ROYAL BANK OF SCOTLAND GROUP PLC
Form 6-K
August 31, 2012

Report of Foreign Private Issuer

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

31 August 2012

The Royal Bank of Scotland Group plc

Gogarburn
PO Box 1000
Edinburgh EH12 1HQ
Scotland
United Kingdom

(Address of principal executive offices)

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

Form 20-F X Form 40-F

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

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

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

Yes No X

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

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(File Nos. 333-162219 and 333-162219-01) and to be a part thereof from the date which it was filed, to the extent not superseded by documents or reports subsequently filed or furnished.

Explanatory Note

The Royal Bank of Scotland Group plc (the "Group") is filing this Form 6-K to add note 20 (Consolidating financial information) to its results for the six months ended 30 June 2012 and to update note 16 (Litigation, investigations and reviews) for recent developments relating to 'Multilateral interchange fees', 'Technology incident' and 'Securitisation and collateralised debt obligation business', which were previously filed with the Securities and Exchange Commission ("SEC") on a separate Form 6-K on 8 August 2012. Note 20 contains condensed consolidating financial information in accordance with Rule 3-10 of Regulation S-X for:

- RBSG plc on a stand-alone basis as guarantor ("RBSG Company")
- RBS plc on a stand-alone basis as issuer ("RBS Company")
- Non-guarantor Subsidiaries of RBSG Company and RBS Company on a combined basis ("Subsidiaries")
- Consolidation adjustments; and
- RBSG plc consolidated amounts ("RBSG Group").

References in this Form 6-K to the Group's annual report for the year ended 31 December 2011 on Form 20-F have been amended to refer to the Group's restated annual report for the year ended 31 December 2011 on Form 6-K filed with the SEC on 10 August 2012 (the "2011 Annual Report").

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Forward-looking statements

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

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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 152) 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)

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.

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)

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

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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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%).

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.

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.

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.

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	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Net interest income	£m	£m	£m	£m	£m
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	30 June 2011	30 June 2012	31 March 2012	30 June 2011
Non-interest income	£m	£m	£m	£m	£m
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

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
Operating expenses and net insurance claims	£m	£m	£m	£m	£m
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.

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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	31 March 2012	30 June 2011
Impairment losses	£m	£m	£m	£m	£m
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	-	109	-	-	109
	(81)	918	(100)	19	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.

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Analysis of results (continued)

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)

Capital resources and ratios	30 June 2012	31 March 2012	31 December 2011
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)

Balance sheet	30 June 2012	31 March 2012	31 December 2011
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 142 to 153.

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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					

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 Markets	1,500	1,741	711	789	869