

ROYAL BANK OF SCOTLAND GROUP PLC

Form 6-K

August 08, 2012

Report of Foreign Private Issuer

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

8 August 2012

The Royal Bank of Scotland Group plc

Gogarburn  
PO Box 1000  
Edinburgh EH12 1HQ  
Scotland  
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(Address of principal executive offices)

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

Form 20-F

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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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Yes

No

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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(File Nos. 333-162219 and 333-162219-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.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

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

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

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

the Group; and the success of the Group in managing the risks involved in the foregoing.

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

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

Presentation of information

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Non-GAAP financial information

The directors manage the Group's performance by class of business, before certain reconciling items, as is presented in the segmental analysis on pages 90 to 97 (the "managed basis"). Discussion of the Group's performance focuses on the managed basis as the Group believes that such measures allow a more meaningful analysis of the Group's financial condition and the results of its operations. These measures are non-GAAP financial measures. A body of generally accepted accounting principles such as IFRS is commonly referred to as 'GAAP'. A non-GAAP financial measure is defined as one that measures historical or future financial performance, financial position or cash flows but which excludes or includes amounts that would not be so adjusted in the most comparable GAAP measure. Reconciliations of these non-GAAP measures are presented throughout this document or in the segmental analysis on pages 90 to 97. These non-GAAP financial measures are not a substitute for GAAP measures. Furthermore, RBS has divided its operations into "Core" and "Non-Core". Certain measures disclosed in this document for 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 Non-Core. In addition, RBS has further divided parts of the Core business into "Retail & Commercial" consisting of the UK Retail, UK Corporate, Wealth, International Banking, Ulster Bank and US Retail & Commercial divisions. This is a non-GAAP financial measure. Lastly, the Basel III net stable funding ratio (see page 149) represents a non-GAAP financial measure given it is a metric that is not yet required to be disclosed by a government, governmental authority or self-regulatory organisation.

Disposal groups

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', in Q4 2011 the Group transferred the assets and liabilities relating to the planned disposal of its RBS England and Wales, and NatWest Scotland branch-based businesses, along with certain SME and corporate activities across the UK ('UK branch-based businesses'), to assets and liabilities of disposal groups.

Presentation of information (continued)

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Restatements

Organisational change

In January 2012, the Group announced changes to its wholesale banking operations in light of a changed market and regulatory environment. The changes have seen the reorganisation of the Group's wholesale businesses into 'Markets' and 'International Banking' and the proposed exit and/or downsizing of selected activities. The changes will ensure the wholesale businesses continue to deliver against the Group's strategy.

The changes include an exit from cash equities, corporate broking, equity capital markets and mergers and acquisitions advisory businesses. Significant reductions in balance sheet, funding requirements and cost base in the remaining wholesale businesses will be implemented.

Revised allocation of Group Treasury costs

In the first quarter of 2012, the Group revised its allocation of funding and liquidity costs and capital for the new divisional structure as well as for a new methodology. The new methodology is designed to ensure that the allocated funding and liquidity costs more fully reflect each division's funding requirement.

Revised divisional return on equity ratios

For the purposes of divisional return on equity ratios, notional equity has been calculated as a percentage of the monthly average of divisional risk-weighted assets (RWAs), adjusted for capital deductions. Historically, notional equity was allocated at 9% of RWAs for the Retail & Commercial divisions and 10% of RWAs for Global Banking & Markets. This was revised in Q1 2012 and 10% of RWAs is now applied to both the Retail & Commercial and Markets divisions.

Fair value of own debt and derivative liabilities

The Group had previously excluded changes in the fair value of own debt (FVOD) in presenting the underlying performance of the Group on a managed basis given it is a volatile non-cash item. To better align our managed view of performance, movements in the fair value of own derivative liabilities (FVDL), previously incorporated within Markets operating performance, are now combined with movements in FVOD in a single measure, 'Own Credit Adjustments' (OCA). This took effect in Q1 2012 and Group and Markets operating results have been adjusted to reflect this change which does not affect profit/(loss) before and after tax.

Comparatives for all of the items discussed above were restated in Q1 2012. For further information on the restatements refer to the announcement dated 1 May 2012, available on [www.sec.gov](http://www.sec.gov).

Share consolidation

Following approval at the Group's Annual General Meeting on 30 May 2012, the sub-division and consolidation of the Group's ordinary shares on a one-for-ten basis took effect on 6 June 2012. Consequently, disclosures relating to or affected by numbers of ordinary shares or share price have been restated.



Condensed consolidated income statement  
for the period ended 30 June 2012

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Interest receivable	9,791	10,805	4,774	5,017	5,404
Interest payable	(3,821)	(4,277)	(1,803)	(2,018)	(2,177)
Net interest income	5,970	6,528	2,971	2,999	3,227
Fees and commissions receivable	2,937	3,342	1,450	1,487	1,700
Fees and commissions payable	(604)	(583)	(314)	(290)	(323)
Income from trading activities	869	1,982	657	212	1,147
Gain on redemption of own debt	577	255	-	577	255
Other operating income (excluding insurance net premium income)	(353)	1,533	394	(747)	1,142
Insurance net premium income	1,867	2,239	929	938	1,090
Non-interest income	5,293	8,768	3,116	2,177	5,011
Total income	11,263	15,296	6,087	5,176	8,238
Staff costs	(4,713)	(4,609)	(2,143)	(2,570)	(2,210)
Premises and equipment	(1,107)	(1,173)	(544)	(563)	(602)
Other administrative expenses	(2,172)	(2,673)	(1,156)	(1,016)	(1,752)
Depreciation and amortisation	(902)	(877)	(434)	(468)	(453)
Operating expenses	(8,894)	(9,332)	(4,277)	(4,617)	(5,017)
Profit before insurance net claims and impairment losses	2,369	5,964	1,810	559	3,221
Insurance net claims	(1,225)	(1,705)	(576)	(649)	(793)
Impairment losses	(2,649)	(5,053)	(1,335)	(1,314)	(3,106)
Operating loss before tax	(1,505)	(794)	(101)	(1,404)	(678)
Tax charge	(429)	(645)	(290)	(139)	(222)
Loss from continuing operations	(1,934)	(1,439)	(391)	(1,543)	(900)
Profit/(loss) from discontinued operations, net of tax	1	31	(4)	5	21
Loss for the period	(1,933)	(1,408)	(395)	(1,538)	(879)
Non-controlling interests	19	(17)	5	14	(18)
Preference share and other dividends	(76)	-	(76)	-	-
Loss attributable to ordinary and B shareholders	(1,990)	(1,425)	(466)	(1,524)	(897)

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Basic and diluted loss per ordinary and B share from continuing operations (1)	(18.2p)	(13.2p)	(4.2p)	(14.0p)	(8.3p)
Basic and diluted loss per ordinary and B share from discontinued operations (1)	-	-	-	-	-

Note:

(1) Prior periods have been adjusted for the sub-division and one-for-ten ordinary share consolidation of ordinary shares.

## Highlights

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### First half 2012 results summary

The Royal Bank of Scotland Group (RBS) reported a Group operating loss before tax of £1,505 million for the first half of 2012. Operating profit on a managed basis was £1,834 million. The results included a provision of £125 million for costs arising from the technology incident that affected the Group's systems in June, principally to cover customer redress. In addition, we have reserved £50 million for redress of a particular category of complex interest rate swaps based on agreement reached with the FSA. Excluding these provisions, operating profit on a managed basis was stable compared with H1 2011.

Core operating profit totalled £3,185 million in H1, down 19%, while return on equity was 10.2%.

Retail & Commercial (R&C) faced headwinds with a weakening economy and continuing low interest rates, but held costs flat and there was a continued improvement in impairments. R&C H1 operating profit was £2,067 million, down 12%. Although Q2 net interest margin was broadly stable at 2.94% compared with Q1, net interest income has remained under pressure as a consequence of muted lending demand. R&C ROE in H1 was 9.8%.

Markets also faced a difficult environment, reinforcing management's decision to restructure the business, as the increased liquidity and investor confidence that followed the European Central Bank's Long Term Refinancing Operation in Q1 proved short-lived. H1 operating profit fell 21% to £1,075 million, with weakness in currencies, credit markets and investor products and equity derivatives, mitigated by higher rates revenues. ROE for Markets' ongoing business was 14.0%.

Direct Line Group H1 operating profit of £219 million was 6% higher than in the prior year, with significantly improved claims ratios despite the impact of more severe weather this year.

Non-Core operating losses were 31% lower than H1 2011 at £1,351 million, with expenses down 20% and impairments down 56% from the prior year.

Q2 2012 Group operating loss before tax was £101 million. Operating profit on a managed basis totalled £650 million, down 22% from Q2 2011 but only 1% excluding the provisions totalling £175 million described earlier. Core operating profit for the quarter was £1,518 million, down 9% from Q1 2012 and down 11% versus Q2 2011 (down 1% year-on-year and up 2% quarter-on-quarter excluding the provision totalling £175 million).

### One-off and other items

H1 integration and restructuring costs totalled £673 million, of which £213 million was recorded in the second quarter. This was largely offset by the gain of £577 million recorded in March following a restructuring of the Group's Lower Tier 2 debt. A disposal gain of £197 million was recorded on the sale of RBS Aviation Capital, completed in June 2012.

A further provision of £135 million in Q2 (H1 2012 - £260 million) was recorded for Payment Protection Insurance claims, bringing the cumulative charge taken to £1.3 billion, of which £0.7 billion in redress had been paid by 30 June 2012.

The significant narrowing of RBS's credit spreads in debt markets, reflecting strengthened investor perceptions, that occurred in the first quarter of 2012 continued in Q2, resulting in an own credit charge of £2,974 million in H1 2012, of which £518 million was booked in Q2 2012. H1 2012 operating loss before tax was £1,505 million and attributable loss was £1,990 million. Excluding own credit adjustments of £2,974 million, H1 pre-tax operating profit on a managed basis was £1,469 million and attributable profit £287 million\*. Tangible net asset value per share rose to 489 pence.

\*Attributable loss adjusted for post-tax effect of own credit adjustments.

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Highlights (continued)

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First half 2012 results summary (continued)

Efficiency

Core expenses in H1 2012 were flat, with benefits from the Group's cost reduction programme and the restructuring of Markets and International Banking offsetting the £88 million litigation settlement booked by US R&C in Q1 and the £125 million provision for costs arising from the technology incident accrued in Group Centre in Q2.

Staff expenses were reduced by 4% from H1 2011, with employee numbers down by 5,700, principally in Markets and International Banking. The compensation:revenue ratio in Markets declined to 33%, compared with 35% in H1 2011.

Despite strong expense control the Group cost: income ratio, net of claims worsened to 66% compared with 61% in H1 2011. The Core cost:income ratio, net of claims, worsened to 61%, compared with 57% in H1 2011, reflecting the weaker income trends. R&C cost:income ratio was 59% in H1, improving slightly from 60% in Q1 to 57% in Q2.

Risk

Group impairment losses totalled £2,649 million in H1 2012, with Q2 2012 in line with Q1 2012 at £1,335 million. R&C impairments were £241 million lower than H1 2011, with improvements particularly in UK Retail and US R&C. Core Ulster Bank impairments were in line with H1 2011 at £717 million, with Q2 2012 down 18% on Q1 2012. Non-Core impairments were down £1,390 million in H1 2012 at £1,096 million, principally reflecting the substantial provisioning of development land values in the Ulster Bank portfolio during the first half of 2011. Non-Core's Q2 2012 impairments were £118 million higher than Q1 2012, largely reflecting one significant provision within the project finance portfolio.

Core annualised impairments represented 0.7% of loans and advances to customers in Q2 2012 compared with 0.8% in Q1. Group risk elements in lending totalled £41.1 billion at 30 June 2012, down from £42.4 billion at 31 December 2011, with provision coverage increasing from 49% to 51%. Ulster Bank provision coverage was 53% in Core and 57% in Non-Core.

Balance sheet

RBS made strong progress on the task of strengthening and derisking its balance sheet during the first half. Non-Core third party assets, which had been reduced by £11 billion in Q1, fell by a further £11 billion in Q2 to £72 billion at 30 June 2012, principally driven by the disposal of RBS Aviation Capital and run-off. In light of this strong progress the Group has lowered its year-end target for Non-Core assets to £60-65 billion.

Markets funded assets have been reduced by £60 billion over the 12 months to 30 June 2012, with a further £18 billion reduction in International Banking assets.

From its highest reported point in 2008 the Group has reduced its funded assets £298 billion (24%).

Highlights (continued)

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First half 2012 results summary (continued)

Liquidity and funding

The Group maintained its trajectory towards a more stable, deposit-led balance sheet with the Group loan:deposit ratio improving further to 104% at 30 June 2012, compared with 114% a year earlier. Customer deposits grew by £3 billion during Q2 2012 and at 30 June 2012 were up £7 billion from a year earlier. No material impact was experienced from the credit rating downgrade during Q2 2012, on either the Group's credit spreads or its ability to attract customer deposits.

Reflecting the Group's strategy of sharply reducing its dependence on short-term wholesale funding, this funding fell to £62 billion at 30 June 2012, down £40 billion since the end of 2011. Short-term wholesale funding was covered 2.5 times by the Group's liquidity buffer, which was maintained at £156 billion.

Capital

The Group's Core Tier 1 ratio remained strong at 11.1%, and the leverage ratio was 15.6x. Although regulatory changes continued to increase risk-weightings on a number of portfolios, the Group reduced risk-weighted assets in Markets and successfully restructured a large derivative position in Non-Core, resulting in a substantial decrease in exposure to a highly leveraged counterparty. The capital relief afforded by the Asset Protection Scheme fell from 85 basis points in Q1 2012 to 77 basis points in Q2 2012 and continues to diminish. It remains the Group's intention to exit the Scheme in H2 2012, subject to the approval of the Financial Services Authority. The Group has already expensed £2.5 billion for the APS, which equals the minimum fee payable.

Disposals

Preparations for the planned IPO of Direct Line Group in the latter part of 2012 remain on track. The company is prepared for separation and, from 1 July, is operating on a substantially standalone basis with its own corporate functions and HR platform. Residual IT services will be provided by the Group under a Transitional Services Agreement. Direct Line Group returned £800 million to the Group during H1 2012 as part of optimising its capital structure.

We continue to work with Santander on the sale of the RBS England & Wales and NatWest Scotland branch-based businesses along with certain SME and corporate activities. The complexity of the transaction and the focus on causing minimum disruption to our customers is likely to lead to an extension of the process well into 2013.

The sale of RBS Aviation Capital to Sumitomo Mitsui Banking Corporation, acting on behalf of a consortium comprising its parent, Sumitomo Mitsui Financial Group, and Sumitomo Corporation, was completed on 1 June 2012. The disposal realised a net gain of £197 million and removed £5 billion of funded assets from the Non-Core balance sheet.

Highlights (continued)

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First half 2012 results summary (continued)

Technology issues

In late June, a number of our customers were impacted by a technology incident affecting our transaction batch processing.

The immediate software issue was promptly identified and rectified. Despite this, significant manual intervention in a highly automated and complex batch processing environment was required. This resulted in a significant backlog of daily data and information processing. The consequential technology problems and backlog took time to resolve. However, at no point was any customer data lost or destroyed. Regrettably, in Ulster Bank, our customers experienced extended problems with their accounts, which have now been largely rectified.

Throughout the incident, we took action to help customers experiencing difficulty. We opened our branches for longer, doubled the number of staff in our UK-based call centres and gave staff greater authority to provide on-the-spot help. Thereafter, we focused on honouring our commitment that we would put impacted Group and non-Group customers back to the position they would have been in had the incident not occurred.

A full and detailed investigation is under way into the causes of the problem, overseen by independent experts and reporting to the Group Board Risk Committee. It will consider both the Group's own operations and the role of third parties in the context of the incident. It will establish a full account of what happened, an assessment of how the Group responded and a thorough review of the root cause.

A charge of £125 million has been accrued in Q2 2012 in relation to the costs of this incident, principally covering redress to the Group's customers. Additional costs may arise once all redress and business disruption items are clear and a further update will be given in Q3.

Highlights (continued)

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First half 2012 results summary (continued)

Core UK franchise

The health of RBS's core UK retail and commercial banking franchises is directly dependent on the health and success of its customers. Over the first half of 2012 the Group has maintained its support for these customers, with UK Retail increasing net lending to homeowners by £2.0 billion, or 2%, while UK Corporate increased loans to the manufacturing industry by 4%.

Gross mortgage lending in H1 2012 totalled £7.7 billion, with net new lending of over £3 billion in the same period. Gross new lending to first time buyers was up 26% from H1 2011.

Gross new lending to UK non-financial businesses totalled £41.5 billion, of which £19.2 billion was to SME customers. This included £28.3 billion of new loans and facilities (of which £15.2 billion was to SMEs) as well as £13.2 billion of overdraft renewals (including £4.0 billion to SMEs). Customer confidence has weakened in the face of economic newsflow, with many companies scaling back their investment plans, given concerns about the prospects for demand, and this is reflected in weak SME application volumes, down 18% on H1 2011. As a result, Q2 gross lending volumes were lower, with some impact from the technology incident as relationship managers prioritised the provision of operational support for affected customers. Overall, utilisation of overdraft facilities remained below 50% as it has for over two years.

It is into this challenging environment that the Bank of England recently launched the new Funding for Lending Scheme (FLS), aimed at increasing lending to the real economy. The Group welcomes this new initiative and has taken immediate steps to ensure that the FLS delivers real benefits for customers. UK Retail has introduced a new set of mortgage rates and products, offering low fixed rates to first time buyers and buyers of newly built homes as well as a strong offering for buy-to-let purchasers. In UK Corporate, the scheme will be used to cut interest rates on £2.5 billion of SME loans by an average of 1 percentage point, with larger reductions for the smallest businesses. The division will also remove arrangement fees on £2.5 billion of new SME loans. For larger businesses, the FLS benefits will be targeted at specific client segments where there are good opportunities to increase support to customers.

The Group also played an active role in the UK Government's National Loan Guarantee Scheme (NLGS), launched in March, and by 30 June had provided over 8,000 loans and asset finance facilities, totalling £470 million. RBS was the only bank to make NLGS loans available for the full range of loans down to as little as £1,000, and approximately two-thirds of the facilities provided have been for amounts under £25,000, demonstrating the Group's commitment to supporting as wide a range of customers as possible.



Highlights (continued)

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First half 2012 results summary (continued)

Core UK franchise (continued)

We continue to conduct extensive research with our customers to ensure that we are well equipped to meet their needs. Customers' principal expectations are that we will make their banking straightforward and simple, enabling them to interact with us in a way and at a time that suits them. When their needs are more complex, our customers want fast access to business expertise. They want to be confident that the person they talk to understands their business well. Key initiatives to ensure that we can meet these expectations include:

The launch of Business Connect, an enhanced telephony service that now supports 210,000 customers, with 75% of customers very satisfied with the service received;

Continuing efforts to ensure our relationship managers are fully equipped to serve their customers, through an accreditation programme in partnership with the Chartered Banker Institute; and

The "Working with you" programme, in which managers, of all levels, including senior executives, spend at least two days a year working in customers' businesses. This has proved popular both with our managers and with our customers, and has substantially improved our ability to understand customers' needs.

Outlook

The economic and regulatory challenges we face are unlikely to abate over the remainder of the year. We will continue to focus on maintaining a strong balance sheet and capital position.

We expect our Retail and Commercial businesses to continue to perform satisfactorily albeit Ulster Bank impairments are expected to remain elevated. Net interest margin is expected to be slightly up compared with the first half of 2012.

Markets' revenues remain sensitive to client activity levels and broader market volatility.

Non-Core continues to make good progress operating within our loss expectations, with third party assets projected to fall to between £60 billion and £65 billion by the year end.

We will make an announcement regarding exit from the Asset Protection Scheme once formal regulatory clearance has been secured.

The divestment of Direct Line Group is on track and, subject to market conditions, the IPO is planned for October 2012.

## Analysis of results

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Net interest income					
Net interest income	5,970	6,528	2,971	2,999	3,227
Average interest-earning assets	626,395	658,887	612,132	640,658	660,548
Net interest margin					
- Group	1.92%	2.00%	1.95%	1.88%	1.96%
- Retail & Commercial (1)	2.93%	3.02%	2.94%	2.91%	2.99%
- Non-Core	0.28%	0.77%	0.24%	0.31%	0.83%

## Note:

- (1) Retail & Commercial (R&C) comprises the UK Retail, UK Corporate, Wealth, International Banking, Ulster Bank and US Retail & Commercial divisions.

## Key points

## H1 2012 compared with H1 2011

- Group net interest income decreased by £558 million, 9%, driven by a 5% fall in Retail & Commercial and a 73% fall in Non-Core.
- Retail & Commercial net interest income fell £286 million, reflecting the impact of lower long-term interest rate hedges and the impact of a competitive savings market on UK Retail. International Banking net interest income was also lower, as loans and advances to customers reduced by £15 billion. The decrease in Non-Core reflects continued run-down.
- Group net interest margin (NIM) declined by 8 basis points, largely reflecting the cost of precautionary liquidity and funding strategies adopted in the latter part of 2011.

## Q2 2012 compared with Q1 2012

- Group NIM increased by 7 basis points, benefiting from lower liquidity and funding costs as average short-term wholesale funding fell and low-yielding portfolios were managed down across the Group.
- Group net interest income fell by 1%, driven by a £24 million decrease in Retail & Commercial, largely reflecting the roll-off of low yielding portfolios in International Banking.

## Q2 2012 compared with Q2 2011

- Group NIM fell 1 basis point, reflecting increased funding and liquidity costs and pressure on liability margins.

## Analysis of results (continued)

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Non-interest income					
Fees and commissions receivable	2,937	3,342	1,450	1,487	1,700
Fees and commissions payable	(604)	(583)	(314)	(290)	(323)
Net fees and commissions	2,333	2,759	1,136	1,197	1,377
Income from trading activities					
- managed basis	2,195	2,789	931	1,264	1,219
- Asset protection scheme	(45)	(637)	(2)	(43)	(168)
- own credit adjustments*	(1,280)	(170)	(271)	(1,009)	96
- RFS Holdings minority interest	(1)	-	(1)	-	-
	869	1,982	657	212	1,147
Gain on redemption of own debt	577	255	-	577	255
Other operating (loss)/income (excluding insurance net premium income)					
- managed basis	1,194	1,573	469	725	863
- strategic disposals **	152	27	160	(8)	50
- own credit adjustments*	(1,694)	(66)	(247)	(1,447)	228
- integration and restructuring costs	-	(3)	-	-	1
- RFS Holdings minority interest	(5)	2	12	(17)	-
	(353)	1,533	394	(747)	1,142
Insurance net premium income	1,867	2,239	929	938	1,090
Total non-interest income	5,293	8,768	3,116	2,177	5,011
* Own credit adjustments impact:					
Income from trading activities	(1,280)	(170)	(271)	(1,009)	96
Other operating income	(1,694)	(66)	(247)	(1,447)	228
Own credit adjustments	(2,974)	(236)	(518)	(2,456)	324
**Strategic disposals					
Gain/(loss) on sale and provision for loss on disposal of investments in:					
- RBS Aviation Capital	197	-	197	-	-
- Global Merchant Services	-	47	-	-	-
- Other	(45)	(20)	(37)	(8)	50
	152	27	160	(8)	50



Analysis of results (continued)

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Key points

H1 2012 compared with H1 2011

- Non-interest income fell by £3,475 million, or 40%, driven by a £2,974 million charge in relation to own credit adjustments, given the significant tightening in the Group's credit spreads. This compares with a smaller charge of £236 million in H1 2011. H1 2012 also included a decrease of £807 million in Non-Core, which reflects significant gains recorded in H1 2011, and lower Markets non-interest income, down £470 million (15%). The Markets' fall reflects sluggish market conditions relative to a year ago, as investor confidence has waned.
- Retail & Commercial non-interest income of £2,924 million compares with £3,150 million in H1 2011. In UK Retail, lower card transaction volumes and changing customer behaviours drove a 20% decline. International Banking non-interest income fell as a result of lower revenue share from Markets as client activity levels were down.
- H1 2012 includes £577 million gain on the redemption of own debt completed during the first quarter.
- A net gain on strategic disposals of £152 million in H1 2012 largely reflects the sale of RBS Aviation Capital in June 2012.
- Insurance net premium income decreased by 17% to £1,867 million driven by a decrease in volumes written by Direct Line Group during 2011, reflecting a planned decrease in the Motor book, the exit of certain business lines and the run-off of legacy policies.

Q2 2012 compared with Q1 2012

- Group non-interest income increased by 43%, primarily reflecting an own credit adjustment charge of £518 million compared with a charge of £2,456 million in Q1 2012 partially offset by lower Markets revenues following a seasonal uplift in the first quarter.
- Non-Core recorded a £39 million loss on disposals in Q2 2012, compared with gains of £182 million in Q1 2012.
- Retail & Commercial non-interest income increased by £80 million, or 6%, largely driven by a gain of £47 million on the sale of Visa B shares in US Retail & Commercial.

Q2 2012 compared with Q2 2011

- Non-interest income decreased by £1,895 million, or 38%, principally driven by Non-Core as significant gains on restructured assets in Q2 2011 were not repeated and reflecting an own credit adjustment charge of £518 million compared to a gain of £324 million in Q2 2011.

## Analysis of results (continued)

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
	£m	£m	£m	£m	£m
Operating expenses and net insurance claims					
Staff costs	4,713	4,609	2,143	2,570	2,210
Premises and equipment	1,107	1,173	544	563	602
Other administrative expenses					
- managed basis	1,755	1,699	936	819	834
- Payment Protection Insurance costs	260	850	135	125	850
- other	157	124	85	72	68
	2,172	2,673	1,156	1,016	1,752
Depreciation and amortisation	902	877	434	468	453
Operating expenses	8,894	9,332	4,277	4,617	5,017
Insurance net claims	1,225	1,705	576	649	793
Staff costs as a % of total income	42%	30%	35%	50%	27%

## Key points

## H1 2012 compared with H1 2011

- Group operating expenses decreased by 5%, largely driven by the on-going run-down of the Non-Core division and lower revenue-linked staff expenses in Markets and Payment Protection Insurance costs of £260 million compared to £850 million in H1 2011, bringing the cumulative charge to £1.3billion
- Retail & Commercial expenses were broadly flat as benefits from the Group cost reduction programme were largely offset by a litigation settlement of £88 million (\$138 million) in US Retail & Commercial in Q1.
- Insurance net claims of £1,225 million were £480 million lower than H1 2011 as Direct Line Group loss ratios improved, reflecting reduced exposure, tight underwriting discipline and reserve releases from prior years. Legacy business run-off also contributed to the reduction.
- Integration and restructuring costs totalled £673 million, driven by the restructure of Markets and International Banking, Group property exits and expenditure incurred in preparation for the divestment of Direct Line Group and the sale of branches to Santander.

## Q2 2012 compared with Q1 2012

- Group operating expenses fell by 7%, with staff expenses down £427 million, largely driven by a seasonal fall in Markets revenues. This was partially offset by a 14% increase in other expenses, which includes a £125 million provision for customer redress relating to the technology incident in June 2012.
- Retail & Commercial expenses declined 5%, principally reflecting the litigation settlement of £88 million (\$138 million) in Q1 in US Retail & Commercial, and reductions in International Banking as a result of a planned

reduction in headcount following the Q1 2012 restructuring.

- Insurance net claims decreased by £73 million largely reflecting prior year reserve releases.

Analysis of results (continued)

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Q2 2012 compared with Q2 2011

- Group operating expenses were down 15% compared with Q2 2011, as Non-Core run-down and lower expenses in Markets, largely driven by headcount reductions, and a provision of £135 million in respect of Payment Protection Insurance costs compared with £850 million in Q2 2011, were offset by the £125 million provision relating to the Q2 2012 technology incident.
- Retail & Commercial expenses decreased by 3% as a result of savings achieved as part of the Group cost reduction programme.
- Insurance net claims fell by 27% reflecting legacy business run-off and reduced exposures, particularly in Motor. Tightened claims management also supported prior year reserve releases.



## Analysis of results (continued)

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	March 2012	30 June 2011
	£m	£m	£m	£m	£m
Impairment losses					
Loan impairment losses	2,730	4,135	1,435	1,295	2,237
Securities					
- managed basis	(81)	76	(100)	19	27
- Sovereign debt impairment (1)	-	733	-	-	733
- interest rate hedge on impaired available-for-sale sovereign debt	- (81)	109 918	- (100)	- 19	109 869
Group impairment losses	2,649	5,053	1,335	1,314	3,106
Loan impairment losses					
- individually assessed	1,690	3,119	945	745	1,834
- collectively assessed	1,129	1,311	534	595	591
- latent	(113)	(295)	(56)	(57)	(188)
Customer loans	2,706	4,135	1,423	1,283	2,237
Bank loans	24	-	12	12	-
Loan impairment losses	2,730	4,135	1,435	1,295	2,237
Core	1,515	1,662	719	796	810
Non-Core	1,215	2,473	716	499	1,427
Group	2,730	4,135	1,435	1,295	2,237
Customer loan impairment charge as a % of gross loans and advances (2)					
Group	1.1%	1.6%	1.2%	1.1%	1.8%
Core	0.7%	0.8%	0.7%	0.8%	0.8%
Non-Core	3.6%	5.2%	4.2%	2.7%	6.0%

## Notes:

- (1) In the second quarter of 2011, the Group recorded an impairment loss of £733 million in respect of its AFS portfolio of Greek government debt as a result of Greece's continuing fiscal difficulties. In Q1 2012, as part of Private Sector Involvement in the Greek government bail-out, the vast majority of this portfolio was exchanged for Greek sovereign debt and European Financial Stability Facility

notes; the Greek sovereign debt received in the exchange was sold.

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

Analysis of results (continued)

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Key points

H1 2012 compared with H1 2011

- Group loan impairment losses fell 34% to £2,730 million, compared with £4,135 million in H1 2011, driven by a significant reduction in Non-Core and improvements in Retail & Commercial.
- Non-Core loan impairment losses were 51% lower, reflecting the substantial provisioning of development land values in the Ulster Bank portfolio during H1 2011.
- Retail & Commercial loan impairment losses decreased by £206 million, 12%, driven by an overall improvement in asset quality reflecting risk appetite tightening in UK Retail and an improved credit environment for US Retail & Commercial.
- Total Ulster Bank (Core and Non-Core) loan impairments were £1,166 million, compared with £2,540 million in H1 2011, driven by the fall in Non-Core. Core Ulster Bank impairments decreased by 2%.
- The Group customer loan impairment charge as a percentage of loans and advances fell to 1.1% compared with 1.6% for H1 2011. For Core, the comparable percentages were 0.7% and 0.8%.

Q2 2012 compared with Q1 2012

- Group loan impairment losses increased 11%, driven by Non-Core, where loan impairments rose by £217 million, largely reflecting one large provision in the Project Finance portfolio.
- Retail & Commercial showed continuing improvement in credit trends, with loan impairment losses down 10%. This largely reflected a decrease in Ulster Bank, where significant provisions were recorded in Q1 2012 in respect of retail mortgages. UK Retail impairments also declined, with lower default volumes in both mortgages and unsecured lending reflecting risk appetite tightening.
- Core and Non-Core Ulster Bank loan impairments totalled £512 million, a decrease of £142 million. Credit conditions remained difficult leading to a deterioration in asset quality. However, the level of deterioration of mortgages in default and the rate of decline in house prices slowed during the quarter.

Q2 2012 compared with Q2 2011

- Group loan impairment losses decreased by 36%, driven by a decline in Non-Core impairments, due to the non repeat of the Q2 2011 development land provisions in Ulster Bank.
- Retail & Commercial loan impairment losses were down £147 million, or 17%. Excluding Ulster Bank, R&C loan impairment losses declined by £201 million

reflecting broad strengthening in credit metrics.

## Analysis of results (continued)

	30 June 2012	31 March 2012	December 2011
Capital resources and ratios			31
Core Tier 1 capital	£48bn	£47bn	£46bn
Tier 1 capital	£58bn	£57bn	£57bn
Total capital	£63bn	£61bn	£61bn
Risk-weighted assets			
- gross	£488bn	£496bn	£508bn
- benefit of Asset Protection Scheme	(£53bn)	(£62bn)	(£69bn)
Risk-weighted assets	£435bn	£434bn	£439bn
Core Tier 1 ratio (1)	11.1%	10.8%	10.6%
Tier 1 ratio	13.4%	13.2%	13.0%
Total capital ratio	14.6%	14.0%	13.8%

## Note:

- (1) The benefit of APS in the Core Tier 1 ratio was 77 basis points at 30 June 2012 (31 March 2012 - 85 basis points; 31 December 2011 - 90 basis points).

## 30 June 2012 compared with 31 March 2012

- The Group's Core Tier 1 ratio improved to 11.1%. Core Tier 1 capital increased by £1.4 billion. This reflected the issue of new shares and the sale of surplus shares held by the Group's Employee Benefit Trust to fund deferred employee incentive awards, £0.5 billion, together with lower regulatory deductions, including APS, of £0.9 billion.
- The impact of the Asset Protection Scheme (APS) on the Core Tier 1 ratio continued to decline, from 85 basis points at 31 March 2012 to 77 basis points at 30 June 2012.
- Gross risk-weighted assets (RWAs) fell by £8 billion, reflecting a significant reduction in market risk coupled with Non-Core run-off and disposals.

## 30 June 2012 compared with 31 December 2011

- The Core Tier 1 ratio increased by 50 basis points compared with 31 December 2011, driven by attributable profits (net of movements in fair value of own debt), issuance of new shares, lower regulatory capital deductions, and a 4% reduction in gross risk-weighted assets.
- Gross risk-weighted assets fell by £20 billion, excluding the effect of the APS. Post APS, RWAs decreased by £4 billion.

## Analysis of results (continued)

	30 June 2012	31 March 2012	December 2011
Balance sheet			31
Funded balance sheet (1)	£929bn	£950bn	£977bn
Total assets	£1,415bn	£1,403bn	£1,507bn
Loans and advances to customers (2)	£455bn	£460bn	£474bn
Customer deposits (3)	£435bn	£432bn	£437bn
Loan:deposit ratio - Core (4)	92%	93%	94%
Loan:deposit ratio - Group (4)	104%	106%	108%
Short-term wholesale funding	£62bn	£80bn	£102bn
Wholesale funding	£213bn	£234bn	£258bn
Liquidity portfolio	£156bn	£153bn	£155bn

## Notes:

- (1) Funded balance sheet represents total assets less derivatives.
- (2) Excluding reverse repurchase agreements and stock borrowing, and including disposal groups.
- (3) Excluding repurchase agreements and stock lending, and including disposal groups.
- (4) Net of provisions, including disposal groups and excluding repurchase agreements. Excluding disposal groups, the loan:deposit ratios of Core and Group at 30 June 2012 were 92% and 105% respectively (31 March 2012 - 93% and 107% respectively; 31 December 2011 - 94% and 110% respectively).

## 30 June 2012 compared with 31 March 2012

- Group funded assets fell by £21 billion during Q2 2012 to £929 billion. Non-Core further reduced third party assets by £11 billion, including the disposal of RBS Aviation Capital.
- The Group loan:deposit ratio improved to 104% compared with 106% at 31 March 2012, as customer deposits increased by £3 billion through successful deposit-gathering initiatives. A credit rating downgrade during Q2 2012 had negligible impact.
- Short-term wholesale funding decreased by £18 billion in Q2 2012 to £62 billion, while a significant liquidity portfolio of £156 billion was maintained, a coverage ratio of 2.5 times.

## 30 June 2012 compared with 31 December 2011

- Funded assets decreased by £48 billion to £929 billion, reflecting the Group's programme of deleveraging and reducing capital intensive assets. Non-Core funded assets fell by £22 billion primarily reflecting disposals and run-off, and Markets reduced its assets by £11 billion.
- Loans and advances to customers were £19 billion lower, reflecting net customer repayments in International Banking, weak customer credit demand and Non-Core run-down and disposals.
- The Group loan:deposit ratio improved to 104% compared with 108% at 31 December 2011. The Core loan:deposit ratio improved to 92%.

Further analysis of the Group's liquidity and funding position is included on pages 139 to 150.



## Divisional performance

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

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Operating profit/(loss) by division					
UK Retail	914	1,053	437	477	535
UK Corporate	1,004	1,089	512	492	472
Wealth	109	130	64	45	60
International Banking	264	375	167	97	149
Ulster Bank	(555)	(543)	(245)	(310)	(178)
US Retail & Commercial	331	237	229	102	143
Retail & Commercial	2,067	2,341	1,164	903	1,181
Markets	1,075	1,356	251	824	327
Direct Line Group	219	206	135	84	139
Central items	(176)	24	(32)	(144)	56
Core	3,185	3,927	1,518	1,667	1,703
Non-Core	(1,351)	(1,961)	(868)	(483)	(870)
Managed basis	1,834	1,966	650	1,184	833
Reconciling items:					
Own credit adjustments	(2,974)	(236)	(518)	(2,456)	324
Asset Protection Scheme	(45)	(637)	(2)	(43)	(168)
Payment Protection Insurance costs	(260)	(850)	(135)	(125)	(850)
Sovereign debt impairment	-	(733)	-	-	(733)
Interest rate hedge adjustments on impaired available-for-sale sovereign debt	-	(109)	-	-	(109)
Amortisation of purchased intangible assets	(99)	(100)	(51)	(48)	(56)
Integration and restructuring costs	(673)	(353)	(213)	(460)	(208)
Gain on redemption of debt	577	255	-	577	255
Strategic disposals	152	27	160	(8)	50
Bonus tax	-	(22)	-	-	(11)
RFS Holdings minority interest	(17)	(2)	8	(25)	(5)
Statutory basis	(1,505)	(794)	(101)	(1,404)	(1,326)
Impairment losses/(recoveries) by division					



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UK Retail	295	402	140	155	208
UK Corporate	357	327	181	176	220
Wealth	22	8	12	10	3
International Banking	62	98	27	35	104
Ulster Bank	717	730	323	394	269
US Retail & Commercial	47	176	28	19	65
Retail & Commercial	1,500	1,741	711	789	869
Markets	21	(14)	19	2	(14)
Central items	32	(2)	(2)	34	(2)
Core	1,553	1,725	728	825	853
Non-Core	1,096	2,486	607	489	1,411
Managed basis	2,649	4,211	1,335	1,314	2,264
Reconciling items:					
Sovereign debt impairment	-	733	-	-	733
Interest rate hedge adjustments on impaired available-for-sale sovereign debt	-	109	-	-	109
Statutory basis	2,649	5,053	1,335	1,314	3,106

## Divisional performance (continued)

	Half year ended		Quarter ended		
	30 June	30 June	30 June	31 March	30 June
	2012	2011	2012	2012	2011
	%	%	%	%	%
Net interest margin by division					
UK Retail	3.59	4.06	3.57	3.61	4.04
UK Corporate	3.13	3.11	3.17	3.09	3.03
Wealth	3.68	3.29	3.69	3.67	3.33
International Banking	1.62	1.78	1.65	1.60	1.73
Ulster Bank	1.85	1.82	1.82	1.87	1.80
US Retail & Commercial	3.04	3.06	3.02	3.06	3.12
Retail & Commercial	2.93	3.02	2.94	2.91	2.99
Non-Core	0.28	0.77	0.24	0.31	0.83
Group net interest margin	1.92	2.00	1.95	1.88	1.96

	31		
	30 June	31 March	December
	2012	2012	2011
	£bn	£bn	£bn
Total funded assets by division			
UK Retail	116.9	116.3	114.5
UK Corporate	113.7	113.1	114.1
Wealth	21.2	21.3	21.6
International Banking	61.4	63.7	69.9
Ulster Bank	33.1	33.4	34.6
US Retail & Commercial	74.3	72.9	74.9
Markets	302.4	300.6	313.9
Other	132.9	144.2	139.2
Core	855.9	865.5	882.7
Non-Core	72.1	83.3	93.7
	928.0	948.8	976.4
RFS Holdings minority interest	0.8	0.9	0.8
Total	928.8	949.7	977.2



## Divisional performance (continued)

	30 June 2012 £bn	31 March 2012 £bn	Change	31 December 2011 £bn	Change
Risk-weighted assets by division					
UK Retail	47.4	48.2	(2%)	48.4	(2%)
UK Corporate	79.4	76.9	3%	79.3	-
Wealth	12.3	12.9	(5%)	12.9	(5%)
International Banking	46.0	41.8	10%	43.2	6%
Ulster Bank	37.4	38.4	(3%)	36.3	3%
US Retail & Commercial	58.5	58.6	-	59.3	(1%)
Retail & Commercial	281.0	276.8	2%	279.4	1%
Markets	107.9	115.6	(7%)	120.3	(10%)
Other	12.7	11.0	15%	12.0	6%
Core	401.6	403.4	-	411.7	(2%)
Non-Core	82.7	89.9	(8%)	93.3	(11%)
Group before benefit of Asset Protection Scheme	484.3	493.3	(2%)	505.0	(4%)
Benefit of Asset Protection Scheme	(52.9)	(62.2)	(15%)	(69.1)	(23%)
Group before RFS Holdings minority interest	431.4	431.1	-	435.9	(1%)
RFS Holdings minority interest	3.3	3.2	3%	3.1	6%
Group	434.7	434.3	-	439.0	(1%)

	30 June 2012	31 March 2012	31 December 2011
Employee numbers by division (full time equivalents in continuing operations rounded to the nearest hundred)			
UK Retail	27,500	27,600	27,700
UK Corporate	13,100	13,400	13,600
Wealth	5,600	5,700	5,700
International Banking	4,800	5,400	5,400
Ulster Bank	4,500	4,500	4,200
US Retail & Commercial	14,500	14,700	15,400
Retail & Commercial	70,000	71,300	72,000
Markets	12,500	13,200	13,900

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Direct Line Group	15,100	15,100	14,900
Group Centre	6,900	6,600	6,200
Core	104,500	106,200	107,000
Non-Core	3,800	4,300	4,700
	108,300	110,500	111,700
Business Services	33,500	33,600	34,000
Integration and restructuring	1,000	1,000	1,100
Group	142,800	145,100	146,800

## UK Retail

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
<b>Income statement</b>					
Net interest income	1,989	2,184	988	1,001	1,098
Net fees and commissions	451	565	214	237	295
Other non-interest income	57	72	28	29	38
Non-interest income	508	637	242	266	333
Total income	2,497	2,821	1,230	1,267	1,431
<b>Direct expenses</b>					
- staff	(417)	(433)	(210)	(207)	(218)
- other	(189)	(219)	(110)	(79)	(106)
Indirect expenses	(682)	(714)	(333)	(349)	(364)
	(1,288)	(1,366)	(653)	(635)	(688)
Profit before impairment losses	1,209	1,455	577	632	743
Impairment losses	(295)	(402)	(140)	(155)	(208)
Operating profit	914	1,053	437	477	535
<b>Analysis of income by product</b>					
Personal advances	458	553	222	236	278
Personal deposits	353	511	168	185	257
Mortgages	1,159	1,124	596	563	581
Cards	431	481	212	219	243
Other	96	152	32	64	72
Total income	2,497	2,821	1,230	1,267	1,431
<b>Analysis of impairments by sector</b>					
Mortgages	58	116	24	34	55
Personal	166	201	84	82	106
Cards	71	85	32	39	47
Total impairment losses	295	402	140	155	208

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Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector

Mortgages	0.1%	0.2%	0.1%	0.1%	0.2%
Personal	3.6%	3.7%	3.7%	3.5%	3.9%
Cards	2.5%	3.0%	2.3%	2.8%	3.4%
Total	0.5%	0.7%	0.5%	0.6%	0.8%

## UK Retail (continued)

## Key metrics

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Performance ratios					
Return on equity (1)	23.3%	25.1%	22.5%	24.0%	25.8%
Net interest margin	3.59%	4.06%	3.57%	3.61%	4.04%
Cost:income ratio	52%	48%	53%	50%	48%

	30 June	31 March	Change	31	Change
	2012	2012		December	
	£bn	£bn		2011	
Capital and balance sheet					
Loans and advances to customers (gross) (2)					
- mortgages	98.1	97.5	1%	95.0	3%
- personal	9.2	9.4	(2%)	10.1	(9%)
- cards	5.7	5.6	2%	5.7	-
	113.0	112.5	-	110.8	2%
Customer deposits (2)	106.5	104.2	2%	101.9	5%
Assets under management (excluding deposits)	5.8	5.8	-	5.5	5%
Risk elements in lending (2)	4.6	4.6	-	4.6	-
Loan:deposit ratio (excluding repos)	104%	105%	(100bp)	106%	(200bp)
Risk-weighted assets	47.4	48.2	(2%)	48.4	(2%)

## Notes:

- (1) Divisional return on equity is based on divisional operating profit after tax divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions).
- (2) Includes disposal groups: loans and advances to customers £7.5 billion (31 March 2012 and 31 December 2011 - £7.3 billion), risk elements in lending £0.5 billion (31 March 2012 and 31 December 2011 - £0.5 billion) and customer deposits £8.6 billion (31 March 2012 - £8.7 billion; 31 December 2011 - £8.8 billion).

## Key points

UK Retail had a subdued H1 2012, with operating profit falling 13%, although the division continued to lend more despite the tough economic conditions reducing demand for unsecured lending. The division had a successful ISA season and has achieved balance growth well in excess of the market, although deposit margins remained under pressure.



UK Retail's aspiration to become the UK's most helpful bank suffered a setback in June, following the technology problems that affected a number of the Group's payment systems. The division's priority has been to take all steps possible to help customers experiencing difficulty by opening branches for longer, doubling staff numbers in UK-based call centres and giving greater authority to local staff to provide on-the-spot help.

In early July, the Bank of England announced the Funding for Lending Scheme (FLS) designed to boost lending to the real economy. UK Retail will use this scheme to cut costs for first time buyers, introducing a new set of mortgages with lower rates.

UK Retail (continued)

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Key points (continued)

H1 2012 compared with H1 2011

- Net interest income was 9% lower with net interest margin falling 47 basis points to 3.59%. This was driven by the decline in liability margins due to the continued impact of low rates on long term interest rate hedges and the competitive savings market.
- Total customer lending grew by £3 billion, or 2%, with mortgage balances increasing 4% while unsecured balances fell 9%. Deposit balances grew 11%, with both savings and current account deposits up 11%.
- Costs decreased by 6% from H1 2011 with the majority of savings coming from direct cost initiatives.
- Impairment losses fell 27% in H1 2012, as overall asset quality improved reflecting risk appetite tightening and lower unsecured balances.

Q2 2012 compared with Q1 2012

- Operating profit decreased by 8%, with increased costs and falling income, partially offset by a 10% reduction in impairments.
- The division further reduced the loan to deposit ratio to 104%.
  - Customer deposits grew 2%, driven by increases of 2% in both savings and current account balances following successful savings campaigns in the quarter.
  - Mortgage balances increased by 1% in the quarter. Unsecured lending continued to be managed carefully, contracting by 1% as a result of the strategic decision to improve the Group's risk profile combined with customer deleveraging.
- Income growth has been challenging in the current economic environment, as total income fell by 3%.
  - Net interest margin declined 4 basis points largely due to the impact of lower rates on long term interest rate hedges. In addition, competition in the deposit market continued to drive down overall liability margins.
  - Changes in consumer behaviour has reduced fee income and driven down unsecured interest-bearing balances, putting pressure on net interest income.
- Costs increased, primarily due to the timing of regulatory expenses.
- Impairment losses decreased 10%, reflecting the continued impact of tightening risk appetite. Impairments are expected to remain broadly stable subject to normal seasonal fluctuations and the economic environment.
  - Mortgage impairment losses decreased in the quarter due to further improvement in default volumes and a stable collection outlook.

The unsecured portfolio charge fell 4%, with slightly lower default volumes and continued good collections performance. Industry benchmarks for cards arrears remain stable, with RBS continuing to perform better than the market.

Risk-weighted assets decreased 2%, with volume growth in lower risk secured mortgages offset by a decrease in the unsecured portfolio, and a small improvement in credit quality across both the secured and unsecured portfolios.

UK Retail (continued)

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Key points (continued)

Q2 2012 compared with Q2 2011

- Operating profit fell by £98 million with income down 14%, costs down 5% and impairments down 33%.
- Net interest income was £110 million lower than Q2 2011, with the unsecured book being managed down and continued pressure on liability margins, partly offset by strong mortgage growth.
- Costs were 5% lower than in Q2 2011 due to continued implementation of process efficiencies and headcount reductions.
- The continued effect of risk appetite tightening and muted demand for unsecured lending contributed to lower default volumes, with impairment losses decreasing by 33%.

## UK Corporate

	Half year ended		Quarter ended		
	30 June	30 June	30 June	31 March	30 June
	2012	2011	2012	2012	2011
	£m	£m	£m	£m	£m
<b>Income statement</b>					
Net interest income	1,528	1,581	772	756	770
Net fees and commissions	682	681	346	336	336
Other non-interest income	202	218	93	109	112
Non-interest income	884	899	439	445	448
Total income	2,412	2,480	1,211	1,201	1,218
<b>Direct expenses</b>					
- staff	(477)	(470)	(232)	(245)	(235)
- other	(174)	(189)	(89)	(85)	(85)
Indirect expenses	(400)	(405)	(197)	(203)	(206)
	(1,051)	(1,064)	(518)	(533)	(526)
Profit before impairment losses	1,361	1,416	693	668	692
Impairment losses	(357)	(327)	(181)	(176)	(220)
Operating profit	1,004	1,089	512	492	472
<b>Analysis of income by business</b>					
Corporate and commercial lending	1,351	1,379	664	687	657
Asset and invoice finance	333	315	171	162	164
Corporate deposits	340	348	174	166	174
Other	388	438	202	186	223
Total income	2,412	2,480	1,211	1,201	1,218
<b>Analysis of impairments by sector</b>					
Financial institutions	4	16	2	2	13
Hotels and restaurants	23	21	8	15	13
Housebuilding and construction	104	47	79	25	15
Manufacturing	19	12	19	-	6
Other	31	94	(9)	40	91
Private sector education, health, social work, recreational and	43	12	21	22	1

community services					
Property	64	69	34	30	51
Wholesale and retail trade, repairs	49	32	16	33	16
Asset and invoice finance	20	24	11	9	14
Total impairment losses	357	327	181	176	220

## UK Corporate (continued)

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Financial institutions	0.1%	0.5%	0.1%	0.1%	0.9%
Hotels and restaurants	0.8%	0.6%	0.5%	1.0%	0.8%
Housebuilding and construction	5.9%	2.2%	9.0%	2.7%	1.4%
Manufacturing	0.8%	0.5%	1.6%	-	0.5%
Other	0.2%	0.6%	(0.1%)	0.5%	1.1%
Private sector education, health, social work, recreational and community services	1.0%	0.3%	0.9%	1.0%	-
Property	0.5%	0.5%	0.5%	0.4%	0.7%
Wholesale and retail trade, repairs	1.1%	0.7%	0.7%	1.5%	0.7%
Asset and invoice finance	0.4%	0.5%	0.4%	0.3%	0.6%
Total	0.6%	0.6%	0.7%	0.6%	0.8%

Key metrics	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Performance ratios					
Return on equity (1)	16.5%	16.9%	16.8%	16.2%	14.6%
Net interest margin	3.13%	3.11%	3.17%	3.09%	3.03%
Cost:income ratio	44%	43%	43%	44%	43%

	30 June 2012	31 March 2012	Change	31 December 2011	Change
	£bn	£bn		£bn	
Capital and balance sheet					
Total third party assets	113.7	113.2	-	114.2	-
Loans and advances to customers (gross) (2)					
- financial institutions	6.1	6.2	(2%)	5.8	5%
- hotels and restaurants	6.1	6.0	2%	6.1	-
- housebuilding and construction	3.5	3.7	(5%)	3.9	(10%)
- manufacturing	4.9	4.7	4%	4.7	4%

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- other	34.1	34.4	(1%)	34.2	-
- private sector education, health, social work, recreational and community services	8.9	8.6	3%	8.7	2%
- property	26.9	26.7	1%	28.2	(5%)
- wholesale and retail trade, repairs	8.9	9.1	(2%)	8.7	2%
- asset and invoice finance	10.7	10.3	4%	10.4	3%
	110.1	109.7	-	110.7	(1%)
Customer deposits (2)	127.5	124.3	3%	126.3	1%
Risk elements in lending (2)	4.9	4.9	-	5.0	(2%)
Loan:deposit ratio (excluding repos)	85%	87%	(200bp)	86%	(100bp)
Risk-weighted assets	79.4	76.9	3%	79.3	-

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) Includes disposal groups: loans and advances to customers £11.9 billion (31 March 2012 - £12.0 billion; 31 December 2011 - £12.2 billion), risk elements in lending £0.9 billion (31 March 2012 and 31 December 2011 - £1.0 billion) and customer deposits £13.1 billion (31 March 2012 - £12.7 billion; 31 December 2011- £13.0 billion).



UK Corporate (continued)

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Key points

In a challenging environment, UK Corporate delivered a resilient performance in the first half, with a stronger operating profit in Q2 than Q1. Customer confidence has weakened in the face of economic newsflow, with many companies scaling back their investment plans, given concerns about the prospects for demand. This was reflected in weak SME application volumes.

UK Corporate has, nevertheless, continued to support its customers, playing an active role in supporting government initiatives, including over 8,000 new loans and asset finance facilities under the Government's National Loan Guarantee Scheme. The Group has also welcomed the new FLS, and will use the scheme to cut interest rates on £2.5 billion of SME loans by an average of 1% and to remove arrangement fees on the same amount of new SME loans.

H1 2012 saw the launch of an enhanced telephony offering aimed at Business Banking customers: Business Connect. This service now supports 210,000 customers and has already processed over 28,000 calls with 75% of customers very satisfied with the service received. UK Corporate also rolled out an FX campaign, which uses expertise from Corporate & Institutional Banking, Transaction Services UK and Corporate Banking Risk Services to help customers trade internationally.

UK Corporate responded swiftly and decisively to minimise the impact on its customers from the recent Group technology incident. Corporate service centre hours were immediately extended, and business banking customers had access to additional support during extended branch opening hours, while relationship managers were empowered to take critical decisions to action customer payments and drawdowns.

H1 2012 compared with H1 2011

- Operating profit decreased 8% to £1,004 million, driven by higher net funding costs and lower non-interest income, partly offset by reduced costs.
- Net interest income decreased by 3%, predominantly driven by higher net funding costs. While lending income benefited from asset margin increases, this was offset by increased competition on deposit margins.
- Non-interest income decreased 2%, reflecting fee accelerations from refinancing and asset disposal gains in H1 2011, partially offset by a higher revenue share of Markets income.
- Total costs decreased 1% due to cost efficiencies achieved in discretionary spending categories.
- Impairments were 9% higher, primarily driven by the significant release of latent provisions in H1 2011, partially offset by lower individual and collectively assessed provisions.

UK Corporate (continued)

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Key points (continued)

Q2 2012 compared with Q1 2012

- Operating profit increased by 4% to £512 million, driven by higher income and lower costs.
- Net interest income rose by 2% and net interest margin increased 8 basis points largely driven by lower net costs of funding. Strong customer deposit growth supported an improvement in the loan to deposit ratio to 85%.
- Non-interest income decreased 1% as a result of lower Markets revenue share income and valuation movements, partially offset by growth in operating lease activity.
- Total costs decreased 3%, due to the phasing of staff incentive costs and lower Markets revenue related costs, partly offset by operating lease costs.
- Impairments of £181 million were £5 million higher, exhibiting a similar profile to Q1 2012.

Q2 2012 compared with Q2 2011

- Operating profit increased by £40 million, or 8%, predominantly driven by lower impairments.
- Net interest income was broadly flat while net interest margin increased 14 basis points, benefiting from a revision to deferred income recognition assumptions, partially offset by deposit margin pressure and increased net funding costs.
- Non-interest income decreased by £9 million. Higher revenue share of Markets income in Q2 2012 was offset by the non-recurrence of asset disposal gains recorded in Q2 2011 and lower operating lease activity.
- Impairments decreased £39 million, with lower individual provisions slightly offset by reduced latent provision releases.

## Wealth

	Half year ended		Quarter ended		
	30 June	30 June	30 June	31 March	30 June
	2012	2011	2012	2012	2011
	£m	£m	£m	£m	£m
Income statement					
Net interest income	357	325	178	179	168
Net fees and commissions	183	191	90	93	94
Other non-interest income	53	38	35	18	21
Non-interest income	236	229	125	111	115
Total income	593	554	303	290	283
Direct expenses					
- staff	(233)	(211)	(116)	(117)	(111)
- other	(116)	(95)	(56)	(60)	(51)
Indirect expenses	(113)	(110)	(55)	(58)	(58)
	(462)	(416)	(227)	(235)	(220)
Profit before impairment losses	131	138	76	55	63
Impairment losses	(22)	(8)	(12)	(10)	(3)
Operating profit	109	130	64	45	60
Analysis of income					
Private banking	489	452	252	237	231
Investments	104	102	51	53	52
Total income	593	554	303	290	283

## Key metrics

	Half year ended		Quarter ended		
	30 June	30 June	30 June	31 March	30 June
	2012	2011	2012	2012	2011
Performance ratios					
Return on equity (1)	11.6%	13.9%	13.8%	9.5%	12.8%
Net interest margin	3.68%	3.29%	3.69%	3.67%	3.33%
Cost:income ratio	78%	75%	75%	81%	78%

30 June 2012    31 March 2012    31 December

	£bn	£bn	Change	2011 £bn	Change
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	8.6	8.4	2%	8.3	4%
- personal	5.6	6.8	(18%)	6.9	(19%)
- other	2.8	1.7	65%	1.7	65%
	17.0	16.9	1%	16.9	1%
Customer deposits	38.5	38.3	1%	38.2	1%
Assets under management (excluding deposits)	30.6	31.4	(3%)	30.9	(1%)
Risk elements in lending	0.2	0.2	-	0.2	-
Loan:deposit ratio (excluding repos)	44%	44%	-	44%	-
Risk-weighted assets	12.3	12.9	(5%)	12.9	(5%)

## Note:

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

Wealth (continued)

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Key points

H1 2012 delivered a strong income performance, driven by improved interest margins, more than offset by higher expenses and increased impairments. Continued volatile markets led to subdued client transactions, resulting in reduced brokerage and foreign exchange income.

The period saw further progress in the implementation of the refreshed Coutts divisional strategy across all jurisdictions. Coutts completed the sale of the Latin American, Caribbean and African business to RBC Wealth Management. The business, with client assets of around £1.5 billion, represented approximately 2% of Coutts' total client assets. The decision to sell the business was consistent with the new Coutts strategy of simplifying the business and sharpening the focus on key regions and countries, specifically the UK, Switzerland, the Middle East, Russia, the Commonwealth of Independent States and selected countries in Asia.

The UK rollout of the Coutts global technology platform was completed in Q1 2012. The platform, and related strategic investment, will transform the division's ability to serve clients globally, enabling the business to operate as an international organisation on a unified and common information technology platform.

The division continued to prepare for the implementation of the Retail Distribution Review (RDR) regulations in the UK. Revised Private Banker and Wealth Manager roles were announced aimed at ensuring clients continue to receive the best service and advice based on their specific needs.

H1 2012 compared with H1 2011

- Operating profit declined 16% with a strong income performance more than offset by higher expenses and increased impairments.
- Income increased 7% reflecting an improvement in lending and deposit margins and strong divisional treasury performance, together with the gain from the disposal of the Latin American, Caribbean and African business.
- Expenses increased by 11% reflecting continued strategic investment in the business, a client redress expense following a past business review into the sale of the ALICO Enhanced Variable Rate Fund announced in November 2011 and the Financial Services Authority (FSA) fine incurred during Q1 2012.
- Impairments were £22 million, up £14 million from the low level recorded in the prior period.
- Client assets and liabilities managed by the division declined 3%. Lending volumes remained stable and deposit volumes grew 3%, predominantly through the UK. Assets under management declined 11% with adverse market movements of £2.1 billion, and client outflows of £1.9 billion, predominantly in the latter half of 2011.
- Return on equity declined by 230 basis points to 11.6%, as operating profit declined.



Wealth (continued)

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Key points (continued)

Q2 2012 compared with Q1 2012

- Operating profit increased 42% to £64 million in the second quarter, including the gain from the sale of the Latin American, Caribbean and African business and the phasing of incentive accruals.
- Income growth of 4% included a 13% increase in non-interest income, reflecting the disposal gain. Excluding the disposal gain, income declined 1%, with lower investment income linked to a decline in assets under management.
- Expenses which include client redress expense following a past business review into the sale of the ALICO Enhanced Variable Rate Fund announced in November 2011 decreased by 3% as a result of lower incentive accruals and the non-recurrence of the FSA fine in Q1 2012.
- Client assets and liabilities managed by the division declined 1%. Lending volumes were broadly stable and deposit volumes increased by 1%. Assets under management declined 3% due to adverse market movements which accounted for £0.6 billion of the movement and net new business outflows of £0.2 billion, mainly in international markets.

Q2 2012 compared with Q2 2011

- Operating profit rose 7% with strong growth in income including the disposal gain, partially offset by client redress costs and higher impairments.
- Income increased 7% as a result of the disposal gain and strong growth in net interest income. Net interest income grew as a result of a 14 basis points improvement in lending margins and strong growth in divisional treasury income. Deposit income also increased with sustained growth in volumes and improved margins. Excluding the impact of the business disposal, non-interest income declined 4% with continued volatile markets subduing client transactions, leading to reduced brokerage and foreign exchange income.
- Expenses increased by 3% due to the impact of the client redress. Excluding this, expenses decreased 5%, assisted by favourable exchange rate movements and management of discretionary costs.
- Impairments were £12 million, up £9 million from the low level recorded in the prior period.

## International Banking

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Income statement					
Net interest income from banking activities	494	604	234	260	301
Funding costs of rental assets	(9)	(21)	-	(9)	(11)
Net interest income	485	583	234	251	290
Non-interest income	618	729	327	291	375
Total income	1,103	1,312	561	542	665
Direct expenses					
- staff	(340)	(376)	(153)	(187)	(181)
- other	(95)	(118)	(47)	(48)	(57)
Indirect expenses	(342)	(345)	(167)	(175)	(174)
	(777)	(839)	(367)	(410)	(412)
Profit before impairment losses	326	473	194	132	253
Impairment losses	(62)	(98)	(27)	(35)	(104)
Operating profit	264	375	167	97	149
Of which:					
Ongoing businesses	281	395	168	113	160
Run-off businesses	(17)	(20)	(1)	(16)	(11)
Analysis of income by product					
Cash management	514	458	246	268	242
Trade finance	145	131	73	72	69
Loan portfolio	430	693	233	197	340
Ongoing businesses	1,089	1,282	552	537	651
Run-off businesses	14	30	9	5	14
Total income	1,103	1,312	561	542	665
Analysis of impairments by sector					
Manufacturing and infrastructure	19	132	2	17	100
Property and construction	7	6	7	-	-
Transport and storage	(4)	9	-	(4)	-
	9	-	-	9	-



Telecommunications, media and technology					
Banks and financial institutions	31	1	19	12	2
Other	-	(50)	(1)	1	2
Total impairment losses	62	98	27	35	104
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements)	0.2%	0.3%	0.2%	0.3%	0.6%

## International Banking (continued)

## Key metrics

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Performance ratios (ongoing businesses)					
Return on equity (1)	9.0%	11.5%	10.5%	7.5%	9.6%
Net interest margin	1.62%	1.78%	1.65%	1.60%	1.73%
Cost:income ratio	69%	62%	65%	72%	59%

	30 June	31 March	Change	31	Change
	2012	2012		December	
	£bn	£bn		2011	
Capital and balance sheet					
Loans and advances to customers	49.5	52.3	(5%)	56.9	(13%)
Loans and advances to banks	5.1	3.9	31%	3.4	50%
Securities	2.4	4.0	(40%)	6.0	(60%)
Cash and eligible bills	0.7	0.3	133%	0.3	133%
Other	3.7	3.2	16%	3.3	(12%)
Total third party assets (excluding derivatives mark-to-market)	61.4	63.7	(4%)	69.9	(12%)
Customer deposits (excluding repos)	42.2	45.0	(6%)	45.1	(6%)
Bank deposits	7.7	10.5	(27%)	11.4	(32%)
Risk elements in lending	0.7	0.9	(22%)	1.6	(56%)
Loan:deposit ratio (excluding repos and conduits)	102%	95%	700bp	103%	(100bp)
Risk-weighted assets	46.0	41.8	10%	43.2	6%

## Note:

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

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
	£m	£m	£m	£m	£m
Run-off businesses (1)					
Total income	14	30	9	5	14
Direct expenses	(31)	(50)	(10)	(21)	(25)

Operating loss	(17)	(20)	(1)	(16)	(11)
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Note:

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

Key points

H1 results for International Banking were affected by the division's restructuring, with a substantial reduction in exposures improving capital efficiency but with a consequential impact on income. Debt capital markets were sluggish during the period affecting loan portfolio revenues, but trade finance activity has shown significant growth, particularly in Asia. In Europe, the European Central Bank (ECB) lending and deposit rate cuts in Q2 underlined growing fragility across the region. Clients remain cautious following continued economic uncertainty.

The International Banking structure and governance were fully bedded down by the end of Q2 2012. Management is focused on leveraging the International network and the Transaction Services offering to ensure relevance and intimacy with the division's client base.

International Banking (continued)

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Key points (continued)

H1 2012 compared with H1 2011

- Operating profit decreased by £111 million as reduced income was only partially mitigated by lower expenses and impairments.
- Income was 16% lower mainly due to a reduction in third party assets coupled with higher funding costs:
  - The lending portfolio decreased by 38%, as exposures were reduced to improve capital efficiency and liquidity levels. Ancillary debt financing income also declined, as economic uncertainty in H1 2012 resulted in sluggish debt capital markets.
  - Cash management increased 12% due to a higher funding surplus and robust deposit retention activity.
  - Trade finance was up by 11% reflecting significant growth in activity, particularly in Asia.
- Expenses were down by £62 million as planned cost initiatives in the Markets & International Banking restructuring took effect.
- Impairments fell by £36 million due to a single name trade finance provision in H1 2011.
- Third party assets fell by 23% mainly due to loan portfolio reductions of £14 billion, reflecting capital management discipline, and a reduced collateral requirement for Japanese business activities.
- Customer deposits decreased 11% as market conditions and a competitive environment created headwinds in raising deposits.

Q2 2012 compared with Q1 2012

- Operating profit was up £70 million driven primarily by planned cost reduction initiatives across the business (£43 million), higher loan portfolio-linked income, and lower impairment charges. Return on equity was 10.5%.
- Income was up £19 million to £561 million despite continued macroeconomic uncertainty and the low interest rate environment.
  - Lending portfolio income was up 18%, benefiting from lower balance sheet funding costs, and positive valuation adjustments on credit hedging activity.
  - Cash management decreased 8% as increasingly difficult economic conditions led to suppressed deposit levels.

- Expenses declined by £43 million, largely reflecting the planned headcount reduction following the formation of the International Banking division, and tight management of technology and support infrastructure costs.
- Impairments in Q2 2012 included a charge of £18 million relating to a single name portfolio exposure.
- Third party assets declined 4%, reflecting a reduction in loan portfolio and in the collateral required for Japanese business activities. This was partially offset by growth in trade finance as the business sought to increase market share and grow capital efficient lending.
- Customer deposits fell by 6% as deposit gathering remained challenging due to continued macroeconomic uncertainty and a competitive environment.

International Banking (continued)

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Key points (continued)

Q2 2012 compared with Q2 2011

- Operating profit was up £18 million with lower expenses and impairments partially offset by lower income driven by planned balance sheet reduction across the loan portfolio.
- Income decreased by 16%:
  - Loan portfolio income fell by £107 million, reflecting a reduction in assets in order to improve capital efficiency and liquidity levels, and lower ancillary revenues associated with debt financing following subdued market activity in Q2 2012.
  - Cash management was up £4 million, despite weak European activity and lower global payments, as a result of a higher funding surplus arising from lower liquidity buffer requirements.
  - Trade finance increased by 6% following continued business initiatives to increase penetration in chosen markets, primarily in Asia.
- Expenses fell by £45 million, largely reflecting planned headcount reduction and increased focus on the management of discretionary costs.
- Impairments were £77 million lower due to a single name trade finance provision in Q2 2011.

## Ulster Bank

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
<b>Income statement</b>					
Net interest income	325	363	160	165	182
Net fees and commissions	73	73	35	38	37
Other non-interest income	22	29	11	11	14
Non-interest income	95	102	46	49	51
Total income	420	465	206	214	233
<b>Direct expenses</b>					
- staff	(104)	(113)	(52)	(52)	(57)
- other	(23)	(35)	(11)	(12)	(17)
Indirect expenses	(131)	(130)	(65)	(66)	(68)
	(258)	(278)	(128)	(130)	(142)
Profit before impairment losses	162	187	78	84	91
Impairment losses	(717)	(730)	(323)	(394)	(269)
Operating loss	(555)	(543)	(245)	(310)	(178)
<b>Analysis of income by business</b>					
Corporate	190	230	88	102	117
Retail	174	211	86	88	98
Other	56	24	32	24	18
Total income	420	465	206	214	233
<b>Analysis of impairments by sector</b>					
Mortgages	356	311	141	215	78
Corporate					
- property	115	163	61	54	66
- other corporate	217	223	103	114	103
Other lending	29	33	18	11	22
Total impairment losses	717	730	323	394	269

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Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Mortgages	3.7%	2.9%	2.9%	4.3%	1.4%
Corporate					
- property	4.8%	6.2%	5.1%	4.4%	5.0%
- other corporate	5.7%	5.1%	5.4%	5.8%	4.7%
Other lending	4.1%	4.1%	5.1%	3.4%	5.5%
Total	4.3%	3.9%	3.9%	4.6%	2.9%



## Ulster Bank (continued)

## Key metrics

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Performance ratios					
Return on equity (1)	(22.8%)	(26.5%)	(19.8%)	(25.8%)	(16.9%)
Net interest margin	1.85%	1.82%	1.82%	1.87%	1.80%
Cost:income ratio	61%	60%	62%	61%	61%

	30 June	31 March	Change	31	Change
	2012	2012		December	
	£bn	£bn		2011	
Capital and balance sheet					
Loans and advances to customers (gross)					
- mortgages	19.2	19.8	(3%)	20.0	(4%)
- corporate					
- property	4.8	4.9	(2%)	4.8	-
- other corporate	7.6	7.9	(4%)	7.7	(1%)
- other lending	1.4	1.3	8%	1.6	(13%)
	33.0	33.9	(3%)	34.1	(3%)
Customer deposits	20.6	21.0	(2%)	21.8	(6%)
Risk elements in lending					
- mortgages	2.6	2.5	4%	2.2	18%
- corporate					
- property	1.4	1.3	8%	1.3	8%
- other corporate	2.0	1.9	5%	1.8	11%
- other lending	0.2	0.2	-	0.2	-
Total risk elements in lending	6.2	5.9	5%	5.5	13%
Loan:deposit ratio (excluding repos)	144%	147%	(300bp)	143%	100bp
Risk-weighted assets	37.4	38.4	(3%)	36.3	3%
Spot exchange rate - €/£	1.238	1.200		1.196	

## Note:

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

## Key points

Trading conditions remained difficult, as Irish economic indicators continue to be weak. The high cost of funding has an adverse impact on income, while impairment levels are still elevated, asset prices weakening over the period and residential mortgage arrears continue to rise, albeit with less deterioration in credit metrics in Q2 than in Q1 2012. Cost management remained a central priority.

The recent RBS Group technology incident, affecting a number of the Group's payments systems, has had an extended impact on Ulster Bank customers. During the period of disruption Ulster Bank's main priority was to help customers experiencing difficulty. Branches remained open for longer and the number of staff in call centres was trebled. Provision for costs arising from this incident are included in central items (see page 60).

Ulster Bank (continued)

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Key points (continued)

H1 2012 compared with H1 2011

- The operating loss of £555 million was marginally higher than H1 2011, with lower income only partly offset by lower expenses and impairment losses.
- Income decreased by 10% due to a combination of reducing assets and higher funding costs. Net interest margin increased by 3 basis points with the benefit of loan re-pricing initiatives largely offsetting the higher cost of funds.
- Expenses decreased by 7% reflecting the benefits of cost saving initiatives, particularly relating to discretionary spend.
- Impairment losses reduced marginally by 2%, however credit conditions in Ireland remain challenging with asset prices deteriorating over the period and residential mortgage arrears rising.
- Loans and advances to customers declined by 12% reflecting further amortisation and the continuing weak demand for credit.
- Customer deposit balances declined by 15% due to outflows of wholesale balances over the period with Retail and SME balances remaining stable despite the competitive market, particularly in the Republic of Ireland.

Q2 2012 compared with Q1 2012

- The operating loss of £245 million decreased by £65 million primarily driven by a reduction in mortgage impairment losses.
- Net interest income reduced marginally due to the continuing high cost of deposits. Net interest margin decreased by 5 basis points, principally due to higher liquid assets during the period.
- Non-interest income fell by £3 million in the quarter largely due to lower volumes of derivative product sales during the period following the technology incident.
- Expenses fell by £2 million over the period as cost management initiatives continued to be implemented.
- Impairment losses decreased by £71 million reflecting a reduction in mortgage losses due to a reduced level of deterioration in credit metrics during the quarter.
- Customer deposit balances remained flat despite significant market volatility and the impact of a credit rating downgrade. Loans and advances to customers fell 3% during the quarter.
- Risk-weighted assets remained flat on a constant currency basis.

Q2 2012 compared with Q2 2011

- The operating loss increased by £67 million as higher impairment losses and lower income were only partly offset by a reduction in expenses.
- Income decreased by 12% due to lower earning asset volumes and higher funding costs. Net interest margin remained broadly flat.
- Expenses decreased by 10% due to active management of the cost base with a focus on reducing discretionary expenditure.
- Impairment losses increased by £54 million, largely reflecting affordability issues and the continued deterioration in asset quality as property prices declined further over the period.

## US Retail &amp; Commercial (£ Sterling)

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
<b>Income statement</b>					
Net interest income	988	922	492	496	470
Net fees and commissions	390	419	195	195	217
Other non-interest income	193	135	128	65	62
Non-interest income	583	554	323	260	279
Total income	1,571	1,476	815	756	749
<b>Direct expenses</b>					
- staff	(440)	(412)	(217)	(223)	(211)
- other	(260)	(264)	(144)	(116)	(138)
- litigation settlement	(88)	-	-	(88)	-
Indirect expenses	(405)	(387)	(197)	(208)	(192)
	(1,193)	(1,063)	(558)	(635)	(541)
Profit before impairment losses	378	413	257	121	208
Impairment losses	(47)	(176)	(28)	(19)	(65)
Operating profit	331	237	229	102	143
Average exchange rate - US\$/£	1.577	1.616	1.582	1.571	1.631
<b>Analysis of income by product</b>					
Mortgages and home equity	268	216	134	134	107
Personal lending and cards	201	225	102	99	113
Retail deposits	444	452	224	220	234
Commercial lending	311	286	151	160	148
Commercial deposits	227	201	113	114	102
Other	120	96	91	29	45
Total income	1,571	1,476	815	756	749
<b>Analysis of impairments by sector</b>					
Residential mortgages	2	18	(4)	6	12
Home equity	42	51	20	22	12
Corporate and commercial	(22)	42	(6)	(16)	23

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Other consumer	20	28	17	3	8
Securities	5	37	1	4	10
Total impairment losses	47	176	28	19	65
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.1%	0.6%	(0.3%)	0.4%	0.8%
Home equity	0.6%	0.7%	0.6%	0.6%	0.3%
Corporate and commercial	(0.2%)	0.4%	(0.1%)	(0.3%)	0.4%
Other consumer	0.5%	0.9%	0.8%	0.2%	0.5%
Total	0.2%	0.6%	0.2%	0.1%	0.5%

## US Retail &amp; Commercial (£ Sterling) (continued)

## Key metrics

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Performance ratios					
Return on equity (1)	7.3%	5.7%	10.0%	4.5%	6.9%
Return on equity - excluding litigation settlement and net gain on the sale of Visa B shares (1)	8.4%	5.7%	8.3%	8.4%	6.9%
Net interest margin	3.04%	3.06%	3.02%	3.06%	3.12%
Cost:income ratio	76%	72%	69%	84%	72%
Cost:income ratio - excluding litigation settlement and net gain on the sale of Visa B shares	72%	72%	72%	72%	72%

	30 June 2012	31 March 2012	Change	31 December 2011	Change
	£bn	£bn		£bn	
Capital and balance sheet					
Total third party assets	75.1	73.7	2%	75.8	(1%)
Loans and advances to customers (gross)					
- residential mortgages	6.1	6.0	2%	6.1	-
- home equity	14.2	14.2	-	14.9	(5%)
- corporate and commercial	23.6	22.6	4%	22.9	3%
- other consumer	8.3	8.1	2%	7.7	8%
	52.2	50.9	3%	51.6	1%
Customer deposits (excluding repos)	59.2	58.7	1%	60.0	(1%)
Bank deposits (excluding repos)	5.0	4.3	16%	5.2	(4%)
Risk elements in lending					
- retail	0.6	0.6	-	0.6	-
- commercial	0.4	0.3	33%	0.4	-
Total risk elements in lending	1.0	0.9	11%	1.0	-
Loan:deposit ratio (excluding repos)	87%	86%	100bp	85%	200bp
Risk-weighted assets	58.5	58.6	-	59.3	(1%)
Spot exchange rate - US\$/£	1.569	1.599		1.548	

Note:

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

Key point

- Sterling strengthened relative to the US dollar during the first half of 2012, with the spot exchange rate increasing by 1.4% compared with 31 December 2011.



## US Retail &amp; Commercial (US Dollar)

	Half year ended		Quarter ended		
	30 June 2012 \$m	30 June 2011 \$m	30 June 2012 \$m	31 March 2012 \$m	30 June 2011 \$m
<b>Income statement</b>					
Net interest income	1,557	1,491	778	779	767
Net fees and commissions	616	678	309	307	354
Other non-interest income	304	216	202	102	100
Non-interest income	920	894	511	409	454
Total income	2,477	2,385	1,289	1,188	1,221
<b>Direct expenses</b>					
- staff	(694)	(665)	(344)	(350)	(343)
- other	(410)	(427)	(228)	(182)	(224)
- litigation settlement	(138)	-	-	(138)	-
Indirect expenses	(638)	(625)	(311)	(327)	(313)
	(1,880)	(1,717)	(883)	(997)	(880)
Profit before impairment losses	597	668	406	191	341
Impairment losses	(74)	(285)	(43)	(31)	(108)
Operating profit	523	383	363	160	233
<b>Analysis of income by product</b>					
Mortgages and home equity	422	350	211	211	175
Personal lending and cards	317	364	161	156	185
Retail deposits	701	730	355	346	381
Commercial lending	490	462	239	251	241
Commercial deposits	358	325	179	179	167
Other	189	154	144	45	72
Total income	2,477	2,385	1,289	1,188	1,221
<b>Analysis of impairments by sector</b>					
Residential mortgages	3	28	(6)	9	19
Home equity	65	82	30	35	19
Corporate and commercial	(34)	67	(9)	(25)	37
Other consumer	33	49	27	6	17
Securities	7	59	1	6	16

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Total impairment losses	74	285	43	31	108
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) by sector					
Residential mortgages	0.1%	0.6%	(0.3%)	0.4%	0.8%
Home equity	0.6%	0.7%	0.5%	0.6%	0.3%
Corporate and commercial	(0.2%)	0.4%	(0.1%)	(0.3%)	0.4%
Other consumer	0.5%	0.9%	0.8%	0.2%	0.7%
Total	0.2%	0.6%	0.2%	0.1%	0.5%

## US Retail &amp; Commercial (US Dollar) (continued)

## Key metrics

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Performance ratios					
Return on equity (1)	7.3%	5.7%	10.0%	4.5%	6.9%
Return on equity - excluding litigation settlement and net gain on the sale of Visa B shares (1)	8.4%	5.7%	8.3%	8.4%	6.9%
Net interest margin	3.04%	3.06%	3.02%	3.06%	3.12%
Cost:income ratio	76%	72%	69%	84%	72%
Cost:income ratio - excluding litigation settlement and net gain on the sale of Visa B shares	72%	72%	72%	72%	72%

	30 June 2012	31 March 2012	Change	31 December 2011	Change
	\$bn	\$bn		\$bn	
Capital and balance sheet					
Total third party assets	117.8	117.9	-	117.3	-
Loans and advances to customers (gross)					
- residential mortgages	9.6	9.5	1%	9.4	2%
- home equity	22.3	22.6	(1%)	23.1	(3%)
- corporate and commercial	37.0	36.2	2%	35.3	5%
- other consumer	13.1	13.2	(1%)	12.0	9%
	82.0	81.5	1%	79.8	3%
Customer deposits (excluding repos)	92.9	93.9	(1%)	92.8	-
Bank deposits (excluding repos)	7.8	6.9	13%	8.0	(3%)
Risk elements in lending					
- retail	1.0	0.9	11%	1.0	-
- commercial	0.6	0.6	-	0.6	-
Total risk elements in lending	1.6	1.5	7%	1.6	-
Loan:deposit ratio (excluding repos)	87%	86%	100bp	85%	200bp
Risk-weighted assets	91.7	93.7	(2%)	91.8	-

Note:

(1)

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

Key points

US Retail & Commercial performed strongly in H1 2012, with a significant improvement in operating profit, largely reflecting lower impairment losses. 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. However, the credit environment showed signs of improvement.

US Retail & Commercial has focused on its back-to-basics strategy; concentrating on core banking products and competing on service and product capabilities rather than price. This was supported by the four core Customer Commitments launched across the entire branch footprint last year. The division enhanced its mobile capabilities, launching an Android app along with an improved iPhone user experience, including a new person-to-person (P2P) payment application. Consumers also recognised Citizens Bank as within the top 10 US banks for corporate reputation in the 2012 American Banker survey, an increase of eight places from 2011.

US Retail & Commercial (US Dollar) (continued)

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Key points (continued)

In Q2 2012, Commercial Banking introduced its own four core Client Commitments, which were built around client feedback. Standard & Poor's recently recognised US Retail & Commercial's continued focus on strengthening and growing valued Commercial Banking client relationships as delivering results and providing differentiation from competitors based on the quality of ideas and solutions.

The reintegration of both Corporate Risk Solutions and Treasury Solutions into Commercial Banking has significantly strengthened the cross-sell of Treasury Solutions products as well as foreign exchange and derivatives hedging to the Commercial client base. Referrals increased by 25% for derivatives, 6% for foreign exchange services and 36% for cash management compared with the same period last year.

In Q2 2012, Citizens executed a referral partnership with Oppenheimer & Company to address the corporate finance needs of its Commercial Enterprise Banking and Middle Market clients. As a result, Commercial bankers are now able to offer their clients timely and relevant corporate finance solutions, including mergers & acquisitions, joint ventures, divestitures and common equity underwriting.

H1 2012 compared with H1 2011

- US Retail & Commercial posted an operating profit of £331 million (\$523 million), up £94 million (\$140 million), or 40%, from H1 2011. Excluding the £88 million (\$138 million) litigation settlement in Q1 2012 and the £39 million (\$62 million) net gain on the sale of Visa B shares in Q2 2012, operating profit was up £143 million (\$216 million), or 60%, largely reflecting lower impairment losses due to an improved credit environment.
- Net interest income was up £66 million (\$66 million), or 7%, driven by commercial loan growth, deposit pricing discipline and lower funding costs, partially offset by consumer loan run-off and lower asset yields.
- Non-interest income was up £29 million (\$26 million), or 5%, reflecting the £47 million (\$75 million) gain on Visa B shares and strong mortgage banking fees, significantly offset by lower security gains and a decline in debit card fees as a result of the Durbin Amendment legislation.
- Citizens completed the sale of Visa B shares in June 2012 resulting in a net gain of £39 million (\$62 million) consisting of a £47 million (\$75 million) gain on sale and a £8 million (\$13 million) litigation reserve associated with two outstanding lawsuits against Visa (and all Visa Class B owners).
- The Durbin Amendment in the Dodd-Frank Act became effective 1 October 2011 and lowers the allowable interchange on debit transactions by approximately 50% to \$0.23 - \$0.24 per transaction.
- Total expenses were up £130 million (\$163 million), or 12%, as Q1 2012 included a £88 million (\$138 million) litigation settlement in a class action lawsuit relating to how overdraft fees were assessed on customer accounts prior to 2010. Citizens was one of more than 30 banks included in these class action lawsuits.

- Excluding the litigation settlement and the £8 million (\$13 million) litigation reserve related to the sale of Visa B shares, total expenses were up £34 million (\$12 million), largely reflecting a change in accrual methodology related to the annual incentive plan during H1 2011. This was partially offset by lower loan collection costs and the elimination of the Everyday Points rewards programme for consumer debit card customers.

US Retail & Commercial (US Dollar) (continued)

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Key points (continued)

H1 2012 compared with H1 2011 (continued)

- Impairment losses declined by £129 million (\$211 million), reflecting an improved credit environment as well as lower impairments related to securities.
- Customer deposits were up 4% with strong growth achieved in checking balances. Consumer checking balances grew by 3% while small business checking balances grew by 8% over the year.

Q2 2012 compared with Q1 2012

- Operating profit of £229 million (\$363 million), compared with £102 million (\$160 million) in the prior quarter, an increase of £127 million (\$203 million). Excluding the Q1 2012 litigation settlement and the Q2 2012 net gain on the sale of Visa B shares, operating profit was broadly in line with Q1 2012.
- Net interest income was in line with the prior quarter. Asset growth offset a decrease in net interest margin of 4 basis points to 3.02% reflecting lower asset yields, partially offset by lower funding costs.
- Loans and advances were up £1.3 billion (\$0.5 billion), or 3%, due to strong growth in commercial loan volumes partially offset by continued run-off of consumer loan balances reflecting reduced credit demand and the unwillingness to hold long term fixed rate products.
- Non-interest income was up £63 million (\$102 million), or 24%, reflecting a £47 million (\$75 million) gain on the sale of Visa B shares and securities gains of £16 million (\$26 million).
- Excluding the £88 million (\$138 million) litigation settlement and the £8 million (\$13 million) litigation reserve associated with the sale of Visa B shares, total expenses were up £3 million (\$11 million), or 1%, largely reflecting a mortgage servicing rights impairment.
- Impairment losses were up £9 million (\$12 million), although the credit environment remains broadly stable.

Q2 2012 compared with Q2 2011

- Excluding the £39 million (\$62 million) net gain on the sale of Visa B shares in Q2 2012, operating profit increased to £190 million (\$301 million) from £143 million (\$233 million), an increase of £47 million (\$68 million), or 33%, substantially driven by lower impairment losses.
- Total expenses were broadly in line with Q2 2011. Excluding the £8 million (\$13 million) litigation reserve related to the sale of Visa B shares, total expenses

increased by £9 million. In US dollar terms expenses fell \$10 million primarily reflecting lower loan collection costs and the elimination of the Everyday Points rewards programme for consumer debit card customers.



## Markets

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Income statement					
Net interest income	48	56	32	16	3
Net fees and commissions receivable	100	274	23	77	119
Income from trading activities	2,304	2,516	925	1,379	893
Other operating income (net of related funding costs)	348	430	86	262	153
Non-interest income	2,752	3,220	1,034	1,718	1,165
Total income	2,800	3,276	1,066	1,734	1,168
Direct expenses					
- staff	(967)	(1,203)	(423)	(544)	(476)
- other	(351)	(354)	(185)	(166)	(188)
Indirect expenses	(386)	(377)	(188)	(198)	(191)
	(1,704)	(1,934)	(796)	(908)	(855)
Profit before impairment losses	1,096	1,342	270	826	313
Impairment (losses)/recoveries	(21)	14	(19)	(2)	14
Operating profit	1,075	1,356	251	824	327
Of which:					
Ongoing businesses	1,129	1,364	268	861	325
Run-off businesses	(54)	(8)	(17)	(37)	2
Analysis of income by product					
Rates	1,217	1,036	416	801	287
Currencies	421	508	175	246	267
Asset backed products (ABP)	805	984	378	427	367
Credit markets	497	638	184	313	208
Investor products and equity derivatives	214	399	91	123	183
Total income ongoing businesses	3,154	3,565	1,244	1,910	1,312
Inter-divisional revenue share	(360)	(412)	(174)	(186)	(204)
Run-off businesses	6	123	(4)	10	60

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Total income	2,800	3,276	1,066	1,734	1,168
Memo - Fixed income and currencies					
Rates/currencies/ABP/credit markets	2,940	3,166	1,153	1,787	1,129
Less: primary credit markets	(303)	(417)	(132)	(171)	(188)
Total fixed income and currencies	2,637	2,749	1,021	1,616	941

## Markets (continued)

## Key metrics

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Performance ratios (ongoing businesses)					
Return on equity (1)	14.0%	17.1%	6.8%	21.1%	8.2%
Cost:income ratio	59%	57%	73%	50%	72%
Compensation ratio (2)	33%	35%	38%	29%	39%

	30 June	31 March	Change	31	Change
	2012	2012		December	
	£bn	£bn		2011	
Capital and balance sheet (ongoing businesses)					
Loans and advances	53.7	50.5	6%	61.2	(12%)
Reverse repos	97.6	90.8	7%	100.4	(3%)
Securities	101.7	106.6	(5%)	108.1	(6%)
Cash and eligible bills	26.8	24.2	11%	28.1	(5%)
Other	22.2	27.7	(20%)	14.8	50%
Total third party assets (excluding derivatives mark-to-market)	302.0	299.8	1%	312.6	(3%)
Customer deposits (excluding repos)	34.3	34.6	(1%)	36.8	(7%)
Bank deposits (excluding repos)	50.7	46.2	10%	48.2	5%
Net derivative assets (after netting)	27.5	29.3	(6%)	37.0	(26%)
Risk-weighted assets	107.9	115.6	(7%)	120.3	(10%)

## Notes:

- (1) Divisional return on equity is based on divisional operating profit after tax, divided by average notional equity (based on 10% of the monthly average of divisional RWAs, adjusted for capital deductions), for the ongoing businesses.
- (2) Compensation ratio is based on staff costs as a percentage of total income.

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011

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Run-off businesses (1)	£m	£m	£m	£m	£m
Total income	6	123	(4)	10	60
Direct expenses	(60)	(131)	(13)	(47)	(58)
Operating loss	(54)	(8)	(17)	(37)	2

			31
		30 June	31 March
		2012	2012
			December
			2011
Run-off businesses (1)		£bn	£bn
Total third party assets (excluding derivatives mark-to-market)		0.4	0.8
			1.3

Note:

- (1) Run-off businesses consist of the exited cash equities, corporate broking and equity capital markets operations.

Markets (continued)

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Key points

In both H1 2011 and H1 2012, Markets benefited from an initial surge in investor confidence, with H1 2012 helped by the increased liquidity provided in Q1 2012 by the ECB's Long Term Refinancing Operation (LTRO). In both periods, however, confidence fell away quickly, with the decline in H1 2012 being precipitated by heightened instability in peripheral European financial markets.

Trading conditions during Q2 2012 have been challenging, driven by renewed uncertainty in the Eurozone and slowing Chinese growth. Investor confidence and appetite for risk have declined, causing client volumes to weaken. This mirrors the conditions seen at the end of 2011 but contrasts with Q1 2012.

The difficult environment reinforces Markets' decision to restructure, announced in January of this year. The sale of the cash equities business in the Asia Pacific region has been announced and the remainder of cash equities is being efficiently wound down. Within the ongoing businesses the new structure has been largely cascaded through the front office - the division's focus remains the provision of a seamless service to clients within the context of the strategy to reduce the balance sheet.

H1 2012 compared with H1 2011

- Operating profit of the ongoing businesses fell 17% as revenue generation weakened across a range of products.
  - Currencies suffered from historically low levels of client activity.
  - Asset backed products were less affected by the loss of confidence in markets, though the Q1 2012 recovery in demand was weaker than in Q1 2011, leading to an overall decrease in revenue in H1 2012 compared with H1 2011.
  - Credit and loan markets suffered from low origination activity as both issuers and investors lacked confidence and opportunity in difficult markets.
  - Investor products and equity derivatives fell 46%, as issuer and redemption volumes remained weak.
- Revenue in rates was 17% higher. However, the increase was partially driven by an improvement in counterparty exposure management, a c.£90 million gain in H1 2012 compared with a c.£40 million loss in H1 2011, despite high volatility in counterparty spreads and real rates.
- The overall decline in expenses was driven by a focus on cost discipline (including a reduction in headcount within the ongoing businesses), the wind-down of the run-off businesses and a lower level of variable compensation. The compensation ratio in the ongoing businesses declined to 33%, compared with 35% in H1 2011.

Q2 2012 compared with Q1 2012

- Markets' profitability was constrained by the difficult trading conditions during Q2 2012, despite a decrease in costs.
- Rates fell from a strong Q1 2012 as a heightened level of risk aversion limited trading opportunities. In the swaps market, underlying rates flattened and asset spreads widened.

- In currencies, client volume remained subdued. Earnings were affected by the uncertainty in the Eurozone and slowing Chinese growth, with the generally risk-averse market sentiment negatively affecting emerging markets in particular, as investors sought safe havens.

Markets (continued)

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Key points

Q2 2012 compared with Q1 2012 (continued)

- Asset backed products continued to perform strongly, benefiting from both strong client volumes and a robust trading performance, although markets were less buoyant than during Q1 2012. Asset prices remained firm, despite an increase in supply through a series of auctions by the New York Federal Reserve.
- The credit market recovery in Q1 2012 was short lived. Conditions began to deteriorate in March and this continued into Q2 2012, exacerbating the traditionally slow April and limiting recovery thereafter. Although the UK corporate debt capital market business maintained its market-leading position, opportunities for origination activity were limited. Flow credit trading remained robust, although weaker than a strong Q1 2012.
- Demand for investor products and equity derivatives remained weak. Client volumes remained well below 2011 levels amid unsettled equity markets, with UK volumes also affected by the impact of the Retail Distribution Review.
- Total expenses fell by 12%. Cost discipline remained a central focus for the division, with further reductions compared with Q1 2012 reflecting the wind-down of run-off businesses and a reduction in variable compensation, reflecting lower revenue. Other costs increased as a result of additional legal expenses in the quarter.
- Impairments in both Q1 2012 and Q2 2012 reflected a small number of individual provisions.
- Third party assets were flat and remain on track to meet previously disclosed targets.
- Risk-weighted assets fell, reflecting a continued focus on mitigation actions.
- Return on equity for the ongoing businesses was 6.8% compared with 21.1% in Q1 2012.

Q2 2012 compared with Q2 2011

- Operating profit of the ongoing businesses fell 18%, driven by lower revenue, partly offset by lower costs.

The increase in rates revenue reflected a positive contribution from counterparty exposure management, with a c.£70 million gain in Q2 2012 compared with a c.£30 million loss in Q2 2011, despite volatility in counterparty spreads and interest rates in the period.

Flow currencies revenues held up well despite lower client volumes, but the currency options business had poor trading results.

Investor products and equity derivatives fell sharply compared with the same period last year. Client activity declined significantly year on year.

- Cost reduction measures introduced during 2011 have driven down discretionary expenditure. Staff costs have been reduced through headcount reductions in the ongoing businesses and the wind-down of the run-off businesses. Other costs in Q2 2012 were higher due to additional legal expenses.
- A regulatory-led increase in risk-weighted assets in 2012 has been managed down through a range of mitigating actions, leading to a 10% reduction compared with 31 December 2011.



## Direct Line Group

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Income statement					
Earned premiums	2,032	2,121	1,012	1,020	1,056
Reinsurers' share	(165)	(114)	(83)	(82)	(60)
Net premium income	1,867	2,007	929	938	996
Fees and commissions	(222)	(156)	(113)	(109)	(81)
Instalment income	62	70	31	31	35
Investment income	163	133	73	90	69
Other income	30	62	14	16	27
Total income	1,900	2,116	934	966	1,046
Net claims	(1,225)	(1,488)	(576)	(649)	(704)
Direct expenses					
- staff expenses	(160)	(146)	(81)	(79)	(70)
- other expenses	(172)	(166)	(81)	(91)	(79)
Total direct expenses	(332)	(312)	(162)	(170)	(149)
Indirect expenses	(124)	(110)	(61)	(63)	(54)
	(456)	(422)	(223)	(233)	(203)
Net claims	(1,225)	(1,488)	(576)	(649)	(704)
Operating profit	219	206	135	84	139
Analysis of income by product					
Personal lines motor excluding broker					
- own brands	891	939	440	451	471
- partnerships	70	143	34	36	63
Personal lines home excluding broker					
- own brands	244	243	123	121	123
- partnerships	190	198	98	92	95
Personal lines rescue and other excluding broker					
- own brands	91	94	45	46	47
- partnerships	92	99	48	44	51
Commercial	175	173	84	91	86
International	175	168	88	87	87

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Other (1)	(28)	59	(26)	(2)	23
Total income	1,900	2,116	934	966	1,046

For the notes to this table refer to page 55.

## Direct Line Group (continued)

## Key metrics

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
In-force policies (000s)					
Personal lines motor excluding broker					
- own brands	3,816	3,931	3,816	3,827	3,931
- partnerships	319	474	319	322	474
Personal lines home excluding broker					
- own brands	1,795	1,844	1,795	1,812	1,844
- partnerships	2,509	2,524	2,509	2,520	2,524
Personal lines rescue and other excluding broker					
- own brands	1,798	1,932	1,798	1,803	1,932
- partnerships	7,895	7,577	7,895	7,493	7,577
Commercial	496	393	496	417	393
International	1,441	1,302	1,441	1,412	1,302
Other (1)	54	211	54	123	211
Total in-force policies (2)	20,123	20,188	20,123	19,729	20,188
Gross written premium (£m)					
Personal lines motor excluding broker					
- own brands	776	798	378	398	408
- partnerships	69	73	32	37	36
Personal lines home excluding broker					
- own brands	222	229	112	110	117
- partnerships	263	273	127	136	135
Personal lines rescue and other excluding broker					
- own brands	88	86	45	43	44
- partnerships	86	82	45	41	42
Commercial	230	232	123	107	120
International	306	303	133	173	134
Other (1)	2	(5)	1	1	(2)
Total gross written premium	2,042	2,071	996	1,046	1,034

For the notes to this table refer to page 55.



## Direct Line Group (continued)

## Key metrics (continued)

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Performance ratios					
Return on tangible equity (3)	10.1%	9.5%	13.4%	7.4%	12.9%
Loss ratio (4)	66%	74%	62%	69%	71%
Commission ratio (5)	12%	8%	12%	12%	8%
Expense ratio (6)	24%	21%	24%	25%	20%
Combined operating ratio (7)	102%	103%	98%	106%	99%
Balance sheet					
Total insurance reserves - (£m) (8)			8,184	8,132	7,557

## Notes:

- (1) 'Other' predominantly consists of the personal lines broker business and from Q1 2012 business previously reported in Non-Core.
- (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 tangible equity is based on annualised operating profit after tax divided by average tangible equity adjusted for dividend payments.
- (4) Loss ratio is based on net claims divided by net premium income.
- (5) Commission ratio is based on fees and commissions divided by net premium income.
- (6) Expense ratio is based on expenses divided by net premium income.
- (7) Combined operating ratio is the sum of the loss, commission and expense ratios.
- (8) Consists of general and life insurance liabilities, unearned premium reserve and liability adequacy reserve. Q1 2012 includes business previously reported in Non-Core.

## Key points

Direct Line Group continues to make good progress with improved loss ratios and stabilisation of in-force policies demonstrating that the transformation plan is effective.

Operating profit for H1 2012 of £219 million was 6% higher than H1 2011. Operating profit of £135 million for Q2 2012 was 61% higher than Q1 2012 but in line with Q2 2011. Q2 2012 included Home weather claims of approximately £40 million worse than expected for a summer quarter following the wettest April to June period since UK meteorological records began. This was more than offset by significant releases from reserves held against prior year claims across the portfolio. Reserve releases were in part attributable to benefits arising from Direct Line Group's claims transformation programme reflecting significant investment since 2010.

In 2012, Direct Line Group has made significant progress in developing its distribution capabilities. It has renewed or expanded partnership agreements that represent a substantial portion of its portfolio, especially in its home segment. The agreement with Sainsbury's to provide motor insurance to its customers is now in its second year and was recently extended to provide home insurance. Furthermore, Direct Line Group is in the process of agreeing terms with the UK Retail division for an arm's length, five year distribution agreement for the continued provision of general insurance products after the divestment.

Following launch on comparethemarket.com, Churchill and Privilege motor insurance products are now available on all four major price comparison websites in the UK. This move reinforces Direct Line Group's multi-channel distribution strategy.

Direct Line Group (continued)

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Key points (continued)

Execution of Direct Line Group's clear strategic plan continues with further developments in its pricing capability, embedding peril level technical pricing models for Home and developing price optimisation for Motor. Within claims management, and following rigorous pilot testing, a number of claims initiatives were implemented and the benefits are beginning to emerge. Claims inflation in small bodily injury claims has reduced and together with lower litigation rates has contributed to higher reserve releases from estimates for prior year claims.

In-force policies of 20.1 million were up 2% in the quarter and 4% since the start of the year. The main growth was in Rescue and other personal lines due to an increase in travel policies from packaged bank accounts. Within Motor, in-force policies were stable marking a stabilisation in the portfolio following a period of de-risking and business exits during the period 2009 to 2011. The Motor market remained competitive with prices broadly stable in H1 2012.

Commercial income was slightly higher than the equivalent period for 2011. In-force policies continued to increase due to growth in Direct Line for Business.

International consolidated its position during the first half of 2012, although reported gross written premium was adversely affected by foreign exchange rates. This followed a period of strong growth in 2010 and 2011. Operating profit in the quarter improved, partially as a result of releases in prior year claims reserves. International continues to benefit from its multi-channel distribution model including partnerships.

In line with its strategic business transformation plan, Direct Line Group has identified further initiatives to realise £100 million of gross annual cost and claims savings by the end of 2014<sup>(1)</sup>, with one-off restructuring costs, for all cost saving initiatives, expected to be c.£100 million. The initiatives include reducing administration costs in central functions and improving marketing efficiency.

Direct Line Group supports the current regulatory reviews and initiatives announced by the UK Government, the Ministry of Justice, the Office of Fair Trading and others in relation to the motor insurance industry. It is actively engaged with the major stakeholders, and supports the introduction of a coherent set of reforms.

Direct Line Group also made further progress in optimising its capital structure during the first six months of 2012. On 27 April 2012, £500 million of Tier 2 subordinated debt was raised following publication of inaugural credit ratings from both Standard and Poor's and Moody's Investor Services. In addition, a £500 million dividend was paid to RBS Group on 6 June 2012, a total of £800 million for H1 2012. At 30 June 2012, shareholders' equity was £2.9 billion, with tangible shareholders' equity of £2.6 billion.

Direct Line Group continues to be well capitalised, with an estimated Insurance Group's Directive (IGD) coverage ratio of 299%.

Investment markets remained challenging with continued low yields. Direct Line Group continues to manage its investment portfolios carefully, with portfolios composed primarily of cash, investment grade corporate bonds and gilts. At 30 June 2012, exposure to peripheral Eurozone debt was £51 million, less than 1% of the portfolio, comprising non-sovereign debt issued in Ireland, Italy and Spain. During the quarter Direct Line Group invested c.£400 million in US dollar corporate credit, hedged back to Sterling, through leading global third party asset managers.

(1)

Cost savings expected to be recognised in operating expenses and claims handling expenses.



Direct Line Group (continued)

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Key points (continued)

Separation update

From 1 July 2012, Direct Line Group is operating on a substantially standalone basis with independent corporate functions and governance following successful execution of a comprehensive programme of initiatives. During H1 2012, these included: launching a new corporate identity, confirming further senior management appointments, appointing a chairman, agreeing and issuing new terms and conditions for staff, implementing independent HR systems and making progress on an arm's length transitional services agreement with RBS Group for residual services.

Overall, Direct Line Group continues to deliver on the transformation required to fulfil its aim to be Britain's best retail general insurer.

H1 2012 compared with H1 2011

- Operating profit of £219 million was £13 million, 6% higher than H1 2011 despite the impact of Home weather claims of c.£50 million more than expected, versus benign conditions in H1 2011. The result reflected stable underlying business performance in a competitive market.
- Gross written premium of £2,042 million was broadly flat compared with H1 2011 in a competitive market.
- Total income decreased by £216 million, predominantly driven by lower earned premiums following planned volume reduction on Motor and the exit of the personal lines Broker business. H1 2012 included commissions payable relating to business previously reported within Non-Core. Other income decreased by £32 million due to the loss of Tesco Personal Finance tariff income and reduced supply chain income, linked to lower claims volumes.
- Net claims of £1,225 million were £263 million, 18%, lower than the same period last year driven by a combination of reduced exposure, exit of the personal line Broker business, tight underwriting discipline and prior year reserve releases partly attributable to the claims transformation programme. This was partly offset by adverse weather experienced in H1 2012.
- Direct expenses increased by £20 million, mainly driven by the phasing of marketing expenditure in Q1 2012, and increased head office expenses as Direct Line Group prepares for separation from RBS Group.
- Investment income was up £30 million, 23%, due to the inclusion of income from investments from business previously reported in Non-Core, together with investment gains arising from portfolio management initiatives, partially offset by lower yields and interest on the recent Tier 2 debt issued.
- Total in-force policies remained relatively stable despite a competitive market. The decline in Motor was mainly due to termination of previous partnership arrangements and the exit of unprofitable business, partially offset by the

commencement of the Sainsbury's partnership. The decline was largely offset by growth in International and Personal Lines Rescue and other.

Direct Line Group (continued)

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Key points (continued)

Q2 2012 compared with Q1 2012

- Operating profit of £135 million was £51 million, 61% higher, reflecting lower expenses, and the benefit of releases of reserves from prior years across most products. This was partially offset by lower investment income.
- Gross written premium of £996 million was £50 million, 5% lower primarily due to seasonality on the International book where a significant proportion of the business is written on 1 January each year.
- Total income of £934 million was £32 million, 3%, lower, primarily driven by reduced earned premium on International and higher commissions payable on business previously reported within Non-Core.
- Net claims fell by £73 million, 11%, to £576 million, largely reflecting reserve releases from prior years.
- Total direct expenses of £162 million were £8 million, 5%, lower, predominantly due to higher marketing expenditure in Q1 2012.
- Investment income of £73 million declined by £17 million, 19%, mainly as a result of lower yields combined with interest on the Tier 2 debt issued in April 2012.

Q2 2012 compared with Q2 2011

- Operating profit of £135 million was £4 million, 3%, lower compared with Q2 2011 as Q2 2012 included claims for adverse weather of £40 million more than expected.
- Gross written premium declined by £38 million, 4%, due to the impact of de-risking in Motor during 2011 and competitive market conditions.
- Total income decreased by £112 million, 11%, to £934 million, as a result of lower earned premiums following a managed reduction in volumes on Motor and run-off of personal lines Broker, together with higher commissions payable relating to business previously reported within Non-Core.
- Net claims fell £128 million, 18%, as a result of reduced exposure, particularly on Motor, together with prior year reserve releases. Home was affected by adverse weather experienced in the quarter compared with benign conditions experienced during Q2 2011.
- Total direct expenses increased by £13 million, 9%, as a result of increased head office expenses in preparation for separation from RBS Group.
- Investment income increased by £4 million, 6%, as a result of investment gains arising from portfolio management initiatives, including those relating to the

business previously reported in Non-Core. These gains were largely offset by lower investment yields in 2012 and interest associated with the Tier 2 debt issued in April 2012.

## Central items

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Central items not allocated	(176)	24	(32)	(144)	56

## Note:

(1) Costs/charges are denoted by brackets.

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

## H1 2012 compared with H1 2011

- Central items not allocated represented a debit of £176 million, a deterioration of £200 million compared with H1 2011.
- The movement was driven in part by a £125 million provision, taken in Q2 2012, for costs relating to the technology incident that affected the Group's systems in June 2012. The provision is principally to cover customer redress. A break down of the provision by division is provided on the next page.
- A provision of £50 million has also been recognised for redress in respect of interest rate hedging products. This follows the agreement reached with the FSA in June 2012 by a number of banks, including the Group, to carry out a review of sales of interest rate hedging products since 1 December 2001 to small and medium sized customers.

## Q2 2012 compared with Q1 2012

- Central items not allocated represented a debit of £32 million, an improvement of £112 million compared with Q1 2012.
- The movement was due to increased available-for-sale bond disposals and unallocated volatility costs in Group Treasury, partially offset by the £125 million provision for the costs of redress following the technology incident.

## Q2 2012 compared with Q2 2011

- Central items not allocated represented a debit of £32 million, a deterioration of £88 million compared with Q2 2011.
- The movement was driven primarily by the £125 million provision for the technology incident in Q2 2012, and the provision for redress partially offset by

unallocated volatility costs in Group Treasury.

Central items (continued)

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## Technology incident - costs of redress

The following table provides an analysis by division of the estimated costs of redress following the technology incident in June 2012. These costs are included in Central items above and include waiver of interest and other charges together with other compensation payments all of which are reported in expenses. Additional costs may arise once all redress and business disruption items are clear and a further update will be given in Q3.

	Total £m
UK Retail	35
UK Corporate	36
International Banking	21
Ulster Bank	28
Group Centre	5
	125

## Non-Core

	Half year ended		Quarter ended		
	30 June	30 June	30 June	31 March	30 June
	2012	2011	2012	2012	2011
	£m	£m	£m	£m	£m
<b>Income statement</b>					
Net interest income	23	315	10	13	169
Funding costs of rental assets	89	105	38	51	52
Net interest income	112	420	48	64	221
Net fees and commissions	60	93	29	31	46
(Loss)/income from trading activities	(403)	(64)	(133)	(270)	232
Insurance net premium income	-	233	-	-	95
Other operating income					
- rental income	392	500	173	219	257
- other (1)	109	219	(116)	225	115
Non-interest income/(loss)	158	981	(47)	205	745
Total income	270	1,401	1	269	966
<b>Direct expenses</b>					
- staff	(151)	(200)	(80)	(71)	(109)
- operating lease depreciation	(152)	(174)	(69)	(83)	(87)
- other	(87)	(137)	(46)	(41)	(68)
Indirect expenses	(135)	(147)	(67)	(68)	(71)
	(525)	(658)	(262)	(263)	(335)
(Loss)/profit before insurance net claims and impairment losses	(255)	743	(261)	6	631
Insurance net claims	-	(218)	-	-	(90)
Impairment losses	(1,096)	(2,486)	(607)	(489)	(1,411)
Operating loss	(1,351)	(1,961)	(868)	(483)	(870)

## Note:

- (1) Includes gains/(losses) on disposals (H1 2012 - £143 million gain; H1 2011 - £54 million loss; Q2 2012 - £39 million loss; Q1 2012 - £182 million gain; Q2 2011 - £20 million loss).



## Non-Core (continued)

	Half year ended		Quarter ended		
	30 June	30 June	30 June	31 March	30 June
	2012	2011	2012	2012	2011
	£m	£m	£m	£m	£m
Analysis of income/(loss) by business					
Banking and portfolios	60	1,374	(117)	177	818
International businesses	161	218	76	85	137
Markets	49	(191)	42	7	11
Total income	270	1,401	1	269	966
(Loss)/income from trading activities					
Monoline exposures	(191)	(197)	(63)	(128)	(67)
Credit derivative product companies	(7)	(61)	31	(38)	(21)
Asset-backed products (1)	68	102	37	31	36
Other credit exotics	(49)	(160)	(69)	20	8
Equities	2	(1)	3	(1)	(2)
Banking book hedges	(22)	(38)	(22)	-	(9)
Other	(204)	291	(50)	(154)	287
	(403)	(64)	(133)	(270)	232
Impairment losses					
Banking and portfolios	1,190	2,463	706	484	1,405
International businesses	25	35	14	11	15
Markets	(119)	(12)	(113)	(6)	(9)
Total impairment losses	1,096	2,486	607	489	1,411
Loan impairment charge as % of gross customer loans and advances (excluding reverse repurchase agreements) (2)					
Banking and portfolios	3.6%	5.3%	4.2%	2.8%	6.1%
International businesses	3.0%	2.3%	3.4%	2.1%	1.9%
Markets	(2.6%)	(0.7%)	(4.4%)	(0.8%)	(1.2%)
Total	3.6%	5.2%	4.2%	2.7%	6.0%

Notes:

(1)

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

- (2) Includes disposal groups.

## Non-Core (continued)

## Key metrics

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Performance ratios					
Net interest margin	0.28%	0.77%	0.24%	0.31%	0.83%
Cost:income ratio	194%	47%	nm	98%	35%
Adjusted cost:income ratio	194%	56%	nm	98%	38%

	30 June	31 March	Change	31	Change
	2012	2012		December	
	£bn	£bn		2011	
Capital and balance sheet					
Total third party assets (excluding derivatives) (1)	72.1	83.3	(13%)	93.7	(23%)
Total third party assets (including derivatives)	80.6	91.8	(12%)	104.7	(23%)
Loans and advances to customers (gross) (2)	67.7	72.7	(7%)	79.4	(15%)
Customer deposits (2)	2.9	3.1	(6%)	3.5	(17%)
Risk elements in lending (2)	23.1	23.5	(2%)	24.0	(4%)
Risk-weighted assets (1)	82.7	89.9	(8%)	93.3	(11%)

nm = not meaningful

## Notes:

- (1) Includes RBS Sempra Commodities JV (30 June 2012 third party assets, excluding derivatives (TPAs) nil, RWAs £1.0 billion, 31 March 2012 TPAs nil, RWAs £1.0 billion, 31 December 2011 TPAs £0.1 billion, RWAs £2.4 billion).
- (2) Excludes disposal groups.

	30 June	31 March	31
	2012	2012	December
	£bn	£bn	2011
Gross customer loans and advances			
Banking and portfolios	66.3	70.8	77.3
International businesses	1.4	1.9	2.0
Markets	-	-	0.1

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	67.7	72.7	79.4
Risk-weighted assets			
Banking and portfolios	64.4	66.1	64.8
International businesses	2.9	3.8	4.1
Markets	15.4	20.0	24.4
	82.7	89.9	93.3
Third party assets (excluding derivatives)			
Banking and portfolios	63.5	73.2	81.3
International businesses	2.2	2.7	2.9
Markets	6.4	7.4	9.5
	72.1	83.3	93.7

## Non-Core (continued)

## Third party assets (excluding derivatives)

Quarter ended 30 June 2012	31 March	Disposals/ Drawings/				FX	30 June
	2012	Run-off restructuring	roll overs	Impairments	2012		
	£bn	£bn	£bn	£bn	£bn	£bn	£bn
Commercial real estate	29.1	(1.2)	(0.2)	-	(0.4)	(0.4)	26.9
Corporate	40.1	(1.7)	(5.9)	0.5	(0.2)	-	32.8
SME	1.9	(0.3)	(0.1)	0.1	-	-	1.6
Retail	4.2	(0.3)	-	0.1	(0.1)	0.1	4.0
Other	0.6	(0.2)	-	-	-	-	0.4
Markets	7.4	(0.7)	(0.5)	-	0.1	0.1	6.4
Total (excluding derivatives)	83.3	(4.4)	(6.7)	0.7	(0.6)	(0.2)	72.1

Quarter ended 31 March 2012	31	Disposals/ Drawings/				FX	31
	December	Run-off restructuring	roll overs	Impairments	March		
	2011	£bn	£bn	£bn	£bn	£bn	2012
Commercial real estate	31.5	(1.5)	(0.4)	0.1	(0.4)	(0.2)	29.1
Corporate	42.2	(0.8)	(1.1)	0.4	(0.1)	(0.5)	40.1
SME	2.1	(0.3)	-	0.1	-	-	1.9
Retail	6.1	(0.2)	(1.6)	-	-	(0.1)	4.2
Other	1.9	(1.2)	-	-	-	(0.1)	0.6
Markets	9.8	(0.2)	(2.1)	0.1	-	(0.2)	7.4
Total (excluding derivatives)	93.6	(4.2)	(5.2)	0.7	(0.5)	(1.1)	83.3
Markets - RBS Sempra Commodities JV	0.1	(0.1)	-	-	-	-	-
Total (1)	93.7	(4.3)	(5.2)	0.7	(0.5)	(1.1)	83.3

Quarter ended 30 June 2011	31	Disposals/ Drawings/				FX	30 June
	March	Run-off restructuring	roll overs	Impairments	2011		
	2011	£bn	£bn	£bn	£bn	£bn	£bn
Commercial real estate	38.7	(1.1)	(0.3)	0.2	(1.3)	0.4	36.6
Corporate	56.0	(2.6)	(4.0)	0.6	-	0.4	50.4
SME	3.1	(0.4)	-	-	-	-	2.7
Retail	8.3	(0.2)	-	-	(0.1)	-	8.0
Other	2.5	(0.2)	-	-	-	-	2.3
Markets	12.3	(0.7)	(0.4)	0.3	-	-	11.5

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Total (excluding derivatives)	120.9	(5.2)	(4.7)	1.1	(1.4)	0.8	111.5
Markets - RBS Sempra Commodities JV	3.9	(0.5)	(2.2)	-	-	(0.1)	1.1
Total (1)	124.8	(5.7)	(6.9)	1.1	(1.4)	0.7	112.6

Note:

- (1) No disposals have been signed as at 30 June 2012 (31 March 2012 - £5 billion; 30 June 2011 - £2 billion).

## Non-Core (continued)

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Impairment losses by donating division and sector					
UK Retail					
Mortgages	-	4	-	-	1
Personal	3	-	1	2	3
Total UK Retail	3	4	1	2	4
UK Corporate					
Manufacturing and infrastructure	14	47	7	7	47
Property and construction	78	49	23	55	36
Transport	14	46	16	(2)	26
Financial institutions	(2)	4	(3)	1	1
Lombard	22	43	12	10	25
Other	17	57	11	6	46
Total UK Corporate	143	246	66	77	181
Ulster Bank					
Commercial real estate					
- investment	136	384	52	84	161
- development	262	1,313	120	142	810
Other corporate	51	113	17	34	6
Other EMEA	6	11	2	4	5
Total Ulster Bank	455	1,821	191	264	982
US Retail & Commercial					
Auto and consumer	20	37	11	9	12
Cards	4	(10)	(1)	5	(3)
SBO/home equity	62	111	44	18	58
Residential mortgages	7	10	4	3	6
Commercial real estate	(1)	30	2	(3)	11
Commercial and other	(7)	(9)	(3)	(4)	(6)
Total US Retail & Commercial	85	169	57	28	78
International Banking					

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Manufacturing and infrastructure	5	(8)	(1)	6	(6)
Property and construction	322	322	236	86	217
Transport	147	(7)	134	13	(1)
Telecoms, media and technology	27	23	11	16	34
Banks and financial institutions	(114)	(38)	(102)	(12)	(39)
Other	23	(47)	14	9	(39)
<b>Total International Banking</b>	<b>410</b>	<b>245</b>	<b>292</b>	<b>118</b>	<b>166</b>
Other					
Wealth	-	-	1	(1)	(1)
Central items	-	1	(1)	1	1
<b>Total Other</b>	<b>-</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total impairment losses</b>	<b>1,096</b>	<b>2,486</b>	<b>607</b>	<b>489</b>	<b>1,411</b>



## Non-Core (continued)

	30 June	31 March	31 December
	2012	2012	2011
	£bn	£bn	£bn
Gross loans and advances to customers (excluding reverse repurchase agreements) by donating division and sector			
UK Retail			
Mortgages	-	-	1.4
Personal	0.1	0.1	0.1
Total UK Retail	0.1	0.1	1.5
UK Corporate			
Manufacturing and infrastructure	0.1	0.1	0.1
Property and construction	4.3	4.8	5.9
Transport	4.1	4.3	4.5
Financial institutions	0.6	0.6	0.6
Lombard	0.7	0.9	1.0
Other	6.9	7.0	7.5
Total UK Corporate	16.7	17.7	19.6
Ulster Bank			
Commercial real estate			
- investment	3.7	3.7	3.9
- development	7.7	8.0	8.5
Other corporate	1.6	1.7	1.6
Other EMEA	0.4	0.4	0.4
Total Ulster Bank	13.4	13.8	14.4
US Retail & Commercial			
Auto and consumer	0.6	0.8	0.8
Cards	0.1	0.1	0.1
SBO/home equity	2.3	2.4	2.5
Residential mortgages	0.5	0.5	0.6
Commercial real estate	0.7	0.9	1.0
Commercial and other	0.2	-	0.4
Total US Retail & Commercial	4.4	4.7	5.4
International Banking			

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Manufacturing and infrastructure	5.4	5.8	6.6
Property and construction	14.3	15.4	15.3
Transport	2.0	2.4	3.2
Telecoms, media and technology	0.7	0.7	0.7
Banks and financial institutions	5.3	5.7	5.6
Other	5.4	6.4	7.0
<b>Total International Banking</b>	<b>33.1</b>	<b>36.4</b>	<b>38.4</b>
Other			
Wealth	0.2	0.2	0.2
Central items	(0.2)	(0.3)	(0.2)
<b>Total Other</b>	<b>-</b>	<b>(0.1)</b>	<b>-</b>
<b>Gross loans and advances to customers (excluding reverse repurchase agreements)</b>	<b>67.7</b>	<b>72.6</b>	<b>79.3</b>

Non-Core (continued)

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Key points

Non-Core continues to make significant progress towards exiting approximately 85% of the portfolio by the end of 2013. In Q2 2012 third party assets fell to £72 billion, a reduction of £11 billion during the quarter and an overall reduction to date of 72%. The successful completion of the disposal of the RBS Aviation Capital business contributed c£5 billion of the Q2 2012 reduction and c£2 billion of the risk-weighted asset reduction.

Risk-weighted assets were reduced by £7 billion during Q2 2012 as the division continued to focus on run-off, disposals and reducing exposure to capital intensive positions.

H1 2012 compared with H1 2011

- Third party assets of £72 billion were £41 billion lower than H1 2011 reflecting disposals of £22 billion and run-off of £17 billion.
- Risk-weighted assets decreased by £42 billion principally reflecting the restructuring on monoline exposures in 2011, totalling £17 billion, and associated market risk reductions of £7 billion. Sales and run-off reduced risk-weighted assets by a further £16 billion.
- Non-Core operating loss decreased from £1,961 million in H1 2011 to £1,351 million in H1 2012. Lower impairments and costs were partially offset by a fall in income.
- Impairments in H1 2012 of £1,096 million were £1,390 million favourable to H1 2011, reflecting substantial provisioning in respect of development land values in the Ulster Bank portfolio during the first half of 2011.
- Costs fell by £133 million as the division continued to contract and headcount reduced. At the end of H1 2012, headcount totalled approximately 3,800, a decrease of 40% since June 2011.
- Income declined by £1,131 million with continued run-down of the balance sheet reducing income streams by £654 million. H1 2011 included gains on a number of securities arising from restructured assets totalling approximately £500 million, not repeated in H1 2012.

Q2 2012 compared with Q1 2012

- An operating loss of £868 million in Q2 2012 was £385 million higher than the previous quarter.
- Trading losses in Q2 2012 were £137 million favourable to Q1 2012 as significant losses on disposal of trading positions in the first quarter were not repeated. This was partially offset by higher dealing losses as market conditions deteriorated.
- Other income decreased by £341 million in Q2 2012 due to negative equity valuation movements of £147 million as well as losses on disposal of £39 million

compared with gains of £182 million in Q1 2012.

- Impairment losses increased by £118 million during Q2 2012 largely reflecting one significant provision within the Project Finance portfolio.

Non-Core (continued)

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Key points (continued)

Q2 2012 compared with Q1 2012 (continued)

- Third party assets fell by £11 billion to £72 billion in Q2 2012 reflecting disposals of £7 billion and run-off of £4 billion.
- Risk-weighted assets decreased by £7 billion resulting from sales and run-off of £6 billion, market risk movements of £2 billion and the £2 billion impact of derivative restructuring. These reductions were partially offset by adverse foreign exchange and mark-to-market movements of £2 billion and credit model changes.

Q2 2012 compared with Q2 2011

- The Q2 2012 operating loss of £868 million was broadly flat. Impairment losses fell significantly compared with Q2 2011, driven by a £789 million decrease in charges in relation to the Ulster Bank portfolio. Costs were £73 million lower as the division continued to run down and headcount reduces.
- Income declined by £965 million as continuing run-off and disposal activity reduced revenue streams by £355 million. Trading revenues and other income in Q2 2011 included gains on a number of securities arising from restructured assets, totalling approximately £500 million.

Condensed consolidated income statement  
for the period ended 30 June 2012

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Interest receivable	9,791	10,805	4,774	5,017	5,404
Interest payable	(3,821)	(4,277)	(1,803)	(2,018)	(2,177)
Net interest income	5,970	6,528	2,971	2,999	3,227
Fees and commissions receivable	2,937	3,342	1,450	1,487	1,700
Fees and commissions payable	(604)	(583)	(314)	(290)	(323)
Income from trading activities	869	1,982	657	212	1,147
Gain on redemption of own debt	577	255	-	577	255
Other operating income (excluding insurance net premium income)	(353)	1,533	394	(747)	1,142
Insurance net premium income	1,867	2,239	929	938	1,090
Non-interest income	5,293	8,768	3,116	2,177	5,011
Total income	11,263	15,296	6,087	5,176	8,238
Staff costs	(4,713)	(4,609)	(2,143)	(2,570)	(2,210)
Premises and equipment	(1,107)	(1,173)	(544)	(563)	(602)
Other administrative expenses	(2,172)	(2,673)	(1,156)	(1,016)	(1,752)
Depreciation and amortisation	(902)	(877)	(434)	(468)	(453)
Operating expenses	(8,894)	(9,332)	(4,277)	(4,617)	(5,017)
Profit before insurance net claims and impairment losses	2,369	5,964	1,810	559	3,221
Insurance net claims	(1,225)	(1,705)	(576)	(649)	(793)
Impairment losses	(2,649)	(5,053)	(1,335)	(1,314)	(3,106)
Operating loss before tax	(1,505)	(794)	(101)	(1,404)	(678)
Tax charge	(429)	(645)	(290)	(139)	(222)
Loss from continuing operations	(1,934)	(1,439)	(391)	(1,543)	(900)
Profit/(loss) from discontinued operations, net of tax	1	31	(4)	5	21
Loss for the period	(1,933)	(1,408)	(395)	(1,538)	(879)
Non-controlling interests	19	(17)	5	14	(18)
Preference share and other dividends	(76)	-	(76)	-	-
Loss attributable to ordinary and B shareholders	(1,990)	(1,425)	(466)	(1,524)	(897)

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Basic and diluted loss per ordinary and B share from continuing operations (1)	(18.2p)	(13.2p)	(4.2p)	(14.0p)	(8.3p)
Basic and diluted loss per ordinary and B share from discontinued operations (1)	-	-	-	-	-

Note:

(1) Prior periods have been adjusted for the sub-division and one-for-ten ordinary share consolidation of ordinary shares.

Condensed consolidated statement of comprehensive income  
for the period ended 30 June 2012

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Loss for the period	(1,933)	(1,408)	(395)	(1,538)	(879)
Other comprehensive income					
Available-for-sale financial assets	591	1,369	66	525	1,406
Cash flow hedges	695	361	662	33	588
Currency translation	(496)	(301)	58	(554)	59
Other comprehensive income before tax	790	1,429	786	4	2,053
Tax charge	(256)	(492)	(237)	(19)	(524)
Other comprehensive income/(loss) after tax	534	937	549	(15)	1,529
Total comprehensive (loss)/income for the period	(1,399)	(471)	154	(1,553)	650
Total comprehensive (loss)/income is attributable to:					
Non-controlling interests	(13)	(6)	(10)	(3)	3
Ordinary and B shareholders	(1,386)	(465)	164	(1,550)	647
	(1,399)	(471)	154	(1,553)	650

Key points

- The movement in available-for-sale financial assets reflects net unrealised gains on high quality sovereign bonds.
- Cash flow hedging gains largely result from reductions in swap rates with significant movements during the second quarter of 2012.
- Currency translation losses during the half year largely result from the strengthening of Sterling against both the Euro, by 3.5%, and the US Dollar, by 1.4%. Movements in Q2 2012 reflect the weakening of Sterling against the US Dollar by 1.9%, partially offset by a 3.2% strengthening of Sterling against the Euro.



Condensed consolidated balance sheet  
at 30 June 2012

	30 June 2012 £m	31 March 2012 £m	December 2011 £m	31
<b>Assets</b>				
Cash and balances at central banks	78,647	82,363	79,269	
Net loans and advances to banks	39,436	36,064	43,870	
Reverse repurchase agreements and stock borrowing	37,705	34,626	39,440	
Loans and advances to banks	77,141	70,690	83,310	
Net loans and advances to customers	434,965	440,406	454,112	
Reverse repurchase agreements and stock borrowing	60,196	56,503	61,494	
Loans and advances to customers	495,161	496,909	515,606	
Debt securities	187,626	195,931	209,080	
Equity shares	13,091	17,603	15,183	
Settlement balances	15,312	20,970	7,771	
Derivatives	486,432	453,354	529,618	
Intangible assets	14,888	14,771	14,858	
Property, plant and equipment	11,337	11,442	11,868	
Deferred tax	3,502	3,849	3,878	
Prepayments, accrued income and other assets	10,983	10,079	10,976	
Assets of disposal groups	21,069	25,060	25,450	
<b>Total assets</b>	<b>1,415,189</b>	<b>1,403,021</b>	<b>1,506,867</b>	
<b>Liabilities</b>				
Bank deposits	67,619	65,735	69,113	
Repurchase agreements and stock lending	39,125	41,415	39,691	
Deposits by banks	106,744	107,150	108,804	
Customer deposits	412,769	410,207	414,143	
Repurchase agreements and stock lending	88,950	87,303	88,812	
Customer accounts	501,719	497,510	502,955	
Debt securities in issue	119,855	142,943	162,621	
Settlement balances	15,126	17,597	7,477	
Short positions	38,376	37,322	41,039	
Derivatives	480,745	446,534	523,983	
Accruals, deferred income and other liabilities	18,820	20,278	23,125	
Retirement benefit liabilities	1,791	1,840	2,239	
Deferred tax	1,815	1,788	1,945	
Insurance liabilities	6,322	6,251	6,312	
Subordinated liabilities	25,596	25,513	26,319	
Liabilities of disposal groups	23,064	23,664	23,995	
<b>Total liabilities</b>	<b>1,339,973</b>	<b>1,328,390</b>	<b>1,430,814</b>	
<b>Equity</b>				

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Non-controlling interests	1,200	1,215	1,234
Owners' equity*			
Called up share capital	6,528	15,397	15,318
Reserves	67,488	58,019	59,501
Total equity	75,216	74,631	76,053
Total liabilities and equity	1,415,189	1,403,021	1,506,867
* Owners' equity attributable to:			
Ordinary and B shareholders	69,272	68,672	70,075
Other equity owners	4,744	4,744	4,744
	74,016	73,416	74,819

## Commentary on condensed consolidated balance sheet

30 June 2012 compared with 31 December 2011

## Key points

- Total assets of £1,415.2 billion at 30 June 2012 were down £91.7 billion, 6%, compared with 31 December 2011. This was principally driven by the Group's programme of deleveraging and reducing capital intensive assets, including Non-Core disposals and run-off, and the reduction in the mark-to-market value of derivatives.
- Loans and advances to banks decreased by £6.2 billion, 7%, to £77.1 billion. Excluding reverse repurchase agreements and stock borrowing ('reverse repos'), down £1.8 billion, 4%, to £37.7 billion, bank placings declined £4.4 billion, 10%, to £39.4 billion.
- Loans and advances to customers declined £20.4 billion, 4%, to £495.2 billion. Within this, reverse repurchase agreements were down £1.3 billion, 2%, to £60.2 billion. Customer lending decreased by £19.1 billion, 4%, to £435.0 billion, or £18.7 billion to £455.1 billion before impairments. This reflected planned reductions in Non-Core of £10.6 billion, along with declines in International Banking, £6.8 billion, Markets, £0.6 billion, UK Corporate, £0.5 billion and Ulster Bank, £0.2 billion, together with the effect of exchange rate and other movements, £3.6 billion. These were partially offset by growth in UK Retail, £2.2 billion, US Retail & Commercial, £1.3 billion and Wealth, £0.1 billion.
- Debt securities were down £21.5 billion, 10%, to £187.6 billion, driven mainly by a reduction in Eurozone government and financial institution bonds within Markets and Group Treasury.
- Settlement balance assets and liabilities increased £7.5 billion to £15.3 billion and £7.6 billion to £15.1 billion respectively as a result of increased customer activity from seasonal year-end lows.
- Movements in the value of derivative assets, down £43.2 billion, 8%, to £486.4 billion, and liabilities, down £43.2 billion, 8%, to £480.7 billion, primarily reflect decreases in interest rate and credit derivative contracts, together with the effect of currency movements, with Sterling strengthening against both the US dollar and the Euro.
- The reduction in assets and liabilities of disposal groups, down £4.4 billion, 17%, to £21.1 billion, and £0.9 billion, 4%, to £23.1 billion respectively, primarily reflects the disposal of RBS Aviation Capital in the second quarter.
- Deposits by banks decreased £2.1 billion, 2%, to £106.7 billion, with a reduction in repurchase agreements and stock lending ('repos'), down £0.6 billion, 1%, to £39.1 billion and a decrease in inter-bank deposits, down £1.5 billion, 2%, to £67.6 billion.
- Customer accounts decreased £1.2 billion to £501.7 billion. Within this, repos were broadly flat at £88.9 billion. Excluding repos, customer deposits were down £1.4 billion to £412.8 billion, reflecting decreases in International Banking, £2.2 billion, Markets, £1.9 billion, Non-Core, £0.7 billion and Ulster Bank, £0.6 billion, together with exchange and other movements, £2.2 billion. This was partially offset by increases in UK Retail, £4.8 billion, UK Corporate, £1.1 billion and Wealth, £0.3 billion.



Commentary on condensed consolidated balance sheet (continued)

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- Debt securities in issue decreased £42.8 billion, 26%, to £119.9 billion reflecting the maturity of the remaining notes issued under the UK Government's Credit Guarantee Scheme, £21.3 billion, and the reduction of commercial paper and medium term notes in issue in line with the Group's strategy.
- Subordinated liabilities decreased by £0.7 billion, 3%, to £25.6 billion, primarily reflecting the net decrease in dated loan capital as a result of the liability management exercise completed in March 2012, with redemptions of £3.4 billion offset by the issuance of £2.8 billion new loan capital, together with exchange rate movements and other adjustments of £0.1 billion.
- Owners' equity decreased by £0.8 billion, 1%, to £74.0 billion, due to the £1.9 billion attributable loss for the period together with movements in foreign exchange reserves, £0.5 billion and other reserve movements of £0.1 billion. Partially offsetting these reductions were positive movements in available-for-sale reserves, £0.5 billion and cash flow hedging reserves, £0.5 billion and share capital and reserve movements in respect of employee benefits, £0.7 billion.

## Average balance sheet

	Half year ended		Quarter ended	
	30 June 2012 %	30 June 2011 %	30 June 2012 %	31 March 2012 %
Average yields, spreads and margins of the banking business				
Gross yield on interest-earning assets of banking business	3.14	3.31	3.14	3.15
Cost of interest-bearing liabilities of banking business	(1.58)	(1.63)	(1.53)	(1.62)
Interest spread of banking business	1.56	1.68	1.61	1.53
Benefit from interest-free funds	0.36	0.32	0.34	0.35
Net interest margin of banking business	1.92	2.00	1.95	1.88
Average interest rates				
The Group's base rate	0.50	0.50	0.50	0.50
London inter-bank three month offered rates				
- Sterling	1.02	0.81	0.99	1.06
- Eurodollar	0.49	0.29	0.47	0.51
- Euro	0.79	1.20	0.61	0.97

## Average balance sheet (continued)

	Half year ended 30 June 2012			Half year ended 30 June 2011		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
<b>Assets</b>						
Loans and advances to banks	82,588	282	0.69	65,627	336	1.03
Loans and advances to customers	439,342	8,369	3.83	471,729	9,128	3.90
Debt securities	104,465	1,140	2.19	121,531	1,341	2.23
Interest-earning assets - banking business	626,395	9,791	3.14	658,887	10,805	3.31
Trading business (1)	246,256			281,771		
Non-interest earning assets	619,373			533,667		
<b>Total assets</b>	<b>1,492,024</b>			<b>1,474,325</b>		
<b>Liabilities</b>						
Deposits by banks	43,040	347	1.62	66,283	508	1.55
Customer accounts	329,197	1,784	1.09	328,352	1,684	1.03
Debt securities in issue	100,612	1,209	2.42	162,980	1,680	2.08
Subordinated liabilities	21,472	415	3.89	22,235	375	3.40
Internal funding of trading business	(6,884)	66	(1.93)	(51,811)	30	(0.12)
Interest-bearing liabilities - banking business	487,437	3,821	1.58	528,039	4,277	1.63
Trading business (1)	257,343			307,926		
Non-interest-bearing liabilities						
- demand deposits	74,088			64,256		
- other liabilities	599,195			499,745		
Owners' equity	73,961			74,359		
<b>Total liabilities and owners' equity</b>	<b>1,492,024</b>			<b>1,474,325</b>		

## 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 30 June 2012			Quarter ended 31 March 2012		
	Average balance £m	Interest £m	Rate %	Average balance £m	Interest £m	Rate %
<b>Assets</b>						
Loans and advances to banks	78,151	134	0.69	87,025	148	0.68
Loans and advances to customers	435,270	4,117	3.80	443,414	4,252	3.86
Debt securities	98,711	523	2.13	110,219	617	2.25
Interest-earning assets - banking business	612,132	4,774	3.14	640,658	5,017	3.15
Trading business (1)	241,431			251,081		
Non-interest earning assets	604,751			633,995		
<b>Total assets</b>	<b>1,458,314</b>			<b>1,525,734</b>		
<b>Liabilities</b>						
Deposits by banks	41,608	156	1.51	44,472	191	1.73
Customer accounts	330,952	870	1.06	327,442	914	1.12
Debt securities in issue	88,770	511	2.32	112,454	698	2.50
Subordinated liabilities	21,308	225	4.25	21,636	190	3.53
Internal funding of trading business	(7,336)	41	(2.25)	(6,432)	25	(1.56)
Interest-bearing liabilities - banking business	475,302	1,803	1.53	499,572	2,018	1.62
Trading business (1)	252,639			262,047		
Non-interest-bearing liabilities						
- demand deposits	75,806			72,370		
- other liabilities	580,445			617,945		
Owners' equity	74,122			73,800		
<b>Total liabilities and owners' equity</b>	<b>1,458,314</b>			<b>1,525,734</b>		

## 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 30 June 2012

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Called-up share capital					
At beginning of period	15,318	15,125	15,397	15,318	15,156
Ordinary shares issued	143	192	64	79	161
Share capital sub-division and consolidation	(8,933)	-	(8,933)	-	-
At end of period	6,528	15,317	6,528	15,397	15,317
Paid-in equity					
At beginning and end of period	431	431	431	431	431
Share premium account					
At beginning of period	24,001	23,922	24,027	24,001	23,922
Ordinary shares issued	197	1	171	26	1
At end of period	24,198	23,923	24,198	24,027	23,923
Merger reserve					
At beginning of period	13,222	13,272	13,222	13,222	13,272
Transfer to retained earnings	-	(50)	-	-	(50)
At end of period	13,222	13,222	13,222	13,222	13,222
Available-for-sale reserve (1)					
At beginning of period	(957)	(2,037)	(439)	(957)	(2,063)
Net unrealised gains	1,152	943	428	724	781
Realised (gains)/losses	(582)	429	(370)	(212)	626
Tax	(63)	(361)	(69)	6	(370)
At end of period	(450)	(1,026)	(450)	(439)	(1,026)
Cash flow hedging reserve					
At beginning of period	879	(140)	921	879	(314)
Amount recognised in equity	1,218	825	928	290	811
Amount transferred from equity to earnings	(523)	(464)	(266)	(257)	(223)
Tax	(175)	(108)	(184)	9	(161)
At end of period	1,399	113	1,399	921	113

Note:

(1) Analysis provided on page 112.



Condensed consolidated statement of changes in equity  
for the period ended 30 June 2012 (continued)

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Foreign exchange reserve					
At beginning of period	4,775	5,138	4,227	4,775	4,754
Retranslation of net assets	(566)	(240)	82	(648)	189
Foreign currency gains/(losses) on hedges of net assets	88	(40)	(8)	96	(116)
Tax	20	(24)	16	4	7
Recycled to profit or loss on disposal of business (nil tax)	(3)	-	(3)	-	-
At end of period	4,314	4,834	4,314	4,227	4,834
Capital redemption reserve					
At beginning of period	198	198	198	198	198
Share capital sub-division and consolidation	8,933	-	8,933	-	-
At end of period	9,131	198	9,131	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	18,929	21,239	17,405	18,929	20,713
(Loss)/profit attributable to ordinary and B shareholders and other equity owners					
- continuing operations	(1,911)	(1,429)	(387)	(1,524)	(899)
- discontinued operations	(3)	4	(3)	-	2
Transfer from merger reserve	-	50	-	-	50
Equity preference dividends paid	(76)	-	(76)	-	-
Actuarial losses recognised in retirement benefit schemes					
- tax	(38)	-	-	(38)	-
Loss on disposal of own shares held	(196)	-	(196)	-	-
Shares released for employee benefits	(129)	(207)	(116)	(13)	(166)
Share-based payments					
- gross	92	67	47	45	29
- tax	(11)	2	(17)	6	(3)
At end of period	16,657	19,726	16,657	17,405	19,726



Condensed consolidated statement of changes in equity  
for the period ended 30 June 2012 (continued)

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Own shares held					
At beginning of period	(769)	(808)	(765)	(769)	(785)
Disposal/(purchase) of own shares	449	6	451	(2)	(6)
Shares released for employee benefits	114	16	108	6	5
At end of period	(206)	(786)	(206)	(765)	(786)
Owners' equity at end of period	74,016	74,744	74,016	73,416	74,744
Non-controlling interests					
At beginning of period	1,234	1,719	1,215	1,234	1,710
Currency translation adjustments and other movements	(15)	(21)	(13)	(2)	(14)
(Loss)/profit attributable to non-controlling interests					
- continuing operations	(23)	(10)	(4)	(19)	(1)
- discontinued operations	4	27	(1)	5	19
Dividends paid	(6)	(39)	(6)	-	(39)
Movements in available-for-sale securities					
- unrealised gains/(losses)	1	-	5	(4)	(1)
- realised losses/(gains)	20	(3)	3	17	-
- tax	-	1	-	-	-
Equity raised	1	-	1	-	-
Equity withdrawn and disposals	(16)	(176)	-	(16)	(176)
At end of period	1,200	1,498	1,200	1,215	1,498
Total equity at end of period	75,216	76,242	75,216	74,631	76,242
Total comprehensive (loss)/income recognised in the statement of changes in equity is attributable to:					
Non-controlling interests	(13)	(6)	(10)	(3)	3
Ordinary and B shareholders	(1,386)	(465)	164	(1,550)	647
	(1,399)	(471)	154	(1,553)	650





Condensed consolidated cash flow statement  
for the period ended 30 June 2012

	Half year ended	
	30 June 2012 £m	30 June 2011 £m
Operating activities		
Operating loss before tax	(1,505)	(794)
Operating profit before tax on discontinued operations	6	38
Adjustments for non-cash items	4,969	1,503
Net cash inflow from trading activities	3,470	747
Changes in operating assets and liabilities	(20,487)	7,595
Net cash flows from operating activities before tax	(17,017)	8,342
Income taxes paid	(90)	(90)
Net cash flows from operating activities	(17,107)	8,252
Net cash flows from investing activities	18,697	(4,362)
Net cash flows from financing activities	(40)	(1,212)
Effects of exchange rate changes on cash and cash equivalents	(3,108)	482
Net (decrease)/increase in cash and cash equivalents	(1,558)	3,160
Cash and cash equivalents at beginning of period	152,655	152,530
Cash and cash equivalents at end of period	151,097	155,690

Notes

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1. Basis of preparation

The Group's condensed financial statements have been prepared in accordance with the Disclosure Rules and Transparency Rules of the Financial Services Authority and IAS 34 'Interim Financial Reporting'. They should be read in conjunction with the Group's 2011 annual accounts which were prepared in accordance with International Financial Reporting Standards issued by the IASB and interpretations issued by the IFRS Interpretations Committee of the IASB as adopted by the EU (together IFRS). The EU has not adopted the complete text of IAS 39 'Financial Instruments: Recognition and Measurement'; it has relaxed some of the standard's hedging requirements. The Group has not taken advantage of this relaxation and has adopted IAS 39 as issued by the IASB; the Group's financial statements are prepared in accordance with IFRS as issued by the IASB.

The condensed financial statements comprise the consolidated income statement, condensed consolidated statement of comprehensive income, condensed consolidated balance sheet, condensed consolidated statement of changes in equity, condensed consolidated cash flow statement and related explanatory notes 1 to 19 and have been prepared in accordance with IAS 34 'Interim Financial Reporting'.

In line with the Group's policy of providing users of its financial reports with relevant and transparent disclosures, it has adopted the British Bankers' Association Code for Financial Reporting Disclosure published in September 2010. The code sets out five disclosure principles together with supporting guidance: the overarching principle being a commitment to provide high quality, meaningful and decision-useful disclosures. The Group's 2012 interim financial statements have been prepared in compliance with the code.

The Group's business activities and financial position, and the factors likely to affect its future development and performance are discussed on pages 6 to 130. Its objectives and policies in managing the financial risks to which it is exposed and its capital are discussed in the risk and balance sheet management sections on pages 131 to 238. A summary of the risk factors which could materially affect the Group's future results are described on pages 239 and 240. The Group's regulatory capital resources are set on page 135 and 136. The Group's liquidity and funding management is described on pages 139 to 150. 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 interim financial statements for the six months ended 30 June 2012 have been prepared on a going concern basis.

## 2. Accounting policies

There have been no significant changes to the Group's principal accounting policies as set out on pages 273 to 282 of the Group's Annual Report on Form 20-F for the year ended December 2011 (2011 Form 20-F).

### Critical accounting policies and key sources of estimation uncertainty

The reported results of the Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of its financial statements. The judgements and assumptions that are considered to be the most important to the portrayal of Group's financial condition are those relating to loan impairment provisions; pensions; financial instrument fair values; general insurance claims and deferred tax. These critical accounting policies and judgments are described on pages 282 to 284 of the Group's 2011 Form 20-F.

### Recent developments in IFRS

In May 2012, the IASB issued Annual Improvements 2009-2011 Cycle which clarified:

- the requirements for comparative information in IAS 1 Presentation of Financial Statements and IAS 34 Interim Financial Reporting;
- the classification of servicing equipment in IAS 16 Property, Plant and Equipment;
- the accounting for the tax effect of distributions to holders of equity instruments in IAS 32 Financial Instruments: Presentation; and
- the requirement to disclose segmental net assets in IAS 34.

None of the amendments are effective before 1 January 2013. Earlier application is permitted. The Group is reviewing the amendments to determine their effect, if any, on the Group's financial reporting.

## Notes (continued)

## 3. Analysis of income, expenses and impairment losses

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Loans and advances to customers	8,369	9,128	4,117	4,252	4,535
Loans and advances to banks	282	336	134	148	164
Debt securities	1,140	1,341	523	617	705
Interest receivable	9,791	10,805	4,774	5,017	5,404
Customer accounts	1,784	1,684	870	914	853
Deposits by banks	347	508	156	191	249
Debt securities in issue	1,209	1,680	511	698	863
Subordinated liabilities	415	375	225	190	190
Internal funding of trading businesses	66	30	41	25	22
Interest payable	3,821	4,277	1,803	2,018	2,177
Net interest income	5,970	6,528	2,971	2,999	3,227
Fees and commissions receivable	2,937	3,342	1,450	1,487	1,700
Fees and commissions payable					
- banking	(380)	(419)	(201)	(179)	(238)
- insurance related	(224)	(164)	(113)	(111)	(85)
Net fees and commissions	2,333	2,759	1,136	1,197	1,377
Foreign exchange	435	578	210	225	375
Interest rate	1,100	651	428	672	2
Credit	(893)	314	(94)	(799)	562
Other	227	439	113	114	208
Income from trading activities	869	1,982	657	212	1,147
Gain on redemption of own debt	577	255	-	577	255
Operating lease and other rental income	562	672	261	301	350
Own credit adjustments	(1,694)	(66)	(247)	(1,447)	228
Changes in the fair value of securities and other financial assets and liabilities	55	292	(26)	81	224
Changes in the fair value of investment properties	(56)	(52)	(88)	32	(27)
Profit on sale of securities	482	429	259	223	193
Profit on sale of property, plant and equipment	23	22	18	5	11

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Profit/(loss) on sale of subsidiaries and associates	143	26	155	(12)	55
Life business losses	(6)	(5)	(4)	(2)	(3)
Dividend income	33	33	17	16	18
Share of profits less losses of associated entities	1	15	5	(4)	8
Other income	104	167	44	60	85
Other operating (loss)/income	(353)	1,533	394	(747)	1,142

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## Notes (continued)

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

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Non-interest income (excluding insurance net premium income)	3,426	6,529	2,187	1,239	3,921
Insurance net premium income	1,867	2,239	929	938	1,090
Total non-interest income	5,293	8,768	3,116	2,177	5,011
Total income	11,263	15,296	6,087	5,176	8,238
Staff costs	4,713	4,609	2,143	2,570	2,210
Premises and equipment	1,107	1,173	544	563	602
Other	2,172	2,673	1,156	1,016	1,752
Administrative expenses	7,992	8,455	3,843	4,149	4,564
Depreciation and amortisation	902	877	434	468	453
Operating expenses	8,894	9,332	4,277	4,617	5,017
Loan impairment losses	2,730	4,135	1,435	1,295	2,237
Securities impairment (recoveries)/losses					
- sovereign debt impairment and related interest rate hedge adjustments	-	842	-	-	842
- other	(81)	76	(100)	19	27
Impairment losses	2,649	5,053	1,335	1,314	3,106

## Payment Protection Insurance (PPI)

To reflect current experience of PPI complaints received, the Group strengthened its provision for PPI by £125 million in Q1 2012 and a further £135 million in Q2 2012, bringing the cumulative charge taken to £1.3 billion, of which £0.7 billion in redress had been paid by 30 June 2012. The eventual cost is dependent upon complaint volumes, uphold rates and average redress costs. Assumptions relating to these are inherently uncertain and the ultimate financial impact may be different than the amount provided. The Group will continue to monitor the position closely and refresh its assumptions as more information becomes available.

	Half year ended 30 June 2012 £m	Quarter ended		Year ended 31 December 2011 £m
		30 June 2012 £m	31 March 2012 £m	

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At beginning of period	745	689	745	-
Transfers from accruals and other liabilities	-	-	-	215
Charge to income statement	260	135	125	850
Utilisations	(417)	(236)	(181)	(320)
At end of period	588	588	689	745

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## Notes (continued)

## 4. Loan impairment provisions

Operating loss is stated after charging loan impairment losses of £2,730 million (H1 2011 - £4,135 million). The balance sheet loan impairment provisions increased in the half year ended 30 June 2012 from £19,883 million to £20,297 million and the movements thereon were:

	30 June 2012			Half year ended			
	Core £m	Non- Core £m	Total £m	30 June 2011			Total £m
				Core £m	Non- Core £m	RFS MI £m	
At beginning of period	8,414	11,469	19,883	7,866	10,316	-	18,182
Intra-group transfers	-	-	-	177	(177)	-	-
Currency translation and other adjustments	1	(316)	(315)	89	240	-	329
Disposals	-	-	-	-	-	11	11
Amounts written-off	(991)	(934)	(1,925)	(1,018)	(912)	-	(1,930)
Recoveries of amounts previously written-off	127	53	180	80	206	-	286
Charge to income statement							
- continuing	1,515	1,215	2,730	1,662	2,473	-	4,135
- discontinued	-	-	-	-	-	(11)	(11)
Unwind of discount (recognised in interest income)	(122)	(134)	(256)	(104)	(139)	-	(243)
At end of period	8,944	11,353	20,297	8,752	12,007	-	20,759

	30 June 2012			Quarter ended			30 June 2011			
	Core £m	Non- Core £m	Total £m	31 March 2012			Non- RFS			Total £m
				Core £m	Non- Core £m	Total £m	Core £m	Core £m	MI £m	
At beginning of period	8,797	11,414	20,211	8,414	11,469	19,883	8,416	10,842	-	19,258
Transfers to disposal groups	-	-	-	-	-	-	-	9	-	9
Currency translation and other adjustments	9	(236)	(227)	(8)	(80)	(88)	33	145	-	178
Disposals	-	-	-	-	-	-	-	-	11	11
Amounts written-off	(586)	(494)	(1,080)	(405)	(440)	(845)	(504)	(474)	-	(978)
Recoveries of amounts	65	20	85	62	33	95	41	126	-	167



previously written-off											
Charge to income statement											
- continuing	719	716	1,435	796	499	1,295	810	1,427	-	2,237	
- discontinued	-	-	-	-	-	-	-	-	(11)	(11)	
Unwind of discount (recognised in interest income)	(60)	(67)	(127)	(62)	(67)	(129)	(44)	(68)	-	(112)	
At end of period	8,944	11,353	20,297	8,797	11,414	20,211	8,752	12,007	-	20,759	

Provisions at 30 June 2012 include £119 million in respect of loans and advances to banks (31 March 2012 - £135 million; 30 June 2011 - £132 million).

## Notes (continued)

## 5. Pensions

Pension costs for the half year ended 30 June 2012 amounted to £267 million (half year ended 30 June 2011 - £245 million; quarter ended 30 June 2012 - £132 million; quarter ended 31 March 2012 - £135 million; quarter ended 30 June 2011 - £108 million). Defined benefit schemes charges are based on the actuarially determined pension cost rates at 31 December 2011.

The most recent funding valuation of the main UK scheme, as at 31 March 2010, showed the value of liabilities exceeded the value of assets by £3.5 billion, a ratio of assets to liabilities of 84%. In order to eliminate this deficit, the Group has agreed to pay additional contributions each year over the period 2011 to 2018. These contributions started at £375 million in September 2011 and in March 2012, 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.

## 6. Tax

The actual tax charge differs from the expected tax credit computed by applying the standard UK corporation tax rate of 24.5% (2011 - 26.5%).

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Loss before tax	(1,505)	(794)	(101)	(1,404)	(678)
Expected tax credit	369	210	25	344	179
Sovereign debt impairment where no deferred tax asset recognised	-	(183)	-	-	(183)
Derecognition of deferred tax asset in respect of losses in Australia	(182)	-	(21)	(161)	-
Other losses in period where no deferred tax asset recognised	(253)	(268)	(80)	(173)	(102)
Foreign profits taxed at other rates	(211)	(300)	(109)	(102)	(100)
UK tax rate change - deferred tax impact	(46)	(87)	(16)	(30)	-
Unrecognised timing differences	14	(10)	14	-	(15)
Items not allowed for tax					
- losses on strategic disposals and write-downs	(4)	(10)	-	(4)	(7)
- UK bank levy	(37)	-	(19)	(18)	-
- employee share schemes	(29)	(8)	(14)	(15)	(4)
- other disallowable items	(80)	(102)	(29)	(51)	(66)
Non-taxable items					
- gain on sale of RBS Aviation Capital	27	-	27	-	-
- gain on sale of Global Merchant Services	-	12	-	-	-
- other non-taxable items	26	21	2	24	9
Taxable foreign exchange movements	(2)	-	(3)	1	(2)
Losses brought forward and utilised	11	29	(4)	15	13

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Adjustments in respect of prior periods	(32)	51	(63)	31	56
Actual tax charge	(429)	(645)	(290)	(139)	(222)

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## Notes (continued)

## 6. Tax (continued)

The high tax charge for the half year ended 30 June 2012 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 derecognition of deferred tax assets in respect of losses in Australia, following the strategic changes to the Markets and International Banking businesses announced in January 2012.

The combined effect of tax losses in Ireland and the Netherlands in the half year ended 30 June 2012 for which no deferred tax asset has been recognised and the derecognition of the deferred tax asset in respect of losses in Australia account for £502 million (63%) 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 Group has recognised a deferred tax asset at 30 June 2012 of £3,502 million (31 March 2012 - £3,849 million; 31 December 2011 - £3,878 million) of which £3,029 million (31 March 2012 - £3,134 million; 31 December 2011 - £2,933 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 Group has considered the carrying value of this asset as at 30 June 2012 and concluded that it is recoverable based on future profit projections.

## 7. (Loss)/profit attributable to non-controlling interests

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
RBS Sempra Commodities JV	4	(5)	4	-	4
RFS Holdings BV Consortium Members	(35)	24	(16)	(19)	14
Other	12	(2)	7	5	-
(Loss)/profit attributable to non-controlling interests	(19)	17	(5)	(14)	18

Notes (continued)

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8. Dividends

On 26 November 2009, RBS entered into a State Aid Commitment Deed with HM Treasury containing commitments and undertakings that were designed to ensure that HM Treasury was able to comply with the commitments to be given by it to the European Commission for the purposes of obtaining approval for the State aid provided to RBS. As part of these commitments and undertakings, RBS agreed not to pay discretionary coupons and dividends on its existing hybrid capital instruments for a period of two years. This period commenced on 30 April 2010 for RBS Group instruments (the two year deferral period for RBS Holdings N.V. instruments commenced on 1 April 2011). On 30 April 2012 this period ended for RBS Group instruments.

On 4 May 2012, RBS determined that it was in a position to recommence payments on RBS Group instruments. The Core Tier 1 capital impact of discretionary amounts that will be payable over the remainder of 2012 on RBSG instruments on which payments have previously been stopped is c.£340 million. In the context of recent macro-prudential policy discussions, the Board of RBS decided to neutralise any impact on Core Tier 1 capital through equity issuance. Approximately 65% of this is ascribed to equity funding of employee incentive awards through the sale of surplus shares held by the Group's Employee Benefit Trust, which is now complete. The remaining 35% will be raised through the issue of new ordinary shares, which is expected to take place during the remainder of 2012.

In May 2012, the Directors declared the discretionary dividends on certain non-cumulative dollar preference shares which were payable on 30 June 2012, and announced that the discretionary distributions on certain RBSG innovative securities which were payable in June 2012 would also be paid. Future coupons and dividends on RBSG hybrid capital instruments will only be paid subject to, and in accordance with, the terms of the relevant instruments.

9. Share consolidation

Following approval at the Group's Annual General Meeting on 30 May 2012, the sub-division and consolidation of the Group's ordinary shares on a one-for-ten basis took effect on 6 June 2012. There was a corresponding change in the Group's share price to reflect this.

The Board believes that the consolidation will result in a more appropriate share price for a company of the Group's size in the UK market. It may also help reduce volatility, thereby enabling a more consistent valuation of the Group.

## Notes (continued)

## 10. Earnings per ordinary and B share

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

	Half year ended		Quarter ended		
	30 June 2012	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Earnings					
Loss from continuing operations attributable to ordinary and B shareholders (£m)	(1,987)	(1,429)	(463)	(1,524)	(899)
(Loss)/profit from discontinued operations attributable to ordinary and B shareholders (£m)	(3)	4	(3)	-	2
Ordinary shares in issue during the period (millions)	5,812	5,689	5,854	5,770	5,697
Effect of convertible B shares in issue during the period (millions)	5,100	5,100	5,100	5,100	5,100
Weighted average number of ordinary shares and effect of convertible B shares in issue during the period (millions)	10,912	10,789	10,954	10,870	10,797
Basic and diluted loss per ordinary and B share from continuing operations	(18.2p)	(13.2p)	(4.2p)	(14.0p)	(8.3p)

Prior period data have been adjusted for the sub-division and one-for-ten consolidation of ordinary shares, which took effect in June 2012.

## Notes (continued)

## 11. Segmental analysis

In January 2012, the Group announced the reorganisation of its wholesale businesses into 'Markets' and 'International Banking'. Divisional results have been presented based on the new organisational structure. The Group has also revised its allocation of funding and liquidity costs and capital for the new divisional structure as well as for a new methodology. In addition, the Group had previously included movements in the fair value of own derivative liabilities within the Markets operating segment. These movements have now been combined with movements in the fair value of own debt in a single measure, 'own credit adjustments' and presented as a reconciling item. Refer to 'presentation of information' on page 5 for further details. Comparatives have been restated accordingly.

## Analysis of divisional operating profit/(loss)

The following tables provide an analysis of divisional operating profit/(loss) by main income statement captions.

Half year ended 30 June 2012	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	1,989	508	2,497	(1,288)	-	(295)	914
UK Corporate	1,528	884	2,412	(1,051)	-	(357)	1,004
Wealth	357	236	593	(462)	-	(22)	109
International Banking	485	618	1,103	(777)	-	(62)	264
Ulster Bank	325	95	420	(258)	-	(717)	(555)
US Retail & Commercial	988	583	1,571	(1,193)	-	(47)	331
Markets	48	2,752	2,800	(1,704)	-	(21)	1,075
Direct Line Group	152	1,748	1,900	(456)	(1,225)	-	219
Central items	(4)	7	3	(147)	-	(32)	(176)
Core	5,868	7,431	13,299	(7,336)	(1,225)	(1,553)	3,185
Non-Core	112	158	270	(525)	-	(1,096)	(1,351)
Managed basis	5,980	7,589	13,569	(7,861)	(1,225)	(2,649)	1,834
Reconciling items							
Own credit adjustments (1)	-	(2,974)	(2,974)	-	-	-	(2,974)
Asset Protection Scheme (2)	-	(45)	(45)	-	-	-	(45)
Payment Protection Insurance costs	-	-	-	(260)	-	-	(260)
Amortisation of purchased intangible assets	-	-	-	(99)	-	-	(99)
Integration and restructuring costs	-	-	-	(673)	-	-	(673)
Gain on redemption of own debt	-	577	577	-	-	-	577
Strategic disposals	-	152	152	-	-	-	152
RFS Holdings minority interest	(10)	(6)	(16)	(1)	-	-	(17)
Statutory basis	5,970	5,293	11,263	(8,894)	(1,225)	(2,649)	(1,505)

Notes:

- (1) Comprises £1,280 million loss included in 'Income from trading activities' and £1,694 million loss included in 'Other operating income'.
- (2) Included in 'Income from trading activities'.



## Notes (continued)

## 11. Segmental analysis (continued)

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

Half year ended 30 June 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	2,184	637	2,821	(1,366)	-	(402)	1,053
UK Corporate	1,581	899	2,480	(1,064)	-	(327)	1,089
Wealth	325	229	554	(416)	-	(8)	130
International Banking	583	729	1,312	(839)	-	(98)	375
Ulster Bank	363	102	465	(278)	-	(730)	(543)
US Retail & Commercial	922	554	1,476	(1,063)	-	(176)	237
Markets	56	3,220	3,276	(1,934)	-	14	1,356
Direct Line Group	177	1,939	2,116	(422)	(1,488)	-	206
Central items	(76)	70	(6)	27	1	2	24
Core	6,115	8,379	14,494	(7,355)	(1,487)	(1,725)	3,927
Non-Core	420	981	1,401	(658)	(218)	(2,486)	(1,961)
Managed basis	6,535	9,360	15,895	(8,013)	(1,705)	(4,211)	1,966
Reconciling items							
Own credit adjustments (1)	-	(236)	(236)	-	-	-	(236)
Asset Protection Scheme (2)	-	(637)	(637)	-	-	-	(637)
Payment Protection Insurance costs	-	-	-	(850)	-	-	(850)
Sovereign debt impairment	-	-	-	-	-	(733)	(733)
Interest rate hedge adjustments on impaired available-for-sale sovereign debt	-	-	-	-	-	(109)	(109)
Amortisation of purchased intangible assets	-	-	-	(100)	-	-	(100)
Integration and restructuring costs	(2)	(3)	(5)	(348)	-	-	(353)
Gain on redemption of own debt	-	255	255	-	-	-	255
Strategic disposals	-	27	27	-	-	-	27
Bonus tax	-	-	-	(22)	-	-	(22)
RFS Holdings minority interest	(5)	2	(3)	1	-	-	(2)
Statutory basis	6,528	8,768	15,296	(9,332)	(1,705)	(5,053)	(794)

## Notes:

- (1) Comprises £170 million loss included in 'Income from trading activities' and £66 million loss included in 'Other operating income' on a statutory basis.

(2) Included in 'Income from trading activities' on a statutory basis.

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## Notes (continued)

## 11. Segmental analysis (continued)

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

Quarter ended 30 June 2012	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	988	242	1,230	(653)	-	(140)	437
UK Corporate	772	439	1,211	(518)	-	(181)	512
Wealth	178	125	303	(227)	-	(12)	64
International Banking	234	327	561	(367)	-	(27)	167
Ulster Bank	160	46	206	(128)	-	(323)	(245)
US Retail & Commercial	492	323	815	(558)	-	(28)	229
Markets	32	1,034	1,066	(796)	-	(19)	251
Direct Line Group	68	866	934	(223)	(576)	-	135
Central items	1	110	111	(145)	-	2	(32)
Core	2,925	3,512	6,437	(3,615)	(576)	(728)	1,518
Non-Core	48	(47)	1	(262)	-	(607)	(868)
Managed basis	2,973	3,465	6,438	(3,877)	(576)	(1,335)	650
Reconciling items							
Own credit adjustments (1)	-	(518)	(518)	-	-	-	(518)
Asset Protection Scheme (2)	-	(2)	(2)	-	-	-	(2)
Payment Protection Insurance costs	-	-	-	(135)	-	-	(135)
Amortisation of purchased intangible assets	-	-	-	(51)	-	-	(51)
Integration and restructuring costs	-	-	-	(213)	-	-	(213)
Strategic disposals	-	160	160	-	-	-	160
RFS Holdings minority interest	(2)	11	9	(1)	-	-	8
Statutory basis	2,971	3,116	6,087	(4,277)	(576)	(1,335)	(101)

## Notes:

- (1) Comprises £271 million loss included in 'Income from trading activities' and £247 million loss included in 'Other operating income' on a statutory basis.
- (2) Included in 'Income from trading activities' on a statutory basis.



## Notes (continued)

## 11. Segmental analysis (continued)

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

Quarter ended 31 March 2012	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	1,001	266	1,267	(635)	-	(155)	477
UK Corporate	756	445	1,201	(533)	-	(176)	492
Wealth	179	111	290	(235)	-	(10)	45
International Banking	251	291	542	(410)	-	(35)	97
Ulster Bank	165	49	214	(130)	-	(394)	(310)
US Retail & Commercial	496	260	756	(635)	-	(19)	102
Markets	16	1,718	1,734	(908)	-	(2)	824
Direct Line Group	84	882	966	(233)	(649)	-	84
Central items	(5)	(103)	(108)	(2)	-	(34)	(144)
Core	2,943	3,919	6,862	(3,721)	(649)	(825)	1,667
Non-Core	64	205	269	(263)	-	(489)	(483)
Managed basis	3,007	4,124	7,131	(3,984)	(649)	(1,314)	1,184
Reconciling items							
Own credit adjustments (1)	-	(2,456)	(2,456)	-	-	-	(2,456)
Asset Protection Scheme (2)	-	(43)	(43)	-	-	-	(43)
Payment Protection Insurance costs	-	-	-	(125)	-	-	(125)
Amortisation of purchased intangible assets	-	-	-	(48)	-	-	(48)
Integration and restructuring costs	-	-	-	(460)	-	-	(460)
Gain on redemption of own debt	-	577	577	-	-	-	577
Strategic disposals	-	(8)	(8)	-	-	-	(8)
RFS Holdings minority interest	(8)	(17)	(25)	-	-	-	(25)
Statutory basis	2,999	2,177	5,176	(4,617)	(649)	(1,314)	(1,404)

## Notes:

- (1) Comprises £1,009 million loss included in 'Income from trading activities' and £1,447 million loss included in 'Other operating income' on a statutory basis.
- (2) Included in 'Income from trading activities' on a statutory basis.

## Notes (continued)

## 11. Segmental analysis (continued)

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

Quarter ended 30 June 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	1,098	333	1,431	(688)	-	(208)	535
UK Corporate	770	448	1,218	(526)	-	(220)	472
Wealth	168	115	283	(220)	-	(3)	60
International Banking	290	375	665	(412)	-	(104)	149
Ulster Bank	182	51	233	(142)	-	(269)	(178)
US Retail & Commercial	470	279	749	(541)	-	(65)	143
Markets	3	1,165	1,168	(855)	-	14	327
Direct Line Group	89	957	1,046	(203)	(704)	-	139
Central items	(58)	81	23	30	1	2	56
Core	3,012	3,804	6,816	(3,557)	(703)	(853)	1,703
Non-Core	221	745	966	(335)	(90)	(1,411)	(870)
Managed basis	3,233	4,549	7,782	(3,892)	(793)	(2,264)	833
Reconciling items							
Own credit adjustments (1)	-	324	324	-	-	-	324
Asset Protection Scheme (2)	-	(168)	(168)	-	-	-	(168)
Payment Protection Insurance costs	-	-	-	(850)	-	-	(850)
Sovereign debt impairment	-	-	-	-	-	(733)	(733)
Interest rate hedge adjustments on impaired available-for-sale sovereign debt	-	-	-	-	-	(109)	(109)
Amortisation of purchased intangible assets	-	-	-	(56)	-	-	(56)
Integration and restructuring costs	-	1	1	(209)	-	-	(208)
Gain on redemption of own debt	-	255	255	-	-	-	255
Strategic disposals	-	50	50	-	-	-	50
Bonus tax	-	-	-	(11)	-	-	(11)
RFS Holdings minority interest	(6)	-	(6)	1	-	-	(5)
Statutory basis	3,227	5,011	8,238	(5,017)	(793)	(3,106)	(678)

## Notes:

- (1) Comprises £96 million gain included in 'Income from trading activities' and £228 million gain included in 'Other operating income' on a statutory basis.
- (2) Included in 'Income from trading activities' on a statutory basis.



Notes (continued)

## 11. Segmental analysis (continued)

## Total revenue by division

	Half year ended					
	30 June 2012			30 June 2011		
	External £m	Inter segment £m	Total £m	External £m	Inter segment £m	Total £m
Total revenue						
UK Retail	3,277	320	3,597	3,440	204	3,644
UK Corporate Wealth	2,541	40	2,581	2,532	39	2,571
	526	401	927	501	353	854
International Banking	1,409	189	1,598	1,609	204	1,813
Ulster Bank	557	(8)	549	636	2	638
US Retail & Commercial Markets	1,755	68	1,823	1,715	108	1,823
	3,199	2,805	6,004	3,850	3,589	7,439
Direct Line Group	2,296	5	2,301	2,386	4	2,390
Central items	1,270	8,379	9,649	1,459	6,032	7,491
Core	16,830	12,199	29,029	18,128	10,535	28,663
Non-Core	1,322	498	1,820	2,754	171	2,925
Managed basis	18,152	12,697	30,849	20,882	10,706	31,588
Reconciling items						
Own credit adjustments	(2,974)	-	(2,974)	(236)	-	(236)
Asset Protection Scheme	(45)	-	(45)	(637)	-	(637)
Integration and restructuring costs	-	-	-	(5)	-	(5)
Gain on redemption of own debt	577	-	577	255	-	255
Strategic disposals	152	-	152	27	-	27
RFS Holdings minority interest	(4)	-	(4)	(3)	-	(3)
Elimination of intra-group transactions	-	(12,697)	(12,697)	-	(10,706)	(10,706)
Statutory basis	15,858	-	15,858	20,283	-	20,283



## Notes (continued)

## 11. Segmental analysis (continued)

## Total revenue by division (continued)

	30 June 2012			Quarter ended 31 March 2012			30 June 2011		
	External	Inter segment	Total	External	Inter segment	Total	External	Inter segment	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Total revenue									
UK Retail	1,627	178	1,805	1,650	142	1,792	1,744	88	1,832
UK Corporate Wealth	1,262	22	1,284	1,279	18	1,297	1,249	18	1,267
	266	190	456	260	211	471	253	185	438
International Banking	709	89	798	700	100	800	833	113	946
Ulster Bank	267	(2)	265	290	(6)	284	309	2	311
US Retail & Commercial Markets	900	32	932	855	36	891	861	52	913
	1,265	1,294	2,559	1,934	1,511	3,445	1,517	1,879	3,396
Direct Line Group	1,138	2	1,140	1,158	3	1,161	1,187	2	1,189
Central items	701	4,478	5,179	569	3,901	4,470	762	3,063	3,825
Core	8,135	6,283	14,418	8,695	5,916	14,611	8,715	5,402	14,117
Non-Core	502	350	852	820	148	968	1,632	116	1,748
Managed basis Reconciling items	8,637	6,633	15,270	9,515	6,064	15,579	10,347	5,518	15,865
Own credit adjustments	(518)	-	(518)	(2,456)	-	(2,456)	324	-	324
Asset Protection Scheme	(2)	-	(2)	(43)	-	(43)	(168)	-	(168)
Integration and restructuring costs	-	-	-	-	-	-	1	-	1
Gain on redemption of own debt	-	-	-	577	-	577	255	-	255
Strategic disposals	160	-	160	(8)	-	(8)	50	-	50
RFS Holdings minority interest	13	-	13	(17)	-	(17)	(6)	-	(6)
Elimination of intra-group transactions	-	(6,633)	(6,633)	-	(6,064)	(6,064)	-	(5,518)	(5,518)
Statutory basis	8,290	-	8,290	7,568	-	7,568	10,803	-	10,803



## Notes (continued)

## 11. Segmental analysis (continued)

## Total assets by division

	30 June 2012 £m	31 March 2012 £m	31 December 2011 £m
Total assets			
UK Retail	116,849	116,255	114,469
UK Corporate Wealth	113,655	113,140	114,237
International Banking	21,285	21,325	21,718
Ulster Bank	61,480	63,719	69,987
US Retail & Commercial Markets	33,293	33,614	34,810
Direct Line Group	75,084	73,693	75,791
Central items	774,443	740,332	826,947
Core	13,559	13,430	12,912
Non-Core	124,120	134,780	130,466
	1,333,768	1,310,288	1,401,337
	80,590	91,823	104,726
	1,414,358	1,402,111	1,506,063
RFS Holdings minority interest	831	910	804
	1,415,189	1,403,021	1,506,867

## 12. Discontinued operations and assets and liabilities of disposal groups

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

	Half year ended		Quarter ended		
	30 June 2012 £m	30 June 2011 £m	30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Discontinued operations					
Total income	16	17	8	8	9
Operating expenses	(2)	(1)	(1)	(1)	-
Impairment losses	-	11	-	-	11
Profit before tax	14	27	7	7	20
Tax	(5)	(7)	(2)	(3)	(4)
Profit after tax	9	20	5	4	16
Businesses acquired exclusively with a view to disposal					
(Loss)/profit after tax	(8)	11	(9)	1	5

Profit/(loss) from discontinued operations, net of tax	█ 1	31	█ (4)	5	21
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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)

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

## (b) Assets and liabilities of disposal groups

	30 June 2012			31 March 2012	31 December 2011
	UK branch based businesses	Other	Total		
	£m	£m	£m	£m	£m
<b>Assets of disposal groups</b>					
Cash and balances at central banks	90	50	140	87	127
Loans and advances to banks	-	88	88	112	87
Loans and advances to customers	18,608	1,092	19,700	19,264	19,405
Debt securities and equity shares	-	36	36	5	5
Derivatives	372	4	376	368	439
Intangible assets	-	-	-	15	15
Settlement balances	-	2	2	4	14
Property, plant and equipment	114	1	115	4,609	4,749
Other assets	4	441	445	438	456
Discontinued operations and other disposal groups	19,188	1,714	20,902	24,902	25,297
Assets acquired exclusively with a view to disposal	-	167	167	158	153
	19,188	1,881	21,069	25,060	25,450
<b>Liabilities of disposal groups</b>					
Deposits by banks	1	-	1	83	1
Customer accounts	21,729	802	22,531	22,281	22,610
Derivatives	56	5	61	49	126
Settlement balances	-	-	-	-	8
Other liabilities	15	446	461	1,239	1,233
Discontinued operations and other disposal groups	21,801	1,253	23,054	23,652	23,978
Liabilities acquired exclusively with a view to disposal	-	10	10	12	17
	21,801	1,263	23,064	23,664	23,995

The assets and liabilities of disposal groups at 30 June 2012 primarily comprise the RBS England and Wales and NatWest Scotland branch-based businesses (“UK branch-based businesses”).

## UK branch-based businesses

Gross loans, Risk elements in lending (REIL) and impairment provisions at 30 June 2012 relating to the Group's UK branch-based businesses are set out below.

Gross loans £m	REIL £m	Impairment provisions £m
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Residential mortgages	5,849	197	34
Personal lending	1,782	325	267
Property	5,519	422	136
Construction	562	160	60
Service industries and business activities	4,824	286	153
Other	839	43	42
Latent	-	-	75
Total	19,375	1,433	767

## Notes (continued)

## 13. Financial instruments

## Classification

The following tables analyse the Group's financial assets and liabilities in accordance with the categories of financial instruments in IAS 39 with assets and liabilities outside the scope of IAS 39 shown separately. There have been no reclassifications during H1 2012.

	HFT (1)	DFV (2)	AFS (3)	LAR (4)	Other financial instruments (amortised cost)	Finance leases	Non financial assets/ liabilities	Total
30 June 2012	£m	£m	£m	£m	£m	£m	£m	£m
<b>Assets</b>								
Cash and balances at central banks	-	-	-	78,647				78,647
Loans and advances to banks								
- reverse repos	37,165	-	-	540				37,705
- other	18,857	-	-	20,579				39,436
Loans and advances to customers								
- reverse repos	59,680	-	-	516				60,196
- other	24,542	206	-	402,355		7,862		434,965
Debt securities	92,194	873	89,336	5,223				187,626
Equity shares	11,019	640	1,432	-				13,091
Settlement balances	-	-	-	15,312				15,312
Derivatives (5)	486,432							486,432
Intangible assets							14,888	14,888
Property, plant and equipment							11,337	11,337
Deferred tax							3,502	3,502
Prepayments, accrued income and other assets	-	-	-	1,490			9,493	10,983
Assets of disposal groups							21,069	21,069
	729,889	1,719	90,768	524,662		7,862	60,289	1,415,189
<b>Liabilities</b>								
Deposits by banks								
- repos	33,077	-			6,048			39,125
- other	33,615	-			34,004			67,619
Customer accounts								
- repos	83,463	-			5,487			88,950

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- other	14,356	5,752	392,661			412,769
Debt securities in issue	10,780	30,355	78,720			119,855
Settlement balances	-	-	15,126			15,126
Short positions	38,376	-				38,376
Derivatives (5)	480,745					480,745
Accruals, deferred income and other liabilities	-	-	1,748	16	17,056	18,820
Retirement benefit liabilities					1,791	1,791
Deferred tax					1,815	1,815
Insurance liabilities					6,322	6,322
Subordinated liabilities	-	923	24,673			25,596
Liabilities of disposal groups					23,064	23,064
	694,412	37,030	558,467	16	50,048	1,339,973
Equity						75,216
						1,415,189

For the notes to this table refer to page 101.



## Notes (continued)

## 13. Financial instruments (continued)

## Classification (continued)

	HFT (1)	DFV (2)	AFS (3)	LAR (4)	Other financial instruments (amortised cost)	Finance leases	Non financial assets/ liabilities	Total
31 March 2012	£m	£m	£m	£m	£m	£m	£m	£m
Assets								
Cash and balances at central banks	-	-	-	82,363				82,363
Loans and advances to banks								
- reverse repos	32,232	-	-	2,394				34,626
- other	17,055	-	-	19,009				36,064
Loans and advances to customers								
- reverse repos								