ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
March 27, 2015

Report of Foreign Private Issuer

Pursuant to Rule 13a-16 or 15d-16 of

the Securities Exchange Act of 1934

27 March 2015

The Royal Bank of Scotland Group plc

Gogarburn

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United Kingdom

(Address of principal executive offices)

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

Form 20-F X Form 40-F __

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

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

Yes __ No X

If "Yes" is marked, indicate below the file number assigned to

the registrant in connection with Rule 12g3-2(b): 82-_______

This report on Form 6-K shall be deemed incorporated by reference into the company's Registration Statement on Form F-3 (File Nos. 333-184147 and 333-184147-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

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Forward-looking statements

Certain sections in this document contain ‘forward-looking statements’ as that term is defined in the United States Private Securities Litigation Reform Act of 1995, such as statements that include the words ‘expect’, ‘estimate’, ‘project’, ‘anticipate’, ‘believe’, ‘should’, ‘intend’, ‘plan’, ‘could’, ‘probability’, ‘risk’, ‘Value-at-Risk (VaR)’, ‘target’, ‘goal’, ‘objective’, ‘may’, ‘endeavour’, ‘outlook’, ‘optimistic’, ‘prospects’ and similar expressions or variations on these expressions.

In particular, this document includes forward-looking statements relating, but not limited to: The Royal Bank of Scotland Group’s (RBS) transformation plan (which includes RBS’s 2013/2014 strategic plan relating to the implementation of its new divisional and functional structure and the continuation of its balance sheet reduction programme including its proposed divestments of Williams & Glyn and Citizens, RBS’s information technology and operational investment plan, the proposed restructuring of RBS’s CIB business and the restructuring of RBS as a result of the implementation of the regulatory ring-fencing regime), as well as restructuring, capital and strategic plans, divestments, capitalisation, portfolios, net interest margin, capital and leverage ratios, liquidity, risk-weighted assets (RWAs), RWA equivalents (RWAe), Pillar 2A, Maximum Distributable Amount (MDA), total loss absorbing capital (TLAC), minimum requirements for eligible liabilities (MREL), return on equity (ROE), profitability, cost:income ratios, loan:deposit ratios, funding and risk profile; litigation, government and regulatory investigations including investigations relating to the setting of interest rates and foreign exchange trading and rate setting activities; costs or exposures borne by RBS arising out of the origination or sale of mortgages or mortgage-backed securities in the US; RBS’s future financial performance; the level and extent of future impairments and write-downs; and RBS’s exposure to political risks, credit rating risk and to various types of market risks, such as interest rate risk, foreign exchange rate risk and commodity and equity price risk. These statements are based on current plans, estimates, targets and projections, and are subject to inherent risks, uncertainties and other factors which could cause actual results to differ materially from the future results expressed or implied by such forward-looking statements. For example, certain market risk disclosures are dependent on choices relying on key model characteristics and assumptions and are subject to various limitations. By their nature, certain of the market risk disclosures are only estimates and, as a result, actual future gains and losses could differ materially from those that have been estimated.

Other factors that could adversely affect our results and the accuracy of forward-looking statements in this document include the risk factors and other uncertainties discussed in Appendix 5 to this document. These include the significant risks for RBS presented by the execution of the transformation plan; RBS’s ability to successfully implement the various initiatives that are comprised in the transformation plan, particularly the balance sheet reduction programme including the divestment of Williams & Glyn and its remaining stake in CFG, the proposed restructuring of its CIB business and the significant restructuring undertaken by RBS as a result of the implementation of the ring fence; whether RBS will emerge from implementing the transformation plan as a viable, competitive, customer-focused and profitable bank; RBS’s ability to achieve its capital targets which depend on RBS’s success in reducing the size of its business; the cost and complexity of the implementation of the ring-fence and the extent to which it will have a material adverse effect on RBS; the risk of failure to realise the benefit of RBS’s substantial investments in its information technology and operational infrastructure and systems, the significant changes, complexity and costs relating to the implementation of the transformation plan, the risks of lower revenues resulting from lower customer retention and revenue generation as RBS refocuses on the UK as well as increasing competition. In addition, there are other risks and uncertainties. These include RBS's ability to attract and retain qualified personnel; uncertainties regarding the outcomes of legal, regulatory and governmental actions and investigations that RBS is subject to and any resulting material adverse effect on RBS of unfavourable outcomes; heightened regulatory and governmental scrutiny and the increasingly regulated environment in which RBS operates; uncertainty relating to how policies of the new government elected in the May 2015 UK election may impact RBS including a possible referendum on the UK's membership of the EU; operational risks that are inherent in RBS's business and that could increase as RBS implements its transformation plan; the potential negative impact on RBS's business of actual or perceived global economic and financial market conditions and other global risks; how RBS will be increasingly impacted by UK developments as its operations become gradually more focused on the UK; uncertainties regarding RBS exposure to any weakening of economies within the EU and renewed threat of default by certain counties in the Eurozone; the risks resulting from RBS implementing the State Aid restructuring plan including with respect to the disposal of certain assets and businesses as announced or required as part of the State Aid restructuring plan; the achievement of capital and costs reduction targets; ineffective management of capital or changes to regulatory requirements relating to capital adequacy and liquidity; the ability to access sufficient sources of capital, liquidity and funding when required; deteriorations in borrower and counterparty credit quality; the extent of future write-downs and impairment charges caused by depressed asset valuations; the value and effectiveness of any credit protection purchased by RBS; the impact of unanticipated turbulence in interest rates, yield curves, foreign currency exchange rates, credit spreads, bond prices, commodity prices, equity prices; basis, volatility and correlation risks; changes in the credit ratings of RBS; changes to the valuation of financial instruments recorded at fair value; competition and consolidation in the banking sector; regulatory or legal changes (including those requiring any restructuring of RBS's operations); changes to the monetary and interest rate policies of central banks and other governmental and regulatory bodies; changes in UK and foreign laws, regulations, accounting standards and taxes; impairments of goodwill; the high dependence of RBS's operations on its information technology systems and its increasing exposure to cyber security threats; the reputational risks inherent in RBS's operations; the risk that RBS may suffer losses due to employee misconduct; pension fund shortfalls; the recoverability of deferred tax assets by the Group; HM Treasury exercising influence over the operations of RBS; limitations on, or additional requirements imposed on, RBS's activities as a result of HM Treasury's investment in RBS; and the success of RBS in managing the risks involved in the foregoing.

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

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

Presentation of information

Non-GAAP financial information

The directors manage RBS's performance by class of business, before certain reconciling items, as is presented in the segmental analysis in Note 11 (the "non-statutory basis"). Only the following will now be reported as reconciling items: own credit adjustments, gain/(loss) on redemption of own debt, write-down of goodwill, strategic disposals and RFS Holdings minority interest. Further the results of Citizens are included in the appropriate caption on a non-statutory basis and included in discontinued operations on a statutory basis. Discussion of RBS's performance focuses on the non-statutory basis as RBS believes that such measures allow a more meaningful analysis of RBS's financial condition and the results of its operations. These measures are non-GAAP financial measures. A body of generally accepted accounting principles such as IFRS is commonly referred to as 'GAAP'. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Reconciliations of these non-GAAP measures are presented throughout this document or in the segmental analysis in Note 11. These non-GAAP financial measures are not a substitute for GAAP measures. Furthermore, RBS has divided its operations into "RBS excluding RBS Capital Resolution (RCR)" for all periods in 2014 and for prior periods "RBS excluding Non-Core". Certain measures disclosed in this document for RBS excluding RCR/Non-Core operations and used by RBS management are non-GAAP financial measures as they represent a combination of all reportable segments with the exception of RCR/Non-Core. The presentation of Personal & Business Banking ("PBB") which includes the reportable segments of UK Personal & Business Banking and Ulster Bank and the presentation of Commercial and Private Banking ("CPB") which includes the reportable segments of Commercial Banking and Private Banking are non GAAP financial measures. In addition the presentation of operating profit, operating expenses and other performance measures excluding the impact of restructuring costs and litigation and conduct costs is a non-GAAP financial measure and is not a substitute for a GAAP measure. Lastly, the liquidity coverage ratio, stressed outflow coverage, net stable funding ratio and further metrics included in the Capital and risk management appendix represent non-GAAP financial measures given they are metrics that are not yet required to be disclosed by a government, governmental authority or self-regulatory organisation.

Reporting changes

On 27 February 2014, RBS announced the reorganisation of the previously reported operating divisions into seven operating segments. In addition, in order to present a more complete picture of funding, operational and business costs of the operating segments, certain reporting changes were implemented.

For further information on these changes refer Note 11 on page 92.

Recent developments

Sale of a North American loan portfolio to Mizuho

On 26 February 2015, RBS announced that it has entered into a definitive agreement with Mizuho Bank, Ltd. ("Mizuho"), a wholly-owned subsidiary of the Mizuho Financial Group, for the sale of a portfolio of US and Canadian loan commitments. As part of the transaction, the parties also continue to explore the transfer of certain associated derivatives, and the transition from RBS to Mizuho of certain coverage banking, debt capital markets, syndicate, and associated capabilities related to these commitments.

The transaction is aligned with the strategic direction RBS has announced for its Corporate & Institutional Banking business, which will focus mainly on UK and Western European customers, built on existing product and service strengths. RBS will remain engaged in the US, serving a select group of North American clients with strong links into the UK.

The portfolio sold to Mizuho comprises $36.5 billion of loan commitments, including $3.2 billion of drawn assets, as of 31 December 2014. The risk-weighted assets associated with the portfolio business were approximately $8 billion as of 31 December 2014, and it generated profit after tax of $0.1 billion in the year ended on that date. The cash consideration on that basis would be approximately $3.0 billion, generating a loss on disposal of $0.2 billion. Actual cash consideration and loss will depend upon settlement date portfolio balances. Sale proceeds will be used for general corporate purposes.

The transaction is expected to complete before the end of Q2 2015. RBS will work closely with Mizuho and our existing clients associated with these loan commitments to ensure an orderly and seamless transition at completion.

Moody’s

On 17 March 2015, Moody’s announced multiple rating reviews following the publication of its new bank rating methodology on 16 March 2015. The new methodology affects banking entities globally and reflects, among other things, Moody’s lowered expectations about the likelihood of government support for European banks in light of the introduction of the EU Bank Recovery and Resolution Directive (BRRD). Moody’s provided a preliminary indication of the outcome of its review which is to be completed later in 2015. Moody’s preliminary indication contemplates that RBS’s long-term senior unsecured and issuer credit ratings would be downgraded by two notches to Ba1 and that the credit ratings of certain of the Group’s subsidiaries may also be downgraded. If these downgrades occur, the credit ratings of RBSG and of certain of its subsidiaries would, therefore, be considered to be below-investment grade by that credit agency.

Partial sale of Citizens Financial Group, Inc. stake

On 23 March 2015, RBS announced that it intended to sell part of its shareholding in Citizens Financial Group, Inc. (Citizens), and on 26 March 2015 announced the pricing of the offer.

The offer comprises 135 million shares, or 24.7%, of Citizens common stock at a public offering price per share of $23.75.

RBS has also granted a 15% over-allotment option, under which the underwriters have a 30-day option to purchase an additional 20.25 million shares at the public offering price, less the underwriting discount. If the underwriters exercise this option in full, the total offering size, including the shares pursuant to the over-allotment option, would comprise 155.25 million shares, or 28.4% of Citizens common stock.

Gross proceeds realised by RBS will be $3.2 billion ($3.7 billion assuming exercise in full of the over-allotment option) with the cash proceeds being used for general business purposes.

Following the offering, RBS will continue to hold up to 45.6% of Citizens shares of common stock (41.9% assuming exercise of the entire over-allotment option), which are subject to a 90-day lock-up. During this period, the lock-up agreement is subject to modification, waiver or cancellation. RBS will continue to consolidate Citizens in its financial statements.

The partial sale is part of RBS's strategy to fully exit its holding in Citizens by the end of 2016 as part of its European Commission state aid commitments.

Disposal of Royal Bank of Scotland's internationally managed Private Banking and Wealth Management business.

On 27 March 2015, RBS announced it has reached an agreement to sell its internationally managed Private Banking and Wealth Management business to Union Bancaire Privée UBP SA (UBP). The sale comprises client relationships outside the British Isles and associated staff. RBS will continue to service UK Private Banking and Wealth Management client needs, together with those of international clients with a strong connection to the UK, from the British Isles through its Coutts and Adam & Company brands. The transaction is subject to regulatory approvals.

The sale includes relationships managed from Switzerland, Monaco, UAE, Qatar, Singapore and Hong Kong. As at 31 December 2014 assets under management were approximately CHF32bn and total risk-weighted assets were CHF2bn. The price paid will be determined in part by assets under management on closing. RBS anticipates receiving a premium. The resulting capital benefit to RBS is expected to be modest after writing off goodwill related to the business and taking into account anticipated exit and restructuring costs. In the Q1 2015 results, the business to be sold will be treated as a disposal group, resulting in an expected charge in the order of £200 million, primarily relating to the goodwill write off. Initial closing of the transaction is envisaged in Q4 2015, when a majority of the business is expected to transfer, with the remainder during the first part of 2016.

The transaction is subject to regulatory approvals.

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Condensed consolidated income statement

for the period ended 31 December 2014

	Year ended			Quarter ended	
	31 December	31 December	**31 December**	30 September	31 December
	2014	2013	**2014**	2014	2013
	£m	£m	**£m**	£m	£m
Interest receivable	**13,079**	14,488	**3,238**	3,297	3,437
Interest payable	**(3,821)**	(5,471)	**(856)**	(927)	(1,154)
Net interest income	**9,258**	9,017	**2,382**	2,370	2,283
Fees and commissions receivable	**4,414**	4,678	**1,055**	1,116	1,183
Fees and commissions payable	**(875)**	(923)	**(204)**	(196)	(240)
Income from trading activities	**1,285**	2,571	**(403)**	238	175
Gain on redemption of own debt	**20**	175	**-**	-	(29)
Other operating income	**1,048**	1,219	**135**	108	(7)
Non-interest income	**5,892**	7,720	**583**	1,266	1,082
Total income	**15,150**	16,737	**2,965**	3,636	3,365
Staff costs	**(5,757)**	(6,086)	**(1,325)**	(1,435)	(1,291)
Premises and equipment	**(2,081)**	(2,038)	**(480)**	(475)	(622)
Other administrative expenses	**(4,568)**	(6,692)	**(1,999)**	(1,212)	(3,785)
Depreciation and amortisation	**(930)**	(1,247)	**(203)**	(261)	(321)
Write down of goodwill and other intangible assets	**(523)**	(1,403)	**(311)**	-	(1,403)
Operating expenses	**(13,859)**	(17,466)	**(4,318)**	(3,383)	(7,422)
Profit/(loss) before impairment losses	**1,291**	(729)	**(1,353)**	253	(4,057)
Impairment releases/(losses)	**1,352**	(8,120)	**670**	847	(5,030)
Operating profit/(loss) before tax	**2,643**	(8,849)	**(683)**	1,100	(9,087)
Tax (charge)/credit	**(1,909)**	(186)	**(1,040)**	(277)	403
Profit/(loss) from continuing operations	**734**	(9,035)	**(1,723)**	823	(8,684)

(Loss)/profit from discontinued operations, net of tax						
- Citizens (1)	**(3,486)**	410		**(3,885)**	114	78
- Other	**41**	148		**3**	3	15
(Loss)/profit from discontinued operations,						
net of tax	**(3,445)**	558		**(3,882)**	117	93
(Loss)/profit for the period	**(2,711)**	(8,477)		**(5,605)**	940	(8,591)
Non-controlling interests	**(60)**	(120)		**(71)**	53	3
Preference share and other dividends	**(379)**	(398)		**(115)**	(97)	(114)
Dividend access share	**(320)**	-		**-**	-	-
(Loss)/profit attributable to ordinary and						
B shareholders	**(3,470)**	(8,995)		**(5,791)**	896	(8,702)
(Loss)/earnings per ordinary and equivalent						
B share (EPS) (2)						
Basic EPS from continuing and discontinued operations	**(30.6p)**	(80.3p)		**(50.7p)**	7.9p	(77.3p)
Basic EPS from continuing operations	**0.5p**	(85.0p)		**(16.2p)**	6.9p	(78.0p)

Notes:

(1) Included within Citizens discontinued operations are the results of the reportable operating segment Citizens Financial Group (CFG), the loss on transfer of CFG to disposal groups, certain Citizens related activities in Central items and related reconciling items.

(2) Diluted EPS in the quarter ended 30 September 2014 was 0.1p lower than basic EPS. There was no dilutive impact in any other period.

Condensed consolidated balance sheet

at 31 December 2014

	31 December 2014	30 September 2014	31 December 2013
	£m	£m	£m
Assets			
Cash and balances at central banks	**74,872**	67,900	82,659
Net loans and advances to banks	**23,027**	29,090	27,555
Reverse repurchase agreements and stock borrowing	**20,708**	24,860	26,516
Loans and advances to banks	**43,735**	53,950	54,071
Net loans and advances to customers	**334,251**	392,969	390,825
Reverse repurchase agreements and stock borrowing	**43,987**	50,631	49,897
Loans and advances to customers	**378,238**	443,600	440,722
Debt securities	**86,649**	106,769	113,599
Equity shares	**5,635**	8,309	8,811
Settlement balances	**4,667**	20,941	5,591
Derivatives	**353,590**	314,021	288,039
Intangible assets	**7,781**	12,454	12,368
Property, plant and equipment	**6,167**	6,985	7,909
Deferred tax	**1,540**	2,843	3,478
Prepayments, accrued income and other assets	**5,878**	7,185	7,614
Assets of disposal groups	**82,011**	1,153	3,017
Total assets	**1,050,763**	1,046,110	1,027,878
Liabilities			
Bank deposits	**35,806**	38,986	35,329
Repurchase agreements and stock lending	**24,859**	30,799	28,650
Deposits by banks	**60,665**	69,785	63,979
Customer deposits	**354,288**	405,367	414,396
Repurchase agreements and stock lending	**37,351**	44,302	56,484
Customer accounts	**391,639**	449,669	470,880
Debt securities in issue	**50,280**	53,487	67,819
Settlement balances	**4,503**	21,049	5,313
Short positions	**23,029**	34,499	28,022
Derivatives	**349,805**	310,361	285,526
Accruals, deferred income and other liabilities	**13,346**	14,618	16,017

Retirement benefit liabilities	**2,579**	2,629	3,210
Deferred tax	**500**	491	507
Subordinated liabilities	**22,905**	24,412	24,012
Liabilities of disposal groups	**71,320**	272	3,378
Total liabilities	**990,571**	981,272	968,663
Equity			
Non-controlling interests	**2,946**	2,747	473
Owners' equity*			
Called up share capital	**6,877**	6,832	6,714
Reserves	**50,369**	55,259	52,028
Total equity	**60,192**	64,838	59,215
Total liabilities and equity	**1,050,763**	1,046,110	1,027,878
* Owners' equity attributable to:			
Ordinary and B shareholders	**52,149**	56,799	53,450
Other equity owners	**5,097**	5,292	5,292
	57,246	62,091	58,742

Key points

FY 2014 performance

Loss attributable to ordinary and B shareholders was £3,470 million, compared with a loss of £8,995 million in 2013. The result included a loss from discontinued operations net of tax of £3,445 million, which reflected an accounting write-down of £3,994 million taken in relation to Citizens, which has been written down to fair value less costs to sell as a consequence of it being reclassified as ‘held-for-sale’ in the statutory results. This write-down does not affect RBS’s capital position.

The tax charge included a net write-off of deferred tax assets of £1.5 billion relating to the UK (£850 million) and the US (£775 million), reflecting the impact of the decision to scale back the CIB operations. This was partially offset by write-backs relating to Ulster Bank.

Operating profit before tax was £2,643 million compared with an operating loss before tax of £8,849 million in 2013. Operating profit on a non-statutory basis improved to £3,503 million for 2014 compared with an operating loss of £7,500 million in 2013. Operating profit before tax benefitted from improved operating results in core businesses together with significant impairment releases in Ulster Bank and RCR.

Restructuring costs of £1,257 million (2013 - £656 million) were up 92% but conduct and litigation costs were 43% lower at £2,194 million (2013 - £3,844 million) and included charges relating to foreign exchange trading, Payment Protection Insurance (PPI), customer redress associated with interest rate hedging products, IT incident in 2012 and other costs including packaged accounts and investment products. Excluding restructuring, conduct and litigation costs, operating profit on a non-statutory basis was £6,954 million, compared with a loss of £3,000 million in 2013.

Total income was £15,150 million compared with £16,737 million in 2013. On a non-statutory basis, total income totalled £18,197 million, down 6% from 2013. Improvements in net interest income in PBB and CPB were offset by lower income from trading activities in CIB, in line with its smaller balance sheet and reduced risk profile. Net interest margin on a statutory basis was 2.14%, up from 1.90% in 2013, with improved liability margins partially offset by pressure on mortgage and corporate lending margins and by the continuing shift in mix towards lower margin secured lending.

Operating expenses were £13,859 million compared with £17,466 million. On a non-statutory basis, operating expenses of £15,849 million compared with £18,510 million, excluding restructuring of £1,257 million (2013 - £656 million), conduct and litigation costs of £2,194 million (2013 - £3,844 million), were down £1,612 million or 12%. Adjusting for currency movements of £0.3 billion and intangible assets write-offs of £0.2 billion, cost savings totalled £1.1 billion, in excess of the bank's £1 billion target for the year.

Impairment releases of £1,352 million were recorded in 2014 compared with impairment losses of £8,120 million in 2013. On a non-statutory basis net impairment releases of £1,155 million were recorded in 2014 compared with impairment losses of £8,432 million in 2013, which included £4,490 million of charges recognised in connection with the creation of RCR. Provision releases arose principally in Ulster Bank and in the Irish portfolios managed by RCR, which benefited from improving Irish economic and property market conditions and proactive debt management.

Q4 2014 performance

Loss attributable to ordinary and B shareholders was £5,791 million, compared with a profit of £896 million in Q3 2014 and a loss of £8,702 million in Q4 2013. The Q4 2014 loss was driven by the write-downs of Citizens and deferred tax assets, higher restructuring costs of £563 million (Q3 - £180 million, 2013 - £180 million), litigation and conduct costs of £1,164 million (Q3 - £780 million, 2013 - £2,875 million.

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Key points

Q4 2014 performance (continued)

Operating loss before tax was £683 million compared with a profit of £1,100 million in Q3 2014 and a loss of £9,087 million in Q4 2013. Operating loss on a non-statutory basis of £375 million was recorded compared with a profit of £1,277 million in Q3 2014, with lower net impairment releases and significantly higher restructuring, conduct and litigation costs than in Q3, together with weak income in CIB. The improvement in Q4 2014 compared with Q4 2013 was due to lower impairments and litigation and conduct charges.

Restructuring costs were £383 million higher at £563 million while conduct and litigation costs were 49% higher than in Q3 at £1,164 million and included PPI, charges relating to foreign exchange trading, interest rate hedging products redress and other costs including provisions relating to packaged accounts and investment products. Excluding restructuring, conduct and litigation costs, operating profit before tax on a non-statutory basis was £1,352 million, £885 million lower than in Q3 but a substantial improvement from the loss of £4,998 million recorded in Q4 2013.

Total income of £2,965 million was 12% lower than in Q4 2013. On a non-statutory basis total income was 2% lower than in Q4 2013. Increases of 2% in PBB and 1% in CPB were more than offset by a disappointing performance in CIB together with a loss in Centre relating to IFRS volatility of £323 million and trading activity losses of £207 million in RCR.

Operating expenses were £4,318 million compared with £3,383 million in Q3 2014. On a non-statutory basis operating expenses, excluding restructuring of £563 million (Q3 2014 - £180 million), conduct and litigation costs of £1,164 million (Q3 2014 - £780 million), were up 7% from Q3 2014, reflecting a charge of £250 million for the UK bank levy.

Net impairment releases totalled £670 million compared with £847 million in Q3 2014. On a non-statutory basis net impairment releases totalled £623 million, slightly lower than in Q3 2014. Underlying bad debt flow remained low.

Balance sheet and capital

Funded assets which exclude derivatives of £354 billion (Q3 2014 - £314 billion, 2013 - £288 billion) totalled £697 billion at 31 December 2014, down £35 billion in the quarter and £43 billion over the course of the year, principally reflecting continued risk and balance sheet reduction in CIB and disposals and run-off in RCR.

Net loans and advances to customers totalled £334 billion, down £57 billions from the end of 2013 which included balances relating to Citizens of £60 billion transferred to assets of disposal groups. Underlying net loans and advances to customers were up £3.0 billion from the end of 2013, despite a significant reduction in RCR.

UK PBB lending rose by £2 billion, with net new mortgage lending of £3.9 billion partially offset by reduced unsecured balances.

Commercial Banking balances rose by £1 billion, with a planned reduction in real estate finance offset by good growth in lending to other sectors.

Gross new lending to SMEs totalled £10.3 billion, exceeding RBS's £9.3 billion target by 10%.

Total net lending flows reported within the scope of the Funding for Lending Scheme were minus £2.28 billion in Q4 2014, of which net lending to SMEs was minus £567 million.

Customer deposits totalled £354 billion at the end of 2014. Customer deposits including Citizens of £61 billion, which has been reclassified to disposal groups, totalled £415 billion at the end of 2014, up £0.4 billion from the end of 2013.

RWAs declined to £356 billion from £429 billion at the end of 2013, primarily driven by risk and balance sheet reduction in CIB coupled with disposals and run-off in RCR. This contributed to the strengthening of the bank's capital ratios, with the CET1 ratio strengthening by 260 basis points to 11.2% at the end of 2014 compared with 8.6% at the end of 2013.

Highlights

RBS reports a loss attributable to ordinary and B shareholders of £3.5 billion, following a £4.0 billion write-down on Citizens. Operating profit on a non-statutory basis was £3.5 billion. Significant progress was made towards building a bank that is stronger, simpler and better for both customers and shareholders.

RBS reports a loss attributable to ordinary and B shareholders of £3,470 million in 2014, compared with a loss of £8,995 million in 2013. The result included a loss from discontinued operations of £3,445 million, which reflected a £3,994 million fair value write-down in relation to the reclassification of Citizens to disposal groups, and a tax charge of £1.9 billion which included a £1.5 billion write-off of deferred tax assets. Operating profit, which excludes results from discontinued operations, was £2,643 million compared with an operating loss of £8,849 million in 2013.

On a non-statutory basis operating profit totalled £3,503 million for 2014, compared with an operating loss of £7,500 million in 2013. This reflected improved operating results from the core domestic businesses together with significant impairment releases in Ulster Bank and RBS Capital Resolution (RCR). These results include £1,257 million of restructuring costs compared with £656 million in 2013, and £2,194 million of litigation and conduct costs compared with £3,844 million in the prior year.

UK Personal & Business Banking (UK PBB) delivered a good performance built on strong growth from a reinvigorated mortgage business. Commercial Banking's efforts to stimulate demand resulted in a resumption of loan book growth; together with active management of cost and capital, this supported a significant improvement in profitability. Corporate & Institutional Banking (CIB) made good progress towards a lower risk model with a further £40 billion reduction in risk-weighted assets (RWAs) on a fully loaded Basel III basis.

2014 was a year of significant progress for the bank, in which we delivered against all our commitments. In line with the new strategy it set out in 2014, RBS has:

- Implemented a new organisational design for a more UK-centred bank with focused international capabilities, built around its strongest customer franchises.

- Exceeded its 2014 cost reduction targets with savings of £1.1 billion.

Strengthened its Common Equity Tier 1 (CET1) ratio by 2.6 percentage points to 11.2% at the end of 2014, assisted by £4.8 billion of net capital release from RCR disposals and run-off.

Successfully listed Citizens as a step towards full divestment by the end of 2016.

Reached agreement with HM Treasury on the restructuring of the Dividend Access Share (DAS) and paid an initial dividend of £320 million.

Completed much of the orderly run-down and closure of the US asset-backed product business, removing £15 billion of RWAs from the balance sheet.

Completed a strategic review of Ulster Bank and the wealth businesses, launching a sales process for the international private banking activities[1].

Continued to rationalise, simplify and strengthen operating systems and processes, with a more secure mobile banking platform, faster overnight batch processing and key services available to customers 99.96% of the time.

Made our products simpler and fairer for customers, ending zero per cent balance transfers, halting teaser rates on savings accounts that penalise existing customers and explaining all charges for personal and business customers on one side of A4 paper.

Note:

(1) Private banking and wealth management activities where the primary relationship management is conducted outside the British Isles.

Highlights

Within the overall strategic shape outlined for CIB in 2014, RBS is making further changes to improve its medium-term returns, building a stronger, safer and more sustainable business, focused mainly on UK and Western European customers, both corporates and financial institutions, supported by trading and distribution platforms in the UK, US and Singapore.

These changes will create a more focused corporate and institutional bank built on existing product and service strengths. RBS will have a strong, client-focused product offering in sterling, US dollar and euro, including:

- Debt financing, with debt capital markets, structured finance and loans.
- Risk management in currency, rates and inflation.
- Transaction services, with UK-focused cash, payments and trade.

CIB will reduce its geographical footprint to approximately 13 countries, compared with 38 at the end of 2014, though RBS will also retain its back office operations in Poland and India. In addition to its main distribution and trading hubs in the UK, US and Singapore, RBS will remain present in a number of Western European countries with coverage teams. A small sales team will be retained in Japan. US operations will shrink, while retaining the presence required to support the US dollar needs of RBS's UK and Western European customers. Priority client sectors will be targeted in infrastructure, transportation, financial institutions, energy and resources.

CIB will continue to reduce its balance sheet and risk profile. RWAs will be reduced by 60% from £107 billion at 31 December 2014 to £35-£40 billion in 2019, with a reduction of more than £25 billion targeted in 2015. Third party assets will be reduced from £241 billion at the end of 2014 to £75-£80 billion in 2019.

This CIB strategy leaves RBS well-placed to meet the ring-fencing requirements of the Banking Reform Act 2013. As previously indicated, RBS intends to place most banking services inside the ring fence. CIB's remaining "Markets" activities, the operations of RBS International and some corporate banking activity are expected to remain outside the ring-fenced bank in separate legal entities.

For 2015 RBS intends to:

Move towards a capital target of 13% CET1[1], with risk-weighted assets below £300 billion and £2 billion Additional Tier 1 capital raised.
Deconsolidate Citizens and substantially complete RCR exit.
Improve customer net promoter scores in all UK franchises, in line with the long-term goal of becoming the number 1 bank for trust, service and advocacy.
Reduce costs by a further £800 million[2], taking RBS towards a long term cost:income ratio of under 50%.
Deliver lending growth in strategic segments equal to or higher than UK nominal GDP growth.
Raise employee engagement index to within 8% of the global benchmark so that staff are fully motivated to contribute to RBS's long-term success.

Notes:

(1) During the period of CIB restructuring.
(2) Excluding restructuring, conduct and litigation costs, write off of intangible assets and operating expenses of CFG and Williams & Glyn.

"Last year we identified the areas we needed to improve in order to deliver our strategy - cost, complexity, capital and trust from our customers. The energy and resolve of our people have resulted in significant progress on each, and we have delivered on the goals we set for 2014."

Ross McEwan, Chief Executive

Highlights

Outlook

We expect our core UK/Irish businesses to continue to perform well, but with some income headwinds.

Income in CIB is likely to decline substantially faster than cost takeout at this point in its restructuring. Income in the year to date is lower than for the comparable period last year.

We will maintain our rigorous cost discipline and are targeting reductions of £800 million in 2015, in our underlying(1) operating expenses.

Our overall credit profile has improved but we do not expect the significant impairment recoveries experienced in 2014 in Ulster Bank and RCR to continue this year.

We continue to deal with various conduct and litigation issues. Whilst we cannot predict when these will be resolved it is possible that the costs relating to settling these could be substantial in 2015.

Our restructuring costs are expected to be materially higher than in 2014 reflecting the costs relating to the core bank transformation, CIB restructuring and preparing for Williams & Glyn exit and for ICB.

We are targeting RWAs to be less than £300 billion by the end of 2015, driven by RCR and CIB run-offs and the partial de-consolidation of Citizens.

Chairman's letter to shareholders

2014 was a year of significant progress for RBS, with a much improved operating profit and major achievements in terms of business reorganisation, cost reduction, capital build and improved IT capability. As Ross McEwan has set out in his letter, the business continues to simplify and improve, focusing on putting its customers at the heart of its activities.

The bank has delivered a good operating profit of £3.5 billion[(1)] for 2014, but the costs associated with completing the restructuring of RBS mean we are still reporting a bottom line attributable loss. Although the huge changes to the size, shape and risk profile of the business since the financial crisis are largely complete or in hand, the further substantial restructuring of our markets operations and international spread will require careful management in 2015.

Of course your Board is pleased to see the improved operating performance, which in our view reflects the underlying strength of the business. Looking back, however, we must acknowledge that we did not fully recognise the scale of the challenge that awaited us in 2009. At the time, we assumed that a Core Tier 1 capital ratio of more than 8% by 2013 would be sufficient to constitute undoubted financial strength in the minds of markets and regulators; today we have increased our capital target to 13%. We must also acknowledge that we did not anticipate the more than £9 billion of regulatory fines and customer redress we have borne so far as we paid, and will continue to pay, the price for our past conduct failings. These conduct issues have delayed the re-build of our capital and directly reduced shareholder value. They have also caused continuing reputational damage. I hope as we move beyond these issues we can fully rebuild the trust of our customers, and by doing so win more of their business.

The need to continue to rebuild capital strength means it has taken longer than we had expected to reach a point at which the Government could be in a position to start selling down its stake in RBS. The decision on timing rests with the Government, through UK Financial Investments, which manages its shareholding, but our task is to create the conditions in which it can do so. In working towards that end we are also furthering the interests of RBS's other shareholders, as we believe that the beginning of the sell-down will be welcomed by investors.

As announced previously I will be leaving RBS in 2015. The Board is pleased to announce today that Howard Davies will succeed me as Chairman, and we welcome him to RBS. He will join the Board at the end of June and take over from me on 1 September. On the day I joined the Board in January 2009, the shares traded at 9p, equivalent to 90p today, and the implications of the bank's financial distress were unknowable. RBS has transformed itself over the last several years and continues to do so. The renewed focus on customer and customer service will make this a better organisation for all stakeholders, most especially customers, staff and shareholders.

I would like to thank my colleagues on the RBS Board for their support and dedication in dealing with the unusual challenges of being a majority government-owned listed company. In particular, I would like to thank Nathan Bostock, Tony Di Iorio and Philip Scott, who all stepped down from the Board in 2014 after providing valuable service, and to welcome Morten Friis and Ewen Stevenson, who have joined the Board.

It has been a privilege to serve as Chairman of RBS and I am confident that the Board and the many outstanding people in the bank will continue to work with dedication to restore the bank's standing.

Philip Hampton

Chairman

Note:

(1) On a non-statutory basis, see Note 11.

Chief Executive's message

This is my first letter to you since we launched a new strategy for RBS last year. It is a strategy that sets out to deliver one very simple aim. To make this a great bank for our customers; a bank that will earn back their trust, and in turn win more of their business.

It's a strategy that provides the fundamental building blocks to make RBS an attractive investment, a great place to work for our people, and a UK focused bank that the country can be proud of.

Last year we identified the areas we needed to improve in order to deliver our strategy - cost, complexity, capital, and trust from our customers. The energy and resolve of our people has resulted in significant progress on these, and we have delivered on the goals we set for 2014.

We said we would reduce waste and inefficiency and reorganise ourselves around the needs of our customers, moving from seven operating divisions to three customer businesses. This reorganisation is complete and we have removed £1.1 billion of cost from the business.

We outlined a programme to rationalise, simplify and bolster our operating systems and processes to make them less complex, more resilient and easier to use. Significant progress has been made in this area with our key services available to customers 99.96% of the time during 2014.

We set out a plan to place the bank on a sure capital footing targeting a CET1 ratio of 11% by the end of 2015, and 12% or greater by the end of 2016, so as to remove any doubts about our fundamental strength and stability. This capital plan is on track and we have reached our 2015 target one year ahead of schedule. This improvement was driven by a 52% reduction in risk-weighted assets in RCR.

We said we would undertake the biggest bank initial public offering in US history. Citizens Financial Group was successfully floated on the New York Stock Exchange. At the same time we substantially completed the orderly run-down and closure of our US asset-backed product business, removing £15 billion of risk-weighted assets from our balance sheet.

We made a commitment to fairness with our customers. We said that RBS would no longer compete with other banks in a number of areas and we would use less technical language that our customers find easier to understand. We stopped offering zero per cent balance transfers on credit cards that trap customers in spirals of ever increasing debt, we ended teaser rates that penalise existing customers, and we now explain all of our fees and charges on one side of A4 paper for both our personal and business customers.

As well as being a stronger, simpler and fairer bank, I said that we would also be a very different bank. No longer chasing global market share, but instead focusing squarely on our core strength, namely our home market places in the UK and the Republic of Ireland (RoI).

Our 2014 performance shows a strategy that is working. It demonstrates the forensic approach we have taken to evaluate our businesses against the returns they provide to shareholders. The strong execution against the targets we set now gives us a platform to go further, faster.

Chief Executive's message

Today, as well as a review of our current performance I will set out exactly what this bank will become, what we will do and what we will not do as we seek to improve shareholder value and secure our market leading positions. It involves an acceleration of our strategy to build on our domestic strengths and a further reshaping of our CIB business as we seek to address its unacceptable returns.

We have five ambitious new goals for the second year of our plan and new financial targets so that you, our shareholders, can hold us to account for our performance.

2014 financial performance

The earning power of our key customer businesses lies at the heart of the strong financial progress RBS made during 2014. What you can see from these results is that underneath all the noise of conduct, litigation and restructuring charges, we have strong performing customer businesses that are geared towards delivering sustainable returns for investors.

We made an operating profit of £3.5 billion(1) in 2014, the highest since 2010 and a vast improvement on 2013. Great progress on cost reduction countered a fall in total income - which primarily reflected a smaller risk profile and lower income from trading activities in CIB - and led to an overall improvement in operating efficiency.

Our attributable loss of £3.5 billion(2) includes £1.3 billion of restructuring charges, £2.2 billion in litigation and conduct provisions, a £1.5 billion net deferred tax asset write-off, the initial £320 million dividend for the Dividend Access Share and a write-down of £4 billion anticipating the disposal of Citizens.

It is increasingly clear what is driving underlying performance at RBS - PBB and CPB. PBB and CPB are now more important to RBS's performance than at any time in the past decade. This year they generated 61% of our income, compared with c.37% for equivalent businesses in 2009. And they have been at the forefront of progress towards our goal of increased operating efficiency, reducing adjusted operating expense(3) by 2.6% over the year whilst income was up 2.3%. ROEs of 17.5% and 11.9% respectively demonstrate their value to RBS today.

These franchises are also the custodians of our core strengths - serving the everyday banking needs of over 18 million personal and business customers in the UK and RoI, and helping these customers meet their ambitions. We're investing in these franchises with a view to exceeding customers' expectations and generating sustainable returns.

The performance of CIB reflects the big changes this business is going through, and the tough macro-economic conditions and increasingly high costs of regulation it faces. Income decreased alongside lower adjusted operating expenses as we reduced CIB's risk profile in accordance with our strategy, with restructuring, litigation and conduct costs pushing the business to an operating loss. But CIB has a strong customer franchise serving our leading UK and Western European clients; increasingly it is these clients we intend to focus on. I will set out later in this letter the steps we will take to do this.

Note:

(1) On a non-statutory basis, see Note 11.
(2) Loss attributable to ordinary and B shareholders.

(3) Excluding restructuring costs and litigation and conduct costs see segmental analysis on pages 30 and 31 and Appendix 3.

Chief Executive's message

An overarching part of delivering sustainable returns is controlling operating costs. When I announced our cost target last year it was described by some as the most ambitious cost target in Europe. Well, through our drive across the bank for greater simplicity we have over-delivered, and surpassed our target of £1 billion of operating cost savings for the bank. With a cost:income ratio for the year of 68% on an adjusted basis[1] , we are still behind our peers on cost efficiency; and there is work to do to fulfil our desire to take it below 50%. But we have a strong track record on delivery, and there is resolve across this bank to get this done.

I am very pleased with the progress we have made in 2014 against our stated objectives. While that progress is evident in the operating profit line of the results announced today, we are still posting an attributable loss to our shareholders. This is an accounting consequence of one of our 2014 achievements - the successful flotation of Citizens on the New York Stock Exchange.

Now the deconsolidation of Citizens is finally within sight, accounting rules require us to write it down to its estimated disposal value. This write-down substantially represents the goodwill previously attached to Citizens. While I realise that the headlines this generates are disappointing it is important to emphasise that this particular accounting loss does not change our regulatory capital or tangible net asset value.

Safety remains a cornerstone of our strategy

A core question for any bank seeking the trust of its customers is whether it's safe and strong and focused and able to support customers and the economy. The progress we have made should mean that it is no longer in any doubt. The CET1 ratio has improved by 260 basis points to 11.2% over the course of the year, up from 8.6% as at 31 December 2013. We reached our full year 2015 CET1 target of 11% one year ahead of schedule, and we are on track to achieve a revised CET1 target of 13%, which we have set in place for the period of the CIB restructuring.

We now have considerably more high quality capital than we had when the financial crisis hit and this bank was bailed out by the taxpayer. But we need to meet and exceed the expectations of the Prudential Regulation Authority (PRA) and of our shareholders and bondholders. Stress test results show it's not just how much capital you have, but how your balance sheet behaves under extreme economic scenarios.

This year our team in RBS Capital Resolution has managed to accelerate the removal of some of our most capital intensive assets, and we are on track to complete our 2014-2016 RCR run-down targets by the end of 2015, one year ahead of the original target we set for ourselves. Our capital strength will be bolstered further when Citizens Financial Group in the USA is deconsolidated from our balance sheet. This is also expected in 2015.

In 2015, we also plan to start a programme of issuing Basel III compliant Additional Tier 1 capital instruments.

Note:

(1) Excluding restructuring costs and litigation and conduct costs see segmental analysis on pages 30 and 31 and Appendix 3.

Chief Executive's message

Conduct

It has taken far longer than anyone realised to root out all the past problems, practices and related fines, and we still have challenges on the horizon. We are changing the culture of this bank; our aim is that shareholders are not exposed to this scale of conduct risk again.

What you will have seen from me over the last year is the way I will be open and honest with you and our customers when dealing with these issues; the way we continue to approach FX is a good example of this. I will not hide. I will talk openly about the hurt this wrongdoing causes me and the many thousands of people within this bank. I will detail the things we are doing to put things right for our customers, and the challenge and change we are driving through the culture and conduct of our staff.

We are determined to learn the lessons from the wrongdoings of the past and ensure that those responsible are held to account.

Building on our strengths

I said this time last year that the days when global domination mattered more to RBS than great customer service are well and truly over. Well, we are not just talking about being a UK-centred bank; we are a UK-centred bank. 80% of our revenues are generated in the UK. At the time of the 2008 financial crisis this number was 48%. Seven years after the crisis we still have top 3 market positions in the following UK segments:

- large corporates and financial institutions (FIs);
- Sterling provider in wholesale banking;
- SME banking;
- Private banking;
- Financing for UK infrastructure projects; and
- Personal banking.

We are building on this strength to manage value for shareholders and deliver the most resilient future returns.

In last year's letter, I told you that where a business can't deliver value to our shareholders in a reasonable time period we will take decisive action. We have put international private banking activities(1) up for sale and we are now going further, faster in reshaping parts of our CIB business.

The investment bank was over-stretched both in range of product and geography. There was too much risk for too little return. Given the increasing regulatory requirements on this business, it was a strategy that now has little hope of delivering acceptable returns to shareholders.

Note:

(1) Private banking and wealth management activities where the primary relationship management is conducted outside the British Isles.

Chief Executive's message

To be a number 1 bank means providing a full service offering to UK and Western European corporate and financial institution clients. It means providing a first class platform to process payments in the UK and Europe. And it means having the expertise to help customers raise finance on the debt capital markets and manage the high level risks they face. Serving customers in these areas is an undisputed area of strength for us - they are our core capabilities, and are essential to us providing a first class service. In addition, trading and distribution hubs in Singapore and the US will ensure the corridors of commerce remain open to allow our customers access to investors in those regions.

We plan to fully exit our Markets businesses in Central and Eastern Europe, the Middle East and Africa, and substantially reduce our presence in Asia Pacific and the US. We will exit our cash management services outside the UK and RoI. These businesses are not essential to our go-forward client franchise, and their standalone returns are not sufficient to justify an exception.

In doing so we will be free to grow and improve the services our customers value most. And by serving customers better this franchise can reinforce its competitive position and deliver sustainable returns above the cost of equity for our shareholders.

This is a plan for a smaller, more focused, but ultimately more valuable bank with the vast majority of its assets in the UK, and for RBS marks the end of the standalone global investment bank model.

What I have just outlined will require an enormous amount of effort from our people. And I do not for one second take that for granted. We have a proven track record of delivering change in our business.

A better bank for customers

Much has been written and discussed about the root causes of the financial crisis. For me it came down to one big problem - a failure to put the customers' interest at the heart of our business and its culture. For too long market share mattered more than customer care.

It is why over the last year our people have worked hard to embed this 'customer first' mentality into everything we do as a bank.

There are some concrete achievements we can call out for 2014 including: faster account opening times, a simplified product range and a clearer pricing structure. And we went against the rest of the industry and took a calculated risk by ending teaser rates, and we now offer our best rates to new and existing customers across our product range. We may have lost customers and income as a result, but we still believe that this was the right thing to do and will deliver long term value for shareholders.

I want to assure our customers that the positive changes we made in 2014 are not one-off. We strive to do better for our customers every day, and when we spot an opportunity to serve customers better, we will act. For example, customers shouldn't be penalised because they lose track of the date and are hit with an unexpected overdraft charge for the first time. And if we can do more to help customers through both the ups and downs in their finances, it is absolutely our responsibility to do so.

Chief Executive's message

But we recognise that these are chipping away at the edges, and more radical change is needed if we are to establish real upward momentum and achieve our targets. We have to be constantly asking ourselves what a really good bank for customers would look like, and to be constantly improving what we do to take us towards that goal. In our financial reporting we will include full details of the progress we have made as well as providing clear, independent measures of the bank's customer trust and advocacy scores.

We may have started from further back than some, but we are determined to reach our aspiration of being number 1 for customer service, trust and advocacy. It won't be easy, but I firmly believe it is doable.

A better bank for shareholders

Critical though it is that we build a bank that is safe, in capital strength, in structure and on behaviour, it must also be profitable.

There are good businesses within RBS that are capable of delivering real value to their customers. If we do that, our customers will be happy for us to make a fair and sustainable profit.

Without sustainable profitability we cannot ensure our future safety; profit is the best form of self-replenishing capital.

We remain acutely conscious of how much was invested to ensure our continued survival by our private shareholders and, critically, by the Government. As we reduce the tail risks our bank is exposed to, repair our overall profitability and reshape CIB we are creating the potential to build up excess capital, paving the way for distributions to the Government and other shareholders.

Our strategy envisages a capital benefit net of restructuring costs from 2016. We intend to return all capital to shareholders above a CET1 ratio of 13%. This capital return, which remains subject to regulatory approval at the time, will only be made once the significant legacy conduct hurdles are behind us. We see this as another important step towards repaying the support of our shareholders, including the UK tax payer.

2015 Goals and revised targets

I have set out in the table below five new ambitious business goals for the second year of our strategic plan to simplify and restructure this bank, achieving them will stand us in good stead to reach our goals. We have also published a revised set of financial and business targets. These are consistent with the other changes set out in this letter, and will enable you, our shareholders, to continue to track our progress and hold us to account.

Chief Executive's message

By 2019 RBS intends to be a low cost business focused on effective, efficient delivery for our customers. It will be a bank based in the UK and RoI, with a presence in Western Europe, the US and Singapore. It intends to be a bank with leading market positions in each of our chosen business areas, and a bank that can generate attractive returns for shareholders on a sustainable basis.

	Our long-term targets	Our 2015 goals
Strength and sustainability	CET1 ratio = 13% during the period of CIB restructuring	Reduce RWAs to <£300bn
Customer experience	No. 1 for service, trust and advocacy	Improve NPS in every UK fr
Simplifying the bank	Cost: income ratio of <50%	Reduce costs by £800m(1)
Supporting growth	Leading market positions in every franchise	Lending growth in strategic
Employee engagement	Employee engagement index ≥ GFS norm(2)	Raise employee engageme

Notes:

(1) **Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Citizens Financial Group and Williams & Glyn.**

(2) Global Financial Services (GFS) norm currently stands at 83%.

Conclusion

I would like to take this opportunity to thank our Chairman, Sir Philip Hampton, as he takes part in his final Annual Results with the bank. Philip joined in 2009 amid the global financial crisis and immediately brought a clear sense of purpose and direction for the bank at a time of incredible uncertainty, both for the UK and RBS. His dedication to making this a great bank for the country served him well through the tremendous, but positive, change that RBS has undergone during his tenure. I want to express my personal gratitude to Philip for guiding me during my first year as CEO, and playing a key role in implementing the strategy that will take us forward. There is still work to do, but Philip will leave on a positive note, with RBS firmly focussed on serving its customers, and shareholders.

What you see today is a bank on track and delivering on its plan. A bank that is determined to earn the trust of its customers every day. A bank that helps the smallest enterprises through to the largest companies grow and prosper. A bank that is determined to reward its shareholders for their support. And a bank that is able to deliver on our ambition to be number one for customer service and advocacy in the UK and RoI.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

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Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Customer

Building the number one bank for customer service, trust and advocacy in the UK

We use independent surveys to measure our customers' experience and track our progress against our goal in each of our markets.

Net Promoter Score (NPS)

Customers are asked how likely they would be to recommend their bank to a friend or colleague, and respond based on a 0-10 scale with 10 indicating 'extremely likely' and 0 indicating 'not at all likely'. Customers scoring 0 to 6 are termed detractors and customers scoring 9 to 10 are termed promoters. The Net Promoter Score (NPS) is established by subtracting the proportion of detractors from the proportion of promoters.

In 2014, we have seen some positive NPS movements in some of our franchises and our plans for 2015 will help to gather momentum across the bank.

		Year end 2013	Year end 2014	Year end 2015 target
Personal Banking	NatWest (England & Wales)[1]	5	6	9
	RBS (Scotland)[1]	-16	-13	-10
	Ulster Bank (Northern Ireland)[2]	-31	-24	-21
	Ulster Bank (Republic of Ireland)[2]	-20	-18	-15
Business Banking	NatWest (England & Wales)[3]	-11	-11	-7
	RBS (Scotland)[3]	-38	-23	-21
	Ulster Bank (Northern Ireland)[4]	-47	-44	-34
	Ulster Bank (Republic of Ireland)[4]	-21	-17	-15
Commercial Banking[5]		-1	12	15

Suitable measures for Private Banking and Corporate & Institutional Banking are in development.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Notes:

The only NPS improvements in 2014 that are statistically significant are for Business Banking (RBS Scotland) and Commercial Banking.

(1) Source: GfK FRS 6 month rolling data. Latest base sizes: NatWest England & Wales (3,511) RBS Scotland (547). Based on the question: "How likely is it that you would recommend (brand) to a relative, friend or colleague in the next 12 months for current account banking?“

(2) Source: Coyne Research 12 month rolling data. Question: “Please indicate to what extent you would be likely to recommend (brand) to your friends or family using a scale of 0 to 10 where 0 is not at all likely and 10 is extremely likely”.

(3) Source: Charterhouse Research Business Banking Survey, based on interviews with businesses with an annual turnover up to £2 million. 12 month rolling data. Latest base sizes: NatWest England & Wales (529), RBS Scotland (399). Weighted by region and turnover to be representative of businesses in England & Wales/Scotland.

(4) Source: PwC Business Banking Tracker. Question: “I would like you to continue thinking about your main business bank and the service they provide. Can you tell me how likely or unlikely would you be to do the following? Again please use a scale of 1 to 10, where 1 is very unlikely and 10 is very likely. How likely are you to recommend them to another business?”

(5) Source: Charterhouse Research Business Banking Survey, based on interviews with businesses with annual turnover between £2 million and £1 billion. Latest base size: RBSG Great Britain (972). Weighted by region and turnover to be representative of businesses in Great Britain.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Customer

Customer trust

We also use independent experts to measure our customers' trust in the bank. Each quarter we ask customers to what extent they trust or distrust their bank to do the right thing. The score is a net measure of those customers that trust their bank (a lot or somewhat) minus those that distrust their bank (a lot or somewhat).

		Year end 2013	Year end 2014	Year end 2015 target
Customer Trust(6)	NatWest (England & Wales)	35%	41%	46%
	RBS (Scotland)	-16%	2%	11%

(6) Source: Populus (2014) and PSB (2013). Latest quarter's data. Measured as a net of those that trust RBS/NatWest to do the right thing, less those that do not. Latest base sizes: NatWest England & Wales (927), RBS Scotland (206).

The year-on-year improvement in RBS customer trust is largely a reversion to its longer-term trend: there were issues in late 2013 that impacted the bank's reputation and customer trust. There are early signs that customer trust in RBS is stabilising and starting to improve. NatWest has consistently performed competitively, and has shown early signs of improvement.

We will continue to aim for improvement through a secure, consistent and reliable service, and an unrelenting focus on our customers.

Improving Customer Service

In February 2014, we made a series of commitments to our RBS and NatWest customers.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Customer

Customer commitment	Progress
We will stop offering deals to new customers that we are not prepared to offer to our existing customers.	We now offer our best rates to new and existing customers across our product range. There is now no Personal Banking or Business Banking deal that is not available to existing customers.
We will also ban teaser rates, including zero per cent balance transfers in our credit card business.	We have banned teaser rates. We run a fair and transparent credit card business for our customers.
We will stop offering different rates to customers who apply online, in branch or by phoning our call centres.	Across our RBS and NatWest brands, pricing is consistent.
We will use simple language in our customer letters, on our websites and in our branches.	Customer letters and emails have been simplified for our personal and business customers so they are straightforward and transparent. We have reduced the number of pages on our personal banking website by over 60%. In branches we have fewer, shorter brochures making it easier for customers to find information.
By the end of 2014 we will cut in half the number of personal and SME products on offer.	We have reduced the number of Personal and SME products on offer by 50%. We are becoming a smaller, simpler bank to do business with.
We will improve the clarity of our language to customers. By the end of 2014 we will be able to explain all of our personal and SME charges on one side of A4.	Fees and charges are explained on one side of A4 for both our personal and business customers and will be communicated via our internet sites by the end of February 2015. We have a duty to our customers to provide a straightforward breakdown of all charges.
We will speed up our account opening process for personal customers. We will cut how long it takes to open a personal current account from five days to next day.	All customers applying for a personal current account who have the required ID and pass our fraud and credit checks can now open their account the next working day.
We will also improve the process to open a personal current account online so customers can upload their identification, such as their passport, and open their entire account from home.	All customers applying for a personal current account who have the required ID and pass our fraud and credit checks can complete their application online and, where required, are able to upload key ID documents from home.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Customer

Customer commitment	Progress
By the end of 2014, customers will have access to Mobile Banking and Online Banking within one day.	All Personal and Business Banking customers now have access to online banking by the next working day. Existing customers with a debit card now have access to mobile banking the next working day.
We will put Business Bankers back on the high street. We will have hundreds of Business Bankers help small business people open accounts, apply for loans and get the help they need.	82% of Business Banking frontline staff are immediately above/next to our branches. This equates to 1,335 Business Banking specialists in branch today. We are simplifying processes so that Business Bankers can spend more time with customers, providing help and advice in branch or via telephone.
We will start making small business lending decisions in five days.	We are processing lending decisions quicker. In almost all cases, lending decisions are made and communicated to the customer in five days or less with two-thirds of business lending decisions made locally and/or by sector specialists.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Analysis of results

The following table reconciles the non-statutory basis results (a non-GAAP financial measure) to the statutory basis.

	Year ended		Quarter ended		
	31 December 2014	31 December 2013	**31 December 2014**	30 September 2014	31 December 2013
Net interest income	**£m**	£m	**£m**	£m	£m
Net interest income					
- non-statutory basis	**11,274**	10,992	**2,915**	2,863	2,767
- Citizens	**(2,013)**	(1,964)	**(533)**	(493)	(481)
- RFS Holdings minority interest	**(3)**	(11)	**-**	-	(3)
Net interest income - statutory basis	**9,258**	9,017	**2,382**	2,370	2,283
Average interest-earning assets					
- RBS	**432,319**	475,021	**420,540**	430,499	456,580
- Personal & Business Banking	**155,352**	159,159	**156,002**	155,818	157,838
- Commercial & Private Banking	**93,256**	93,115	**93,184**	93,021	92,264
- Citizens Financial Group	**69,895**	64,935	**74,302**	69,520	64,336
Net interest margin					
- RBS	**2.14%**	1.90%	**2.25%**	2.18%	1.98%
- Personal & Business Banking	**3.42%**	3.21%	**3.46%**	3.47%	3.30%
- Commercial & Private Banking	**2.93%**	2.81%	**2.96%**	2.96%	2.95%
- Citizens Financial Group	**2.88%**	2.91%	**2.86%**	2.82%	2.91%

Key points

2014 compared with 2013

Net interest income increased by 3% to £9,258 million reflecting improvements in deposit margins in PBB and CPB. On a non-statutory basis net interest income increased by 3% to £11,274 million with improvements in deposit margins in PBB and CPB supported by a larger balance sheet in CFG through purchased portfolios, increased investments and organic growth.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Net interest margin (NIM) increased by 24 basis points to 2.14%, supported by deposit re-pricing in PBB and CPB. CFG's NIM remained broadly stable.

Q4 2014 compared with Q3 2014

Net interest income was flat at £2,382 million (Q3 2014 - £2,370 million). On a non-statutory basis net interest income increased by 2% to £2,915 million supported by higher lending in CFG.

NIM increased by 7 basis points to 2.25%, with improvements in UK PBB and RCR. CPB's NIM remained stable.

Q4 2014 compared with Q4 2013

Net interest income increased by 4% to £2,382 million supported by improvements in deposit margins in UK PBB. On a non-statutory basis net interest income increased by 5% to £2,915 million supported by improvements in deposit margins in UK PBB and CFG's balance sheet growth.

NIM increased by 27 basis points to 2.25% benefitting from deposit re-pricing in UK PBB and Private Banking.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Analysis of results

The following tables reconcile the non-statutory basis results (a non-GAAP financial measure) to the statutory basis.

	Year ended			Quarter ended		
	31 December	31 December		**31 December**	30 September	31 December
	2014	2013		**2014**	2014	2013
Non-interest income	**£m**	£m		**£m**	£m	£m
Fees and commissions receivable						
- non-statutory basis	**5,148**	5,460		**1,247**	1,296	1,370
- Citizens	**(734)**	(782)		**(192)**	(180)	(187)
Statutory basis	**4,414**	4,678		**1,055**	1,116	1,183
Fees and commissions payable						
- non-statutory basis	**(900)**	(942)		**(211)**	(202)	(244)
- Citizens	**25**	19		**7**	6	4
Statutory basis	**(875)**	(923)		**(204)**	(196)	(240)
Net fees and commissions - non-statutory basis	**4,248**	4,518		**1,036**	1,094	1,126
Net fees and commissions - statutory basis	**3,539**	3,755		**851**	920	943
Income from trading activities						
- non-statutory basis	**1,422**	2,651		**(295)**	235	162
- own credit adjustments	**(40)**	35		**(84)**	33	15
- Citizens	**(97)**	(114)		**(24)**	(30)	(2)
- RFS Holdings minority interest	**-**	(1)		**-**	-	-
Statutory basis	**1,285**	2,571		**(403)**	238	175
Gain on redemption of own debt - statutory basis	**20**	175		**-**	-	(29)
Other operating income						
- non-statutory basis	**1,253**	1,281		**204**	167	(115)

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

- own credit adjustments	**(106)**	(155)		**(60)**	16	(15)
- strategic disposals	**191**	161		**-**	-	168
- Citizens	**(272)**	(179)		**(22)**	(19)	(38)
- RFS Holdings minority interest	**(18)**	111		**13**	(56)	(7)
Statutory basis	**1,048**	1,219		**135**	108	(7)
Total non-interest income - non-statutory basis	**6,923**	8,450		**945**	1,496	1,173
Total non-interest income - statutory basis	**5,892**	7,720		**583**	1,266	1,082

Key points

2014 compared with 2013

Non-interest income declined by £1,828 million or 24% to £5,892 million principally reflecting a 50% reduction in income from trading activities in line with CIB's smaller balance sheet and reduced risk profile, and included and lower gains from the redemption of own debt of £20 million compared to £175 million in 2013 and higher charges in relation to own credit adjustments of £40 million (2013 - £35 million gain).

On a non-statutory basis non-interest income declined by £1,527 million or 18% including a net gain of £170 million ($283 million) recorded on CFG's sale of its Illinois branch network in Q2 2014. Gains on the disposal of available-for-sale securities in RBS Treasury were down £575 million to £149

million for 2014.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Analysis of results

Key points (continued)

Q4 2014 compared with Q3 2014

Non-interest income declined £683 million or 54%, principally reflecting lower income in RCR and CIB and higher risk management costs. On non-statutory basis non-interest income declined by £551 million or 37%.

Q4 2014 compared with Q4 2013

Non-interest income declined by £499 million or 46% primarily due to lower income from trading activities, reflecting risk and balance sheet reductions in CIB and weaker trading performance in Rates and Credit. On a non-statutory basis non-interest income declined by £228 million or 19%.

Gains on the disposal of available-for-sale securities in RBS Treasury were down £108 million to £6 million.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Analysis of results

The following tables reconcile the non-statutory basis results (a non-GAAP financial measure) to the statutory basis.

	Year ended			Quarter ended		
	31 December 2014	31 December 2013		**31 December 2014**	30 September 2014	31 December 2013
Operating expenses	**£m**	£m		**£m**	£m	£m
Staff expenses						
- non-statutory basis	**(6,406)**	(6,882)		**(1,455)**	(1,611)	(1,539)
- integration and restructuring costs	**(409)**	(280)		**(134)**	(79)	(1)
- Citizens	**1,058**	1,077		**264**	255	250
- RFS Holdings minority interest	**-**	(1)		**-**	-	(1)
Statutory basis	**(5,757)**	(6,086)		**(1,325)**	(1,435)	(1,291)
Premises and equipment						
- non-statutory basis	**(2,094)**	(2,233)		**(525)**	(490)	(614)
- integration and restructuring costs	**(280)**	(115)		**(31)**	(53)	(86)
- Citizens	**293**	310		**76**	68	78
Statutory basis	**(2,081)**	(2,038)		**(480)**	(475)	(622)
Other administrative expenses						
- non-statutory basis	**(2,635)**	(3,147)		**(827)**	(516)	(985)
- litigation and conduct costs	**(2,194)**	(3,844)		**(1,164)**	(780)	(2.875)
- integration and restructuring costs	**(318)**	(255)		**(151)**	(48)	(93)
- Citizens	**582**	552		**145**	132	175
- RFS Holdings minority interest	**(3)**	2		**(2)**	-	1
- depreciation and amortisation	**-**	-		**-**	-	(8)
Statutory basis	**(4,568)**	(6,692)		**(1,999)**	(1,212)	(3,785)
Depreciation and amortisation						
- non-statutory basis	**(1,107)**	(1,404)		**(250)**	(306)	(344)
- Citizens	**180**	163		**47**	45	15
- integration and restructuring costs	**(3)**	(6)		**-**	-	-
- other administrative expenses	**-**	-		**-**	-	8

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Statutory basis	**(930)**	(1,247)		**(203)**	(261)	(321)
Integration and restructuring costs						
- non-statutory basis	**(1,257)**	(656)		**(563)**	(180)	(180)
- staff expenses	**409**	280		**134**	79	(1)
- premises and equipment	**280**	115		**31**	53	86
- other administrative expenses	**318**	255		**151**	48	93
- write off of intangible assets	**247**	-		**247**	-	-
- depreciation and amortisation	**3**	6		**-**	-	2
Statutory basis	**-**	-		**-**	-	-
Litigation and conduct costs						
- non-statutory basis	**(2,194)**	(3,844)		**(1,164)**	(780)	(2,875)
- other administrative expenses	**2,194**	3,844		**1,164**	780	2,875
Statutory basis	**-**	-		**-**	-	-
Write down of goodwill and other intangible assets						
- non-statutory basis	**(156)**	(344)		**(74)**	-	(344)
- write off of intangible assets	**(247)**	-		**(247)**	-	-
- Citizens	**10**	-		**10**	-	-
- write down of goodwill	**(130)**	(1,059)		**-**	-	(1,059)
Statutory basis	**(523)**	(1,403)		**(311)**	-	(1,403)
Operating expenses - non-statutory basis	**(15,849)**	(18,510)		**(4,858)**	(3,883)	(6,881)
Operating expenses - statutory basis	**(13,859)**	(17,466)		**(4,318)**	(3,383)	(7,422)

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Analysis of results

Key points

2014 compared with 2013

Operating expenses decreased by £3,607 million, or 21%, to £13,859 million, including write-down of goodwill of £130 million in 2014 compared to £1,059 million in 2013 and includes the impact of litigation and conduct costs and restructuring costs noted below.

On a non-statutory basis operating expenses decreased by £2,661 million or 14% to £15,849 million. Operating expenses excluding litigation and conduct costs of £2,194 million (2013 - £3,844 million) and restructuring costs of £1,257 million (2013 - £656 million) declined by £1,612 million or 12% to £12,398 million. Excluding the impact of foreign exchange movements of £0.3 billion and intangible assets write-offs of £0.2 billion, operating expenses reduced by £1.1 billion, exceeding the bank's £1 billion cost saving target.

Staff expenses declined by 5%, and by 1% on a per capita basis against average full time employees[1].

Litigation and conducts costs totalled £2,194 million compared with £3,844 million in 2013. This included additional provisions for PPI redress (£650 million) in PBB, provisions relating to investigations into the foreign exchange market (£720 million) in CIB, Interest Rate Hedging Product redress (£185 million), the fine relating to the 2012 IT incident (£59 million) booked in Centre and other costs (£580 million) including provisions relating to packaged accounts and investment products.

Restructuring costs increased by £601 million to £1,257 million, including £378 million in relation to Williams & Glyn and a £247 million write-off of intangible IT assets.

Q4 2014 compared with Q3 2014

Operating expenses increased by £935 million, or 28%, to £4,318 million. Operating expenses excluding restructuring costs of £563 million (Q3 2014 - £180 million) and litigation and conduct costs of £1,164 million (Q3 2014 - £780 million) increased by £168 million, or 7%, to £2,591 million, primarily reflecting a UK bank levy charge of £250 million.

Litigation and conduct costs were up 49% to £1,164 million and included provisions for PPI redress (£400 million), provisions relating to investigations into the foreign exchange market (£320 million), Interest Rate Hedging Product redress (£85 million) and other costs (£359 million) including provisions relating to certain packaged accounts and investment products. Restructuring costs increased by £383 million to £563 million, including a £247 million write-off of intangible assets and £174 million in relation to Williams & Glyn.

On a non-statutory basis operating expenses increased by £975 million or 25% to £4,858 million. Operating expenses, excluding restructuring costs of £563 million and litigation and conduct costs of £1,164 million, increased by £208 million or 7% to £3,131 million.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Q4 2014 compared with Q4 2013

Operating expenses decreased by £3,104 million, or 42% to £4,318 million this included a write down of goodwill of £1,059 million relating to CIB following an impairment review in Q4 2013. Operating expenses excluding restructuring costs of £563 million (Q4 2013 - £180 million) and litigation and conduct costs of £1,164 million (Q4 2013 - £2,875 million) decreased by £1,776 million, or 41%, to £2,591 million, primarily reflecting reductions in operating expenses across a number of businesses, principally CIB.

On a non-statutory basis operating expenses decreased by £2,023 million or 29%. Operating expenses, excluding restructuring and litigation and conduct costs, decreased by £695 million or 18%.

Note:

(1) Average full time employees, rounded to the nearest hundred, for continuing operations was 95,600 (2013 - 102,000).

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Analysis of results

The following tables reconcile the non-statutory basis results (a non-GAAP financial measure) to the statutory basis.

	Year ended			Quarter ended		
	31 December	31 December		**31 December**	30 September	31 December
	2014	2013		**2014**	2014	2013
Impairment (releases)/losses	**£m**	£m		**£m**	£m	£m
Loans						
- non-statutory basis	**(1,170)**	8,412		**(638)**	(803)	5,131
- Citizens	**(194)**	(307)		**(46)**	(46)	(82)
Statutory basis	**(1,364)**	8,105		**(684)**	(849)	5,049
Securities						
- non-statutory basis	**15**	20		**15**	2	(19)
- Citizens	**(3)**	(5)		**(1)**	-	-
Statutory basis	**12**	15		**14**	2	(19)
Impairment (releases)/losses - non-statutory basis	**(1,155)**	8,432		**(623)**	(801)	5,112
Impairment (releases)/losses - statutory basis	**(1,352)**	8,120		**(670)**	(847)	5,030
Loan impairment (releases)/losses						
Individually assessed						
- non-statutory basis	**(799)**	6,919		**(502)**	(410)	4,867
- Citizens	**(36)**	(11)		**(12)**	(5)	1
Statutory basis	**(835)**	6,908		**(514)**	(415)	4,868
Collectively assessed						
- non-statutory basis	**315**	1,464		**(85)**	52	443
- Citizens	**(142)**	(272)		**(35)**	(37)	(94)
Statutory basis	**173**	1,192		**(120)**	15	349
Latent						

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

- non-statutory basis	**(676)**	44	**(51)**	(445)	(173)
- Citizens	**(16)**	(24)	**1**	(4)	11
Statutory basis	**(692)**	20	**(50)**	(449)	(162)
Loan impairment (releases)/losses - non-statutory basis	**(1,160)**	8,427	**(638)**	(803)	5,137
Loan impairment (releases)/losses - statutory basis	**(1,354)**	8,120	**(684)**	(849)	5,055
Bank loans	**(10)**	(15)	**-**	-	(6)
Loan impairment (releases)/losses					
RBS excluding RCR/Non-Core	**150**	3,766	**53**	(193)	1,924
RCR	**(1,320)**	n/a	**(691)**	(610)	n/a
Non-Core	**n/a**	4,646	**n/a**	n/a	3,207
Customer loan impairment (releases)/charge					
as a % of gross loans and advances					
RBS non-statutory (1)	**(0.3%)**	2.0%	**(0.6%)**	(0.8%)	4.9%
RBS statutory basis	**(0.4%)**	2.2%	**(0.8%)**	(0.9%)	5.5%
RBS excluding RCR/Non-Core (1)	**-**	1.0%	**0.1%**	(0.2%)	2.0%
RCR (1)	**(6.0%)**	n/a	**(12.6%)**	(9.5%)	n/a
Non-Core (1)	**n/a**	12.8%	**n/a**	n/a	35.3%

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

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Analysis of results

	31 December	30 September	31 December
	2014	2014	2013
Loan impairment provisions			
- RBS	**£18.0bn**	£20.0bn	£25.2bn
- RBS excluding RCR/Non-Core	**£7.1bn**	£7.4bn	£11.4bn
- RCR	**£10.9bn**	£12.6bn	n/a
- Non-Core	**n/a**	n/a	£13.8bn
Risk elements in lending			
- RBS	**£28.2bn**	£30.5bn	£39.4bn
- RBS excluding RCR/Non-Core	**£12.8bn**	£13.1bn	£20.4bn
- RCR	**£15.4bn**	£17.4bn	n/a
- Non-Core	**n/a**	n/a	£19.0bn
Provisions as a % of REIL			
- RBS	**64%**	66%	64%
- RBS excluding RCR/Non-Core	**55%**	57%	56%
- RCR	**71%**	72%	n/a
- Non-Core	**n/a**	n/a	73%
REIL as a % of gross customer loans			
- RBS	**6.8%**	7.4%	9.4%
- RBS excluding RCR/Non-Core	**3.3%**	3.4%	5.3%
- RCR	**70.3%**	67.6%	n/a
- Non-Core	**n/a**	n/a	51.8%

Note:

(1) Excludes reverse repurchase agreements and includes disposals groups.

Key points

2014 compared with 2013

Net impairment releases of £1,352 were recorded in 2014 compared with a net impairment charge of £8,120 million which included £4,490 million provisions related to the creation of RCR. Releases were recorded principally in RCR (£1,306 million) and in Ulster Bank (£365 million), which benefited from favourable economic and market conditions, supported by rising Irish property values and

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

proactive debt management. Excluding these releases, the underlying charge was low at just over £500 million.
On a non-statutory basis net impairment releases of £1,155 million were recorded in 2014 compared with a net impairment charge of £8,432 million in the prior year.

Q4 2014 compared with Q3 2014

Net impairment releases totalled £670 million, down £177 million, again principally in RCR and Ulster Bank. Underlying bad debt flows remained low. On a non-statutory basis net impairment releases totalled £623 million, down £178 million.

Q4 2014 compared with Q4 2013

Net impairment releases totalled £670 million compared with a net impairment charged of £5,030 million in Q4 2013, which included £4,290 million related to the creation of RCR and £82 million in relation to Citizens (Q4 2013 - £82 million).
On a non-statutory basis net impairment releases totalled £623 million compared with a net impairment charge of £5,112 million in Q4 2013.

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit

Analysis of results

Capital and leverage ratios						
	End-point CRR basis (1)			**PRA transitional basis (1)**		
	31 December	30 September	31 December	**31 December**	30 September	31 December
	2014	2014	2013 (2)	**2014**	2014	2013 (2)
Risk asset ratios	**%**	%	%	**%**	%	%
CET1	**11.2**	10.8	8.6	**11.1**	10.8	8.6
Tier 1	**11.2**	10.8	8.6	**13.2**	12.7	10.3
Total	**13.7**	13.1	10.6	**17.1**	16.3	13.6
Capital	**£bn**	£bn	£bn	**£bn**	£bn	£bn
Tangible equity	**44.4**	44.3	41.1	**44.4**	44.1	41.1
Expected loss less impairment provisions	**(1.5)**	(1.6)	(1.7)	**(1.5)**	(1.6)	(1.7)
Prudential valuation adjustment (PVA)	**(0.4)**	(0.4)	(0.8)	**(0.4)**	(0.4)	(0.8)
Deferred tax assets	**(1.2)**	(1.6)	(2.3)	**(1.2)**	(1.6)	(2.3)
Own credit adjustments	**0.5**	0.6	0.6	**0.5**	0.6	0.6
Pension fund assets	**(0.2)**	(0.2)	(0.2)	**(0.2)**	(0.2)	(0.2)
Other deductions	**(1.7)**					

Excludes restructuring, conduct and litigation costs, intangible write-off charges as well as the operating costs of Cit