transaction Services, £1.5 billion, Wealth, £0.7 billion, UK Retail, £2.3 billion and US Retail & Commercial, £2.8 billion.

Debt securities were down £8.4 billion, 4%, to £209.1 billion driven mainly by a reduction in holdings of government and financial institution bonds in Global Banking & Markets and Group Treasury.

Equity shares decreased £7.0 billion, 32%, to £15.2 billion which largely reflects the closure of positions to reduce the Group's level of unsecured funding requirements to mitigate the potential impact of unfavourable market conditions.

Settlement balances declined £3.8 billion, 33% to £7.8 billion as a result of decreased customer activity.

Movements in the value of derivative assets up £102.5 billion, 24%, to £529.6 billion, and liabilities, up £100.0 billion, 24%, to £524.0 billion, primarily reflect increases in interest rate contracts as a result of a significant downward shift in interest rates across all major currencies, together with increases in the mark-to-market value of credit derivatives as a result of widening credit spreads and rising credit default swap prices.

Property, plant and equipment declined £4.7 billion, 28%, to £11.9 billion, primarily as a result of the transfer of RBS Aviation Capital's operating lease assets to disposal groups.

Deferred taxation was down £2.5 billion, 39%, to £3.9 billion, largely as a result of the utilisation of brought forward tax losses in the UK.

The increase in assets and liabilities of disposal groups reflects the reclassification of the UK branch-based businesses and RBS Aviation Capital pending their disposal, partly offset by the completion of disposals, primarily RBS Sempra Commodities JV and certain Non-Core project finance assets.

Deposits by banks increased £10.0 billion, 10%, to £108.8 billion, with higher repurchase agreements and stock lending (‘repos’), up £6.9 billion, 21%, to £39.7 billion and higher inter-bank deposits, up £3.1 billion, 5%, to £69.1 billion.

Customer accounts fell £7.7 billion, 2%, to £503.0 billion. Within this, repos increased £6.7 billion, 8%, to £88.8 billion. Excluding repos, customer deposits were down £14.4 billion, 3%, to £414.1 billion, reflecting the transfer to disposal groups of £21.8 billion of customer accounts relating to the UK branch-based businesses. This was partly offset by the net effect of growth in Global Transaction Services, £2.7 billion, UK Corporate, £0.9 billion, UK Retail, £5.8 billion, US Retail & Commercial, £0.6 billion and Wealth, £1.8 billion, together with exchange rate and other movements of £0.3 billion and declines in Global Banking & Markets, £0.8 billion, Ulster Bank, £0.8 billion and Non-Core, £3.1 billion.

Debt securities in issue were down £55.8 billion, 26% to £162.6 billion driven by reductions in the level of certificates of deposit and commercial paper in Global Banking & Markets and Group Treasury.

Settlement balances declined £3.5 billion, 32%, to £7.5 billion and short positions were down £2.1 billion, 5%, to £41.0 billion due to decreased customer activity.

Subordinated liabilities were down £0.7 billion, 3%, to £26.3 billion, primarily reflecting the redemption of £0.2 billion US dollar and £0.4 billion Euro denominated dated loan capital.

The Group’s non-controlling interests decreased by £0.5 billion, 28%, to £1.2 billion, primarily due to the disposal of the majority of the RBS Sempra Commodities JV business, £0.4 billion.

Owners’ equity decreased by £0.3 billion to £74.8 billion. This was driven by the attributable loss for the year, £2.0 billion, together with the recognition of actuarial losses in respect of the Group’s defined benefit pension schemes, net of tax, £0.5 billion and exchange rate and other movements of £0.3 billion. Offsetting these reductions were gains in available-for-sale reserves, £1.1 billion and cash flow hedging reserves, £1.0 billion and the issue of shares under employee share schemes, £0.4 billion.

Average balance sheet

	Year ended		Quarter ended	
	31 December 2011	31 December 2010	31 December 2011	30 September 2011
	%	%	%	%
Average yields, spreads and margins of the banking business				
Gross yield on interest-earning assets of banking business	3.24	3.30	3.13	3.21
Cost of interest-bearing liabilities of banking business	(1.68)	(1.47)	(1.70)	(1.74)
Interest spread of banking business	1.56	1.83	1.43	1.47
Benefit from interest-free funds	0.36	0.23	0.41	0.37
Net interest margin of banking business	1.92	2.06	1.84	1.84
Average interest rates				
The Group's base rate	0.50	0.50	0.50	0.50
London inter-bank three month offered rates				
- Sterling	0.87	0.70	0.99	0.87
- Eurodollar	0.33	0.34	0.43	0.30
- Euro	1.36	0.75	1.50	1.51

Average balance sheet (continued)

	Year ended 31 December 2011			Year ended 31 December 2010		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	73,834	697	0.94	52,862	591	1.12
Loans and advances to customers	466,280	17,969	3.85	506,571	18,889	3.73
Debt securities	121,004	2,744	2.27	130,098	3,296	2.53
Interest-earning assets - banking business	661,118	21,410	3.24	689,531	22,776	3.30
Trading business	278,975			276,330		
Non-interest earning assets	595,062			706,343		
Total assets	1,535,155			1,672,204		
Liabilities						
Deposits by banks	64,595	982	1.52	81,615	1,333	1.63
Customer accounts	331,318	3,529	1.07	337,582	3,721	1.10
Debt securities in issue	151,175	3,371	2.23	183,452	3,277	1.79
Subordinated liabilities	22,551	740	3.28	28,156	417	1.48
Internal funding of trading business	(49,025)	109	(0.22)	(48,315)	(181)	0.37
Interest-bearing liabilities - banking business	520,614	8,731	1.68	582,490	8,567	1.47
Trading business	307,564			293,993		
Non-interest-bearing liabilities						
- demand deposits	66,404			53,016		
- other liabilities	565,534			665,799		
Owners' equity	75,039			76,906		

Total liabilities and owners’ equity	1,535,155	1,672,204

Note:

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

Average balance sheet (continued)

	Quarter ended 31 December 2011			Quarter ended 30 September 2011		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
Assets						
Loans and advances to banks	91,370	207	0.90	72,453	154	0.84
Loans and advances to customers	452,530	4,336	3.80	469,307	4,505	3.81
Debt securities	119,619	691	2.29	121,299	712	2.33
Interest-earning assets - banking business	663,519	5,234	3.13	663,059	5,371	3.21
Trading business	271,183			281,267		
Non-interest earning assets	656,468			654,489		
Total assets	1,591,170			1,598,815		
Liabilities						
Deposits by banks	60,397	226	1.48	65,470	248	1.50
Customer accounts	335,577	926	1.09	332,891	919	1.10
Debt securities in issue	128,701	793	2.44	150,427	897	2.37
Subordinated liabilities	22,906	191	3.31	23,000	175	3.02
Internal funding of trading business	(44,408)	24	(0.21)	(48,161)	55	(0.45)
Interest-bearing liabilities - banking business	503,173	2,160	1.70	523,627	2,294	1.74
Trading business	299,789			314,626		
Non-interest-bearing liabilities						
- demand deposits	70,538			66,496		
- other liabilities	642,503			617,817		
Owners' equity	75,167			76,249		

Total liabilities and owners’ equity	1,591,170	1,598,815

Note:

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

Condensed consolidated statement of changes in equity
for the period ended 31 December 2011

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	£m	£m	£m	£m	£m
Called-up share capital					
At beginning of period	15,125	14,630	15,318	15,317	15,030
Ordinary shares issued	193	523	-	1	121
Preference shares redeemed	-	(1)	-	-	1
Cancellation of non-voting deferred shares	-	(27)	-	-	(27)
At end of period	15,318	15,125	15,318	15,318	15,125
Paid-in equity					
At beginning of period	431	565	431	431	431
Securities redeemed	-	(132)	-	-	-
Transfer to retained earnings	-	(2)	-	-	-
At end of period	431	431	431	431	431
Share premium account					
At beginning of period	23,922	23,523	23,923	23,923	23,858
Ordinary shares issued	79	281	78	-	64
Redemption of preference shares classified as debt	-	118	-	-	-
At end of period	24,001	23,922	24,001	23,923	23,922
Merger reserve					
At beginning of period	13,272	25,522	13,222	13,222	13,272
Transfer to retained earnings	(50)	(12,250)	-	-	-
At end of period	13,222	13,272	13,222	13,222	13,272
Available-for-sale reserve					
At beginning of period	(2,037)	(1,755)	(292)	(1,026)	(1,242)
Unrealised gains/(losses)	1,769	179	(179)	1,005	(1,148)
Realised losses/(gains) (1)	486	(519)	69	(12)	16
Tax	(1,175)	74	(555)	(259)	337
Recycled to profit or loss on disposal of businesses (2)	-	(16)	-	-	-

At end of period	(957)	(2,037)	(957)	(292)	(2,037)
Cash flow hedging reserve					
At beginning of period	(140)	(252)	798	113	119
Amount recognised in equity	2,417	180	389	1,203	(149)
Amount transferred from equity to earnings	(993)	(59)	(265)	(264)	(197)
Tax	(405)	(67)	(43)	(254)	87
Recycled to profit or loss on disposal of businesses (3)	-	58	-	-	-
At end of period	879	(140)	879	798	(140)

For the notes to this table refer to page 83.

Condensed consolidated statement of changes in equity
for the period ended 31 December 2011 (continued)

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Foreign exchange reserve					
At beginning of period	5,138	4,528	4,847	4,834	5,085
Retranslation of net assets	(382)	997	(111)	(31)	-
Foreign currency (losses)/gains on hedges of net assets	(10)	(458)	20	10	(6)
Tax	23	63	13	34	34
Recycled to profit or loss on disposal of businesses	6	8	6	-	25
At end of period	4,775	5,138	4,775	4,847	5,138
Capital redemption reserve					
At beginning of period	198	170	198	198	172
Preference shares redeemed	-	1	-	-	(1)
Cancellation of non-voting deferred shares	-	27	-	-	27
At end of period	198	198	198	198	198
Contingent capital reserve					
At beginning and end of period	(1,208)	(1,208)	(1,208)	(1,208)	(1,208)
Retained earnings					
At beginning of period	21,239	12,134	20,977	19,726	20,904
(Loss)/profit attributable to ordinary and B shareholders and other equity owners					
- continuing operations	(2,002)	(973)	(1,798)	1,225	12
- discontinued operations	5	(28)	-	1	-
Equity preference dividends paid	-	(105)	-	-	-
Paid-in equity dividends paid, net of tax	-	(19)	-	-	-
Transfer from paid-in equity					
- gross	-	2	-	-	-
- tax	-	(1)	-	-	-

Equity owners gain on withdrawal of non-controlling interest					
- gross	-	40	-	-	-
- tax	-	(11)	-	-	-
Redemption of equity preference shares	-	(2,968)	-	-	-
Gain on redemption of equity preference shares	-	609	-	-	-
Redemption of preference shares classified as debt	-	(118)	-	-	-
Transfer from merger reserve	50	12,250	-	-	-
Actuarial (losses)/gains recognised in retirement benefit schemes					
- gross	(581)	158	(581)	-	158
- tax	86	(71)	86	-	(71)
Purchase of non-controlling interest	-	(38)	-	-	(38)
Shares issued under employee share schemes	(58)	(13)	151	(2)	(2)
Share-based payments					
- gross	200	385	98	35	282
- tax	(10)	6	(4)	(8)	(6)
At end of period	18,929	21,239	18,929	20,977	21,239

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Condensed consolidated statement of changes in equity
for the period ended 31 December 2011 (continued)

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Own shares held					
At beginning of period	(808)	(121)	(771)	(786)	(821)
Disposal/(purchase) of own shares	20	(700)	1	13	11
Shares issued under employee share schemes	19	13	1	2	2
At end of period	(769)	(808)	(769)	(771)	(808)
Owners' equity at end of period	74,819	75,132	74,819	77,443	75,132
Non-controlling interests					
At beginning of period	1,719	16,895	1,433	1,498	1,780
Currency translation adjustments and other movements	(54)	(466)	(32)	(1)	15
Profit/(loss) attributable to non-controlling interests					
- continuing operations	(14)	(60)	8	(12)	(17)
- discontinued operations	42	(605)	10	5	55
Dividends paid	(40)	(4,200)	(1)	-	17
Movements in available-for-sale securities					
- unrealised gains/(losses)	1	(56)	1	-	(2)
- realised losses	2	37	2	3	1
- tax	(1)	5	(1)	(1)	-
- recycled to profit or loss on disposal of discontinued operations (4)	-	(7)	-	-	-
Movements in cash flow hedging reserves					
- amounts recognised in equity	-	(120)	-	-	(21)
- tax	-	39	-	-	6
- recycled to profit or loss on disposal of discontinued operations (5)	-	1,036	-	-	15
Equity raised	-	559	-	-	58

Equity withdrawn and disposals	(421)	(11,298)	(186)	(59)	(188)
Transfer to retained earnings	-	(40)	-	-	-
At end of period	1,234	1,719	1,234	1,433	1,719
Total equity at end of period	76,053	76,851	76,053	78,876	76,851
Total comprehensive (loss)/income recognised in the statement of changes in equity is attributable to:					
Non-controlling interests	(24)	(197)	(12)	(6)	52
Preference shareholders	-	105	-	-	-
Paid-in equity holders	-	19	-	-	-
Ordinary and B shareholders	(756)	(598)	(2,949)	2,658	(902)
	(780)	(671)	(2,961)	2,652	(850)

Notes:

(1) Includes an impairment loss of £1,099 million in respect of the Group's holding of Greek government bonds, together with £169 million of related interest rate hedge adjustments, for the year ended 31 December 2011.

(2) Net of tax (year ended 31 December 2010 - £5 million credit).

(3) Net of tax (year ended 31 December 2010 - £19 million credit).

(4) Net of tax (year ended 31 December 2010 - £2 million credit).

(5) Net of tax (year ended 31 December 2010 - £340 million credit).

Condensed consolidated cash flow statement
for the year ended 31 December 2011

	2011 £m	2010 £m
Operating activities		
Operating loss before tax	(766)	(399)
Operating loss before tax on discontinued operations	58	(541)
Adjustments for non-cash items	7,661	2,571
Net cash inflow from trading activities	6,953	1,631
Changes in operating assets and liabilities	(3,444)	17,095
Net cash flows from operating activities before tax	3,509	18,726
Income taxes received/(paid)	(184)	565
Net cash flows from operating activities	3,325	19,291
Net cash flows from investing activities	14	3,351
Net cash flows from financing activities	(1,741)	(14,380)
Effects of exchange rate changes on cash and cash equivalents	(1,473)	82
Net increase in cash and cash equivalents	125	8,344
Cash and cash equivalents at beginning of year	152,530	144,186
Cash and cash equivalents at end of year	152,655	152,530

1. Basis of preparation

Having reviewed the Group's forecasts, projections and other relevant evidence, the directors have a reasonable expectation that the Group will continue in operational existence for the foreseeable future. Accordingly, the accounts for the year ended 31 December 2011 have been prepared on a going concern basis.

2. Accounting policies

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

Recent developments in IFRS

In May 2011, the IASB issued six new or revised standards:

IFRS 10 Consolidated Financial Statements which replaces SIC-12 Consolidation - Special Purpose Entities and the consolidation elements of the existing IAS 27 Consolidated and Separate Financial Statements. The new standard 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 to generate returns for the reporting entity.

IAS 27 Separate Financial Statements which comprises those parts of the existing IAS 27 that dealt with separate financial statements.

IFRS 11 Joint Arrangements which supersedes IAS 31 Interests in Joint Ventures. IFRS 11 distinguishes between joint operations and joint ventures. Joint operations are accounted for by the investor recognising its assets and liabilities including its share of any assets held and liabilities incurred jointly and its share of revenues and costs. Joint ventures are accounted for in the investor's consolidated accounts using the equity method.

IAS 28 Investments in Associates and Joint Ventures covers joint ventures as well as associates; both must be accounted for using the equity method. The mechanics of the equity method are unchanged.

IFRS 12 Disclosure of Interests in Other Entities covers disclosures for entities reporting under IFRS 10 and IFRS 11 replacing those in IAS 28 and IAS 27. Entities are required to disclose information that helps financial statement readers evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries, in associates and joint arrangements and in unconsolidated structured entities.

IFRS 13 Fair Value Measurement which sets out a single IFRS framework for defining and measuring fair value and requiring disclosures about fair value measurements.

These standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group is reviewing the standards to determine their effect on the Group's financial reporting.

2. Accounting policies (continued)

Recent developments in IFRS (continued)
In June 2011, the IASB issued amendments to two standards:

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income that require items that will never be recognised in profit or loss to be presented separately in other comprehensive income from those that are subject to subsequent reclassification. The amendments are effective for annual periods beginning on or after 1 July 2012. Earlier application is permitted.

Amendments IAS 19 Employee Benefits - these require the immediate recognition of all actuarial gains and losses eliminating the 'corridor approach'; interest cost to be calculated on the net pension liability or asset at the appropriate corporate bond rate; and all past service costs to be recognised immediately when a scheme is curtailed or amended. These amendments are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted. The Group is reviewing the amendments to determine their effect on the Group's financial reporting.

In December 2011, the IASB issued Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7). The amendment to IAS 32 adds application guidance on the meaning of 'a legally enforceable right to set off' and on simultaneous settlement. IFRS 7 is amended to require disclosures facilitating comparisons between those entities reporting under IFRS and those reporting under US GAAP. The amendments are effective for annual periods beginning on or after 1 January 2014 and are required to be applied retrospectively.

Notes (continued)

3. Analysis of income, expenses and impairment losses

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Loans and advances to customers	17,969	18,889	4,336	4,505	4,755
Loans and advances to banks	697	591	207	154	167
Debt securities	2,744	3,296	691	712	690
Interest receivable	21,410	22,776	5,234	5,371	5,612
Customer accounts	3,529	3,721	926	919	926
Deposits by banks	982	1,333	226	248	288
Debt securities in issue	3,371	3,277	794	897	866
Subordinated liabilities	740	417	190	175	(18)
Internal funding of trading businesses	109	(181)	24	55	(30)
Interest payable	8,731	8,567	2,160	2,294	2,032
Net interest income	12,679	14,209	3,074	3,077	3,580
Fees and commissions receivable	6,384	8,193	1,590	1,452	2,052
Fees and commissions payable					
- banking	(962)	(1,892)	(339)	(204)	(392)
- insurance related	(498)	(319)	(234)	(100)	(57)
Net fees and commissions	4,924	5,982	1,017	1,148	1,603
Foreign exchange	1,327	1,491	308	441	217
Interest rate	760	1,862	76	33	(165)
Credit	(15)	41	(695)	366	83
Other	629	1,123	73	117	229
Income/(loss) from trading activities	2,701	4,517	(238)	957	364
Gain on redemption of own debt	255	553	(1)	1	-
	1,307	1,394	308	327	369

Operating lease and other rental income					
Changes in fair value of own debt	1,621	249	(200)	1,887	472
Changes in the fair value of securities and other financial assets and liabilities	150	(180)	6	(148)	(83)
Changes in the fair value of investment properties	(139)	(405)	(65)	(22)	(293)
Profit on sale of securities	882	496	179	274	(10)
Profit on sale of property, plant and equipment	22	50	(5)	5	29
(Loss)/profit on sale of subsidiaries and associates	(28)	(107)	(15)	(39)	511
Life business (losses)/profits	(13)	90	-	(8)	29
Dividend income	62	69	15	14	11
Share of profits less losses of associated entities	26	70	6	5	14
Other income	232	(247)	(24)	89	(46)
Other operating income	4,122	1,479	205	2,384	1,003

Notes (continued)

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

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Non-interest income (excluding insurance net premium income)	12,002	12,531	983	4,490	2,970
Insurance net premium income	4,256	5,128	981	1,036	1,272
Total non-interest income	16,258	17,659	1,964	5,526	4,242
Total income	28,937	31,868	5,038	8,603	7,822
Staff costs	8,678	9,671	1,993	2,076	2,194
Premises and equipment	2,451	2,402	674	604	709
Other (1)	4,931	3,995	1,296	962	1,048
Administrative expenses	16,060	16,068	3,963	3,642	3,951
Depreciation and amortisation	1,875	2,150	513	485	546
Write-down of goodwill and other intangible assets	91	10	91	-	10
Operating expenses	18,026	18,228	4,567	4,127	4,507
General insurance	2,968	4,698	529	734	1,151
Bancassurance	-	85	-	-	31
Insurance net claims	2,968	4,783	529	734	1,182
Loan impairment losses	7,241	9,144	1,654	1,452	2,155
Securities impairment losses					
- sovereign debt impairment and related interest rate hedge adjustments	1,268	-	224	202	-
- other	200	112	40	84	(14)
Impairment losses	8,709	9,256	1,918	1,738	2,141

Note:

(1) Includes Payment Protection Insurance costs of £850 million reflected in the quarter ended 30 June 2011.

Notes (continued)

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

Staff expenses

Staff expenses comprise	2011 £m	2010 £m	Change %
Salaries	5,423	5,473	(1)
Variable compensation	985	1,246	(21)
Temporary and contract costs	846	700	21
Share based compensation	197	397	(50)
Bonus tax	27	99	(73)
Social security costs	640	661	(3)
Post retirement benefits	447	569	(21)
Other *	113	526	(79)
Staff expenses	8,678	9,671	(10)

* Other includes severance costs and variable compensation for disposal groups.

Variable compensation awards

The following table analyses Group and GBM variable compensation awards for 2011, which are 43% and 58% respectively lower than in 2010.

	Group			GBM		
	2011 £m	2010 £m	Change %	2011 £m	2010 £m	Change %
Non-deferred cash awards (1)	72	89	(19)	10	18	(44)
Non-deferred share awards	35	54	(35)	23	43	(47)
Total non-deferred variable compensation	107	143	(25)	33	61	(46)
Deferred bond awards	582	1,029	(43)	286	701	(59)
Deferred share awards	96	203	(53)	71	175	(59)
Total deferred variable compensation	678	1,232	(45)	357	876	(59)
Total variable compensation	785	1,375	(43)	390	937	(58)
Variable compensation as a % of core operating profit (2)	11%	16%		18%	22%	
Proportion of variable compensation that is deferred	86%	90%		92%	93%	
Total employees	146,800	148,500	(1)	17,000	18,700	(9)
Variable compensation per employee	£5,347	£9,260	(42)	£22,941	£50,114	(54)

Reconciliation of variable compensation awards to income statement charge	2011 £m	2010 £m
Variable compensation awarded for 2011	785	1,375
Less: deferral of charge for amounts awarded for current year	(302)	(512)
Add: current year charge for amounts deferred from prior years	502	383
Income statement charge for variable compensation	985	1,246

	Actual		Expected	
Year in which income statement charge is expected to be taken for deferred variable compensation	2010 £m	2011 £m	2012 £m	2013 and beyond £m
Variable compensation deferred from 2009 and earlier	383	160	78	-
Variable compensation deferred from 2010	-	342	105	65
Variable compensation for 2011 deferred	-	-	225	77
	383	502	408	142

Notes:

(1) Cash payments to all employees are limited to £2,000.

(2) Core operating profit pre variable compensation expense and before one-off and other items.

Notes (continued)

4. Loan impairment provisions

Operating (loss)/profit is stated after charging loan impairment losses of £7,241 million (2010 - £9,144 million). The balance sheet loan impairment provisions increased in the year ended 31 December 2011 from £18,182 million to £19,883 million and the movements thereon were:

	Year ended							
	31 December 2011				31 December 2010			
	Core £m	Non-Core £m	RFS MI £m	Total £m	Core £m	Non-Core £m	RFS MI £m	Total £m
At beginning of period	7,866	10,316	-	18,182	6,921	8,252	2,110	17,283
Transfers to disposal groups	(773)	-	-	(773)	-	(72)	-	(72)
Intra-group transfers	177	(177)	-	-	(568)	568	-	-
Currency translation and other adjustments	(76)	(207)	-	(283)	(16)	59	-	43
Disposals	-	-	8	8	-	(20)	(2,152)	(2,172)
Amounts written-off	(2,137)	(2,390)	-	(4,527)	(2,224)	(3,818)	-	(6,042)
Recoveries of amounts previously written-off	167	360	-	527	213	198	-	411
Charge to income statement								
- continued	3,403	3,838	-	7,241	3,737	5,407	-	9,144
- discontinued	-	-	(8)	(8)	-	-	42	42
Unwind of discount (recognised in interest income)	(213)	(271)	-	(484)	(197)	(258)	-	(455)
At end of period	8,414	11,469	-	19,883	7,866	10,316	-	18,182

	Quarter ended										
	31 December 2011				30 September 2011			31 December 2010			
	Core £m	Non-Core £m	RFS MI £m	Total £m	Core £m	Non-Core £m	Total £m	Core £m	Non-Core £m	RFS MI £m	Total £m
At beginning of period	8,873	11,850	-	20,723	8,752	12,007	20,759	7,791	9,879	-	17,670
Transfers to disposal groups	(773)	-	-	(773)	-	-	-	-	(5)	-	(5)
Intra-group transfers	-	-	-	-	-	-	-	(217)	217	-	-
Currency translation and other adjustments	(75)	(162)	-	(237)	(90)	(285)	(375)	147	(235)	-	(88)

Disposals	-	-	(3)	(3)	-	-	-	-	(3)	(3)	(6)
Amounts written-off	(526)	(981)	-	(1,507)	(593)	(497)	(1,090)	(745)	(771)	-	(1,516)
Recoveries of amounts previously written-off	48	99	-	147	39	55	94	29	67	-	96
Charge to income statement											
- continued	924	730	-	1,654	817	635	1,452	912	1,243	-	2,155
- discontinued	-	-	3	3	-	-	-	-	-	3	3
Unwind of discount (recognised in interest income)	(57)	(67)	-	(124)	(52)	(65)	(117)	(51)	(76)	-	(127)
At end of period	8,414	11,469	-	19,883	8,873	11,850	20,723	7,866	10,316	-	18,182

Provisions at 31 December 2011 include £123 million (30 September 2011 - £126 million; 31 December 2010 - £127 million) in respect of loans and advances to banks.

The table above excludes impairments relating to securities (see page 23).

5. Pensions

Pension costs	2011 £m	2010 £m
Defined benefit schemes	349	462
Defined contribution schemes	98	107
	447	569

Net pension deficit/(surplus)	2011 £m	2010 £m
At 1 January	2,183	2,905
Currency translation and other adjustments	(3)	-
Income statement		
- pension costs		
- continuing operations	349	519
- discontinued operations	-	21
- curtailment gains: continuing operations	-	(78)
Net actuarial losses/(gains)	581	(158)
Contributions by employer	(1,059)	(832)
Disposal of RFS minority interest	-	(194)
At 31 December	2,051	2,183
Net assets of schemes in surplus	(188)	(105)
Net liabilities of schemes in deficit	2,239	2,288

The Group and the Trustees of The Royal Bank of Scotland Group Pension Fund agreed the funding valuation as at 31 March 2010 during the year. It showed that the value of liabilities exceed the value of assets by £3.5 billion as at 31 March 2010, a ratio of assets to liabilities of 84%. In order to eliminate this deficit, the Group will pay additional contributions each year over the period 2011 to 2018. These contributions started at £375 million per annum in 2011, increasing to £400 million per annum in 2013 and from 2016 onwards will be further increased in line with price inflation. These contributions are in addition to the regular annual contributions of around £300 million for future accrual benefits.

Notes (continued)

6. Tax
The actual tax (charge)/credit differs from the expected tax (charge)/credit computed by applying the standard UK corporation tax rate of 26.5% (2010 - 28%) as follows:

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
(Loss)/profit before tax	(766)	(399)	(1,976)	2,004	(8)
Tax credit/(charge) based on the standard UK corporation tax rate of 26.5% (2010 - 28%)	203	112	524	(531)	2
Sovereign debt impairment where no deferred tax asset recognised	(275)	-	(56)	(36)	-
Other losses in period where no deferred tax asset recognised	(530)	(450)	(195)	(67)	(96)
Foreign profits taxed at other rates	(417)	(517)	(46)	(71)	(131)
UK tax rate change - deferred tax impact	(110)	(82)	27	(50)	8
Unrecognised timing differences	(20)	11	-	(10)	18
Non-deductible goodwill impairment	(24)	(3)	(24)	-	(3)
Items not allowed for tax					
- losses on strategic disposals and write-downs	(72)	(311)	(58)	(4)	(129)
- UK bank levy	(80)	-	(80)	-	-
- employee share schemes	(113)	(32)	(101)	(4)	(32)
- other disallowable items	(271)	(296)	(123)	(46)	(162)
Non-taxable items					
- gain on sale of Global Merchant Services	12	221	-	-	221
- gain on redemption of own debt	-	11	-	-	(1)
- other non-taxable items	245	341	208	16	240
Taxable foreign exchange movements	4	4	2	2	2
Losses brought forward and utilised	2	2	(29)	2	(8)

Adjustments in respect of prior periods	196	355	137	8	74
Actual tax (charge)/credit	(1,250)	(634)	186	(791)	3

The high tax charge in the year ended 31 December 2011 reflects profits in high tax regimes (principally US) and losses in low tax regimes (principally Ireland), losses in overseas subsidiaries for which a deferred tax asset has not been recognised (principally Ireland and the Netherlands) and the effect of the two reductions of 1% in the rate of UK corporation tax enacted in March 2011 and July 2011 on the net deferred tax balance.

The combined effect of the tax losses in Ireland and the Netherlands (including the sovereign debt impairment and related interest rate hedge adjustments) in the year ended 31 December 2011 for which no deferred tax asset has been recognised and the two 1% changes in the standard rate of UK corporation tax, account for £1,020 million (70%) of the difference between the actual tax charge and the tax credit derived from applying the standard UK Corporation Tax rate to the results for the period. The impact of these items for the quarter ended 31 December 2011 is £165 million (49%).

Notes (continued)

6. Tax (continued)

The Group has recognised a deferred tax asset at 31 December 2011 of £3,878 million (30 September 2011 - £4,988 million; 31 December 2010 - £6,373 million), of which £2,933 million (30 September 2011 - £3,014 million; 31 December 2010 - £3,849 million) relates to carried forward trading losses in the UK. Under UK tax legislation, these UK losses can be carried forward indefinitely to be utilised against profits arising in the future. The deferred tax asset balance has reduced over the period primarily as a result of the utilisation of tax losses brought forward and the impact of the reductions in the rate of UK corporation tax. The Group has considered the carrying value of this asset as at 31 December 2011 and concluded that it is recoverable based on future profit projections.

7. Profit/(loss) attributable to non-controlling interests

	Year ended		Quarter ended		
	31 December 2011	31 December 2010	31 December 2011	30 September 2011	31 December 2010
	£m	£m	£m	£m	£m
Trust preferred securities	-	10	-	-	-
RBS Sempra Commodities JV	(18)	35	(5)	(8)	(11)
RFS Holdings BV Consortium Members	35	(726)	8	3	49
RBS Life Holdings	-	26	-	-	9
Other	11	(10)	15	(2)	(9)
Profit/(loss) attributable to non-controlling interests	28	(665)	18	(7)	38

8. Dividends

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

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Notes (continued)

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

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Earnings					
(Loss)/profit from continuing operations attributable to ordinary and B shareholders	(2,002)	(1,097)	(1,798)	1,225	12
Gain on redemption of preference shares and paid-in equity	-	610	-	-	-
(Loss)/adjusted profit from continuing operations attributable to ordinary and B shareholders	(2,002)	(487)	(1,798)	1,225	12
Profit/(loss) from discontinued operations attributable to ordinary and B shareholders	5	(28)	-	1	-
Ordinary shares in issue during the period (millions)	57,219	56,245	57,552	57,541	56,166
B shares in issue during the period (millions)	51,000	51,000	51,000	51,000	51,000
Weighted average number of ordinary and B shares in issue during the period (millions)	108,219	107,245	108,552	108,541	107,166
Effect of dilutive share options and convertible securities	-	-	-	891	-
Diluted weighted average number of ordinary and B shares in issue during the period	108,219	107,245	108,552	109,432	107,166

Basic (loss)/earnings per ordinary and B share from continuing operations	(1.8p)	(0.5p)	(1.7p)	1.1p	-
Diluted (loss)/earnings per ordinary and B share from continuing operations	(1.8p)	(0.5p)	(1.7p)	1.1p	-

10. Segmental analysis

There have been no significant changes in the Group's divisions during the year.

Analysis of divisional operating profit/(loss)

The following tables provide an analysis of divisional operating profit/(loss) for the years ended 31 December 2011 and 31 December 2010 and the quarters ended 31 December 2011, 30 September 2011 and 31 December 2010 by main income statement captions.

Year ended 31 December 2011	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Insurance net claims £m	Impairment losses £m	Operating profit/(loss) £m
UK Retail	4,272	1,206	5,478	(2,699)	-	(788)	1,991
UK Corporate	2,585	1,275	3,860	(1,661)	-	(785)	1,414
Wealth	718	459	1,177	(831)	-	(25)	321
Global Transaction Services	1,076	1,175	2,251	(1,342)	-	(166)	743
Ulster Bank	696	211	907	(547)	-	(1,384)	(1,024)
US Retail & Commercial	1,896	1,004	2,900	(2,096)	-	(325)	479
Global Banking & Markets	665	5,276	5,941	(4,331)	-	(49)	1,561
RBS Insurance	343	3,729	4,072	(846)	(2,772)	-	454
Central items	(228)	213	(15)	170	(1)	2	156
Core	12,023	14,548	26,571	(14,183)	(2,773)	(3,520)	6,095
Non-Core	666	540	1,206	(1,295)	(195)	(3,919)	(4,203)
Managed basis	12,689	15,088	27,777	(15,478)	(2,968)	(7,439)	1,892
Reconciling items							
Fair value of own debt	-	1,846	1,846	-	-	-	1,846
Asset Protection Scheme	-	(906)	(906)	-	-	-	(906)
Payment Protection Insurance costs	-	-	-	(850)	-	-	(850)
Sovereign debt impairment	-	-	-	-	-	(1,099)	(1,099)
Amortisation of purchased intangible assets	-	-	-	(222)	-	-	(222)
Integration and restructuring costs	(2)	(3)	(5)	(1,059)	-	-	(1,064)
Gain on redemption of own debt	-	255	255	-	-	-	255
Strategic disposals	-	(24)	(24)	(80)	-	-	(104)
Bank levy	-	-	-	(300)	-	-	(300)
Bonus tax	-	-	-	(27)	-	-	(27)
Write-down of goodwill and other intangible assets	-	-	-	(11)	-	-	(11)

Interest rate hedge adjustments on impaired available-for-sale Greek government bonds	-	-	-	-	-	(169)	(169)
RFS Holdings minority interest	(8)	2	(6)	1	-	(2)	(7)
Statutory basis	12,679	16,258	28,937	(18,026)	(2,968)	(8,709)	(766)

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10. Segmental analysis (continued)

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

Year ended 31 December 2010	Net interest income	Non-interest income	Total income	Operating expenses	Insurance net claims	Impairment losses	Operating profit/(loss)
	£m	£m	£m	£m	£m	£m	£m
UK Retail	4,078	1,422	5,500	(2,883)	(85)	(1,160)	1,372
UK Corporate	2,572	1,323	3,895	(1,671)	-	(761)	1,463
Wealth	609	447	1,056	(734)	-	(18)	304
Global Transaction Services	974	1,587	2,561	(1,464)	-	(9)	1,088
Ulster Bank	761	214	975	(575)	-	(1,161)	(761)
US Retail & Commercial	1,917	1,029	2,946	(2,123)	-	(517)	306
Global Banking & Markets	1,215	6,697	7,912	(4,397)	-	(151)	3,364
RBS Insurance	381	4,135	4,516	(879)	(3,932)	-	(295)
Central items	10	327	337	272	(29)	(3)	577
Core	12,517	17,181	29,698	(14,454)	(4,046)	(3,780)	7,418
Non-Core	1,683	1,281	2,964	(2,256)	(737)	(5,476)	(5,505)
Managed basis	14,200	18,462	32,662	(16,710)	(4,783)	(9,256)	1,913
Reconciling items							
Fair value of own debt	-	174	174	-	-	-	174
Asset Protection Scheme	-	(1,550)	(1,550)	-	-	-	(1,550)
Amortisation of purchased intangible assets	-	-	-	(369)	-	-	(369)
Integration and restructuring costs	-	-	-	(1,032)	-	-	(1,032)
Gain on redemption of own debt	-	553	553	-	-	-	553
Strategic disposals	-	171	171	-	-	-	171
Bonus tax	-	-	-	(99)	-	-	(99)
Write-down of goodwill and other intangible assets	-	-	-	(10)	-	-	(10)
RFS Holdings minority interest	9	(151)	(142)	(8)	-	-	(150)
Statutory basis	14,209	17,659	31,868	(18,228)	(4,783)	(9,256)	(399)

Notes (continued)

10. Segmental analysis (continued)

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

Quarter ended 31 December 2011	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Insurance net claims £m	Impairment losses £m	Operating profit/(loss) £m
UK Retail	1,036	277	1,313	(661)	-	(191)	461
UK Corporate	634	291	925	(416)	-	(234)	275
Wealth	191	112	303	(194)	-	(13)	96
Global Transaction Services	277	296	573	(329)	-	(47)	197
Ulster Bank	171	49	220	(132)	-	(327)	(239)
US Retail & Commercial	493	258	751	(529)	-	(65)	157
Global Banking & Markets	159	753	912	(939)	-	(68)	(95)
RBS Insurance	82	841	923	(209)	(589)	-	125
Central items	(40)	43	3	79	(1)	4	85
Core	3,003	2,920	5,923	(3,330)	(590)	(941)	1,062
Non-Core	73	(377)	(304)	(314)	61	(751)	(1,308)
Managed basis	3,076	2,543	5,619	(3,644)	(529)	(1,692)	(246)
Reconciling items							
Fair value of own debt	-	(370)	(370)	-	-	-	(370)
Asset Protection Scheme	-	(209)	(209)	-	-	-	(209)
Sovereign debt impairment	-	-	-	-	-	(224)	(224)
Amortisation of purchased intangible assets	-	-	-	(53)	-	-	(53)
Integration and restructuring costs	-	-	-	(478)	-	-	(478)
Gain on redemption of own debt	-	(1)	(1)	-	-	-	(1)
Strategic disposals	-	(2)	(2)	(80)	-	-	(82)
Bank levy	-	-	-	(300)	-	-	(300)
Write-down of goodwill and other intangible assets	-	-	-	(11)	-	-	(11)
RFS Holdings minority interest	(2)	3	1	(1)	-	(2)	(2)
Statutory basis	3,074	1,964	5,038	(4,567)	(529)	(1,918)	(1,976)

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Notes (continued)

10. Segmental analysis (continued)

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

Quarter ended 30 September 2011	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Insurance net claims £m	Impairment losses £m	Operating profit/(loss) £m
UK Retail	1,074	292	1,366	(672)	-	(195)	499
UK Corporate	621	327	948	(419)	-	(228)	301
Wealth	178	118	296	(221)	-	(4)	71
Global Transaction Services	276	300	576	(336)	-	(45)	195
Ulster Bank	185	60	245	(137)	-	(327)	(219)
US Retail & Commercial	483	257	740	(541)	-	(84)	115
Global Banking & Markets	161	938	1,099	(1,019)	-	32	112
RBS Insurance	84	949	1,033	(215)	(695)	-	123
Central items	(94)	103	9	62	(1)	(3)	67
Core	2,968	3,344	6,312	(3,498)	(696)	(854)	1,264
Non-Core	110	(64)	46	(323)	(38)	(682)	(997)
Managed basis	3,078	3,280	6,358	(3,821)	(734)	(1,536)	267
Reconciling items							
Fair value of own debt	-	2,357	2,357	-	-	-	2,357
Asset Protection Scheme	-	(60)	(60)	-	-	-	(60)
Sovereign debt impairment and related interest rate hedge adjustments	-	-	-	-	-	(202)	(202)
Amortisation of purchased intangible assets	-	-	-	(69)	-	-	(69)
Integration and restructuring costs	-	-	-	(233)	-	-	(233)
Gain on redemption of own debt	-	1	1	-	-	-	1
Strategic disposals	-	(49)	(49)	-	-	-	(49)
Bonus tax	-	-	-	(5)	-	-	(5)
RFS Holdings minority interest	(1)	(3)	(4)	1	-	-	(3)
Statutory basis	3,077	5,526	8,603	(4,127)	(734)	(1,738)	2,004

Notes (continued)

10. Segmental analysis (continued)

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

Quarter ended 31 December 2010	Net interest income £m	Non-interest income £m	Total income £m	Operating expenses £m	Insurance net claims £m	Impairment losses £m	Operating profit/(loss) £m
UK Retail	1,088	402	1,490	(679)	(31)	(222)	558
UK Corporate	653	330	983	(431)	-	(219)	333
Wealth	160	111	271	(178)	-	(6)	87
Global Transaction Services	263	375	638	(368)	-	(3)	267
Ulster Bank	187	56	243	(138)	-	(376)	(271)
US Retail & Commercial	467	231	698	(529)	-	(105)	64
Global Banking & Markets	214	1,373	1,587	(1,065)	-	5	527
RBS Insurance	96	1,016	1,112	(223)	(898)	-	(9)
Central items	92	24	116	11	(8)	(4)	115
Core	3,220	3,918	7,138	(3,600)	(937)	(930)	1,671
Non-Core	358	(37)	321	(481)	(245)	(1,211)	(1,616)
Managed basis	3,578	3,881	7,459	(4,081)	(1,182)	(2,141)	55
Reconciling items							
Fair value of own debt	-	582	582	-	-	-	582
Asset Protection Scheme	-	(725)	(725)	-	-	-	(725)
Amortisation of purchased intangible assets	-	-	-	(96)	-	-	(96)
Integration and restructuring costs	-	-	-	(299)	-	-	(299)
Strategic disposals	-	502	502	-	-	-	502
Bonus tax	-	-	-	(15)	-	-	(15)
RFS Holdings minority interest	2	2	4	(6)	-	-	(2)
Write-down of goodwill and other intangible assets	-	-	-	(10)	-	-	(10)
Statutory basis	3,580	4,242	7,822	(4,507)	(1,182)	(2,141)	(8)

Notes (continued)

Total assets by division

Total assets	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
UK Retail	114,469	113,308	111,793
UK Corporate	111,835	112,737	114,550
Wealth	21,718	21,946	21,073
Global Transaction Services	25,937	29,889	25,221
Ulster Bank	34,810	37,356	40,081
US Retail & Commercial	74,502	72,879	71,173
Global Banking & Markets	874,848	952,374	802,578
RBS Insurance	12,912	13,031	12,555
Central items	130,306	135,545	99,728
Core	1,401,337	1,489,065	1,298,752
Non-Core	104,726	117,671	153,882
	1,506,063	1,606,736	1,452,634
RFS Holdings minority interest	804	992	942
	1,506,867	1,607,728	1,453,576

11. Discontinued operations and assets and liabilities of disposal groups

Profit/(loss) from discontinued operations, net of tax

	Year ended		Quarter ended		
	31 December 2011 £m	31 December 2010 £m	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Discontinued operations					
Total income	42	1,433	15	10	6
Operating expenses	(5)	(803)	(1)	(3)	(2)
Insurance net claims	-	(161)	-	-	-
Impairment recoveries/(losses)	8	(42)	(3)	-	(3)
Profit before tax	45	427	11	7	1
Gain on disposal before recycling of reserves	-	113	-	-	56
Recycled reserves	-	(1,076)	-	-	-

Operating profit/(loss) before tax	45	(536)	11	7	57
Tax	(11)	(92)	(1)	(3)	(3)
Profit/(loss) after tax	34	(628)	10	4	54
Businesses acquired exclusively with a view to disposal					
Profit/(loss) after tax	13	(5)	-	2	1
Profit/(loss) from discontinued operations, net of tax	47	(633)	10	6	55

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

Notes (continued)

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

	31 December 2011 UK branch based businesses £m	Other £m	Total £m	30 September 2011 £m	31 December 2010 £m
Assets of disposal groups					
Cash and balances at central banks	100	27	127	119	184
Loans and advances to banks	-	87	87	95	651
Loans and advances to customers	18,676	729	19,405	1,711	5,013
Debt securities and equity shares	-	5	5	10	20
Derivatives	431	8	439	24	5,148
Intangible assets	-	15	15	-	-
Settlement balances	-	14	14	206	555
Property, plant and equipment	112	4,637	4,749	220	18
Other assets	-	456	456	448	704
Discontinued operations and other disposal groups	19,319	5,978	25,297	2,833	12,293
Assets acquired exclusively with a view to disposal	-	153	153	211	191
	19,319	6,131	25,450	3,044	12,484
Liabilities of disposal groups					
Deposits by banks	-	1	1	288	266
Customer accounts	21,784	826	22,610	1,743	2,267
Derivatives	117	9	126	24	5,042
Settlement balances	-	8	8	264	907
Other liabilities	-	1,233	1,233	178	925
Discontinued operations and other disposal groups	21,901	2,077	23,978	2,497	9,407
Liabilities acquired exclusively with a view to disposal	-	17	17	19	21
	21,901	2,094	23,995	2,516	9,428

The assets and liabilities of disposal groups at 31 December 2011 primarily comprise the RBS England and Wales and NatWest Scotland branch-based businesses (“UK branch-based businesses”) and the RBS Aviation Capital business.

The disposal of the RBS Sempra Commodities JV was substantially completed in 2010. Certain contracts of the RBS Sempra Commodities JV were sold in risk transfer transactions prior to being novated to the purchaser, the majority of which completed during 2011.

UK branch-based businesses

Loans, REIL and impairment provisions at 31 December 2011 relating to the Group's UK branch-based businesses are set out below.

	Gross loans £m	REIL £m	Impairment provisions £m
Residential mortgages	5,662	186	34
Personal lending	1,801	333	284
Property	4,290	446	132
Construction	416	181	58
Service industries and business activities	4,497	329	156
Other	2,783	50	30
Latent	-	-	79
Total	19,449	1,525	773

12. Financial instruments

Classification

The following tables analyse the Group's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 with assets and liabilities outside the scope of IAS 39 shown separately.

31 December 2011	At fair value through profit or loss HFT (1) £m	DFV (2) £m	AFS (3) £m	LAR (4) £m	Other financial instruments (amortised cost) £m	Finance leases £m	Non financial assets/ liabilities £m	Total £m
Assets								
Cash and balances at central banks	-	-	-	79,269				79,269
Loans and advances to banks								
- reverse repos	34,659	-	-	4,781				39,440
- other	20,317	-	-	23,553				43,870
Loans and advances to Customers								
- reverse repos	53,584	-	-	7,910				61,494
- other	25,322	476	-	419,895		8,419		454,112
Debt securities	95,076	647	107,298	6,059				209,080
Equity shares	12,433	774	1,976	-				15,183
Settlement balances	-	-	-	7,771				7,771
Derivatives	529,618							529,618
Intangible assets							14,858	14,858
Property, plant and equipment							11,868	11,868
Deferred tax							3,878	3,878
Prepayments, accrued income and other assets	-	-	-	1,309			9,667	10,976
Assets of disposal groups							25,450	25,450
	771,009	1,897	109,274	550,547		8,419	65,721	1,506,867

For the notes to this table refer to page 107.

12. Financial instruments (continued)

31 December 2011	At fair value through profit or loss HFT (1) £m	DFV (2) £m	AFS (3) £m	LAR (4) £m	Other financial instruments (amortised cost) £m	Finance leases £m	Non financial assets/ liabilities £m	Total £m
Liabilities								
Deposits by banks								
- repos	23,342	-			16,349			39,691
- other	34,172	-			34,941			69,113
Customer accounts								
- repos	65,526	-			23,286			88,812
- other	14,286	5,627			394,230			414,143
Debt securities in issue	11,492	35,747			115,382			162,621
Settlement balances	-	-			7,477			7,477
Short positions	41,039	-						41,039
Derivatives	523,983			-				523,983
Accruals, deferred income and other liabilities	-	-			1,683	19	21,423	23,125
Retirement benefit liabilities					-		2,239	2,239
Deferred tax					-		1,945	1,945
Insurance liabilities					-		6,312	6,312
Subordinated liabilities	-	903			25,416			26,319
Liabilities of disposal groups							23,995	23,995
	713,840	42,277		-	618,764	19	55,914	1,430,814
Equity								76,053
								1,506,867

For the notes to this table refer to page 107.

12. Financial instruments (continued)

Classification (continued)

30 September 2011	At fair value through profit or loss HFT (1) £m	DFV (2) £m	AFS (3) £m	LAR (4) £m	Other financial instruments (amortised cost) £m	Finance leases £m	Non financial assets/ liabilities £m	Total £m
Assets								
Cash and balances at central banks	-	-	-	78,445				78,445
Loans and advances to banks								
- reverse repos	40,181	-	-	7,946				48,127
- other	20,423	-	-	32,179				52,602
Loans and advances to customers								
- reverse repos	41,692	-	-	12,440				54,132
- other	24,608	1,040	-	450,193		9,732		485,573
Debt securities	112,568	162	110,401	6,526				229,657
Equity shares	12,044	834	2,010	-				14,888
Settlement balances	-	-	-	21,526				21,526
Derivatives	572,344							572,344
Intangible assets							14,744	14,744
Property, plant and equipment							17,060	17,060
Deferred tax							4,988	4,988
Prepayments, accrued income and other assets	-	-	-	1,394			9,204	10,598
Assets of disposal groups							3,044	3,044
	823,860	2,036	112,411	610,649		9,732	49,040	1,607,728

For the notes to this table refer to page 107.

12. Financial instruments (continued)

30 September 2011	At fair value through profit or loss HFT (1) £m	DFV (2) £m	AFS (3) £m	LAR (4) £m	Other financial instruments (amortised cost) £m	Finance leases £m	Non financial assets/ liabilities £m	Total £m
Liabilities								
Deposits by banks								
- repos	24,583	-			11,644			36,227
- other	34,754	-			43,616			78,370
Customer accounts								
- repos	67,447	-			28,244			95,691
- other	14,459	5,836			413,365			433,660
Debt securities in issue	10,754	37,910			145,847			194,511
Settlement balances	-	-			17,983			17,983
Short positions	48,495	-						48,495
Derivatives	561,790							561,790
Accruals, deferred income and other liabilities	-	-			1,629	471	20,838	22,938
Retirement benefit liabilities					-		1,855	1,855
Deferred tax					-		1,913	1,913
Insurance liabilities					-		6,628	6,628
Subordinated liabilities	-	934			25,341			26,275
Liabilities of disposal groups							2,516	2,516
	762,282	44,680			687,669	471	33,750	1,528,852
Equity								78,876
								1,607,728

For the notes to this table refer to page 107.

12. Financial instruments (continued)

Classification (continued)

31 December 2010	At fair value through profit or loss HFT (1) £m	DFV (2) £m	AFS (3) £m	LAR (4) £m	Other financial instruments (amortised cost) £m	Finance leases £m	Non financial assets/ liabilities £m	Total £m
Assets								
Cash and balances at central banks	-	-	-	57,014				57,014
Loans and advances to banks								
- reverse repos	38,215	-	-	4,392				42,607
- other	26,082	-	-	31,829				57,911
Loans and advances to customers								
- reverse repos	41,110	-	-	11,402				52,512
- other	19,903	1,100	-	471,308		10,437		502,748
Debt securities	98,869	402	111,130	7,079				217,480
Equity shares	19,186	1,013	1,999	-				22,198
Settlement balances	-	-	-	11,605				11,605
Derivatives	427,077							427,077
Intangible assets							14,448	14,448
Property, plant and equipment							16,543	16,543
Deferred tax							6,373	6,373
Prepayments, accrued income and other assets	-	-	-	1,306			11,270	12,576
Assets of disposal groups							12,484	12,484
	670,442	2,515	113,129	595,935		10,437	61,118	1,453,576

For the notes to this table refer to page 107.

12. Financial instruments (continued)

Classification (continued)

31 December 2010	At fair value through profit or loss HFT (1) £m	DFV (2) £m	AFS (3) £m	LAR (4) £m	Other financial instruments (amortised cost) £m	Finance leases £m	Non financial assets/ liabilities £m	Total £m
Liabilities								
Deposits by banks								
- repos	20,585	-			12,154			32,739
- other	28,216	-			37,835			66,051
Customer accounts								
- repos	53,031	-			29,063			82,094
- other	14,357	4,824			409,418			428,599
Debt securities in issue	7,730	43,488			167,154			218,372
Settlement balances	-	-			10,991			10,991
Short positions	43,118	-						43,118
Derivatives	423,967							423,967
Accruals, deferred income and other liabilities	-	-			1,793	458	20,838	23,089
Retirement benefit liabilities					-		2,288	2,288
Deferred tax					-		2,142	2,142
Insurance liabilities					-		6,794	6,794
Subordinated liabilities	-	1,129			25,924			27,053
Liabilities of disposal groups							9,428	9,428
	591,004	49,441			694,332	458	41,490	1,376,725
Equity								76,851
								1,453,576

Notes:
(1) Held-for-trading.
(2) Designated as at fair value through profit or loss.
(3) Available-for-sale.
(4) Loans and receivables.

There were no reclassifications in 2011 or 2010.

Notes (continued)

12. Financial instruments (continued)

Financial instruments carried at fair value
Detailed explanations of the valuation techniques are set out in the Group's 2011 Annual Report and Accounts. Certain aspects relating to the valuation of financial instruments carried at fair value are discussed below.

Valuation reserves
When valuing financial instruments in the trading book, adjustments are made to mid-market valuations to cover bid-offer spread, liquidity and credit risk. CVA represent an estimate of the adjustment to fair value that a market participant would make to incorporate the credit risk inherent in counterparty derivative exposures.

The table below shows the valuation reserves and adjustments.

	31 December 2011 £m	30 September 2011 £m	31 December 2010 £m
Credit valuation adjustments (CVA)			
Monoline insurers	1,198	2,827	2,443
Credit derivative product companies (CDPCs)	1,034	1,233	490
Other counterparties	2,254	2,222	1,714
	4,486	6,282	4,647
Bid-offer, liquidity and other reserves	2,704	2,712	2,797
	7,190	8,994	7,444

Key points

31 December 2011 compared with 31 December 2010

- The exposure to monolines reduced over the period primarily due to the restructuring of some exposures, partially offset by lower prices of underlying reference instruments. The CVA decreased due to the reduction in exposure partially offset by wider credit spreads.

- The exposure to CDPCs has increased over the period, primarily driven by wider credit spreads of the underlying reference loans and bonds. The CVA increased in line with the increase in exposure.

- The CVA held against exposures to other counterparties increased over the period primarily due to wider credit spreads, together with the impact of counterparty rating downgrades.

31 December 2011 compared with 30 September 2011

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The exposure to monolines reduced over the period primarily due to the restructuring of some exposures. The CVA decreased in line with the reduction in exposure.

- The exposure to CDPCs has decreased over the period, primarily driven by tighter credit spreads of the underlying reference loans and bonds together with a decrease in the relative value of senior tranches compared with the underlying reference portfolios. The CVA decreased in line with the decrease in exposure.

- The CVA held against exposures to other counterparties increased slightly over the period with the impact of counterparty rating downgrades partially offset by tighter credit spreads.

Notes (continued)

12. Financial instruments (continued)

Valuation reserves (continued)

Own credit
Until the first half of 2011, primary issuance spreads were used to calculate the own credit adjustment for senior debt issuances. As issuances by the Group declined significantly during 2011, the credit spread used for this adjustment was refined to reference more liquid secondary market senior debt issuance spreads, as they are considered to provide a fairer representation of fair value.

	Debt securities in issue (2)			Subordinated liabilities	Total		
Cumulative own credit adjustment (1)	HFT £m	DFV £m	Total £m	DFV £m	(3) £m	Derivatives £m	Total £m
31 December 2011	882	2,647	3,529	679	4,208	602	4,810
30 September 2011	939	3,054	3,993	657	4,650	700	5,350
31 December 2010	517	1,574	2,091	325	2,416	534	2,950
Carrying values of underlying liabilities	£bn	£bn	£bn	£bn	£bn		
31 December 2011	11.5	35.7	47.2	0.9	48.1		
30 September 2011	10.8	37.9	48.7	0.9	49.6		
31 December 2010	7.7	43.5	51.2	1.1	52.3		

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

Key points
· Own credit adjustment increased significantly during the year reflecting widening credit spreads across all tenors.

· Liabilities decreased due to maturities, redemptions, lower issuances and the appreciation of sterling against the euro.

Notes (continued)

12. Financial instruments (continued)

Valuation hierarchy

	31 December 2011					
					Level 3 sensitivity (1)	
	Level 1	Level 2	Level 3	Total	Favourable	Unfavourable
Assets	£bn	£bn	£bn	£bn	£m	£m
Loans and advances to banks						
- reverse repos	-	34.7	-	34.7	-	-
- collateral	-	19.7	-	19.7	-	-
- other	-	0.2	0.4	0.6	40	(50)
	-	54.6	0.4	55.0	40	(50)
Loans and advances to customers						
- reverse repos	-	53.6	-	53.6	-	-
- collateral	-	22.0	-	22.0	-	-
- other	-	3.4	0.4	3.8	80	(20)
	-	79.0	0.4	79.4	80	(20)
Debt securities						
- UK government	22.4	-	-	22.4	-	-
- US government	35.5	5.0	-	40.5	-	-
- other government	53.9	8.7	-	62.6	-	-
- corporate	-	5.0	0.5	5.5	30	(30)
- other financial institutions	3.0	61.6	7.4	72.0	560	(180)
	114.8	80.3	7.9	203.0	590	(210)
Equity shares	12.4	1.8	1.0	15.2	140	(130)
Derivatives						
- foreign exchange	-	72.9	1.6	74.5	100	(100)
- interest rate	0.2	420.8	1.1	422.1	80	(80)
- equities and commodities	-	5.9	0.2	6.1	-	-
- credit	-	23.1	3.8	26.9	680	(400)
	0.2					