RBS Group

Interim Results **2012**

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Highlights

RBS reports an H1 2012 Group operating profit(1) of £1,834 million

Core RBS H1 2012 operating profit of £3,185 million

Core return on tangible equity 10.2%

Net attributable H1 loss of £1,990 million after £2,974 million accounting charge for own credit, reflecting improvement in market trading levels of Group credit; £287 million attributable profit ex own credit adjustments

Non-Core proceeding well, assets down £22 billion in H1 to £72 billion

Group Core Tier 1 ratio strengthens further to 11.1%

"The first half of 2012 saw RBS make good progress on both of the jobs that make up our recovery plan. We have continued to make the bank safer and stronger as we clean up problems of the past. And despite the tougher economy, these results show our ongoing businesses to be more resilient than before with many further improvements underway.

Our recovery plan for RBS is about both physical and cultural change. We know that in a difficult moment for banks it is more essential than ever to drive through these changes. 30 million customers worldwide rely on our services. We have the obligation to show that their interests consistently come first. I am determined that RBS should be a leader as we remodel this bank to better serve society and all those who rely on us."

Stephen Hester, Group Chief Executive

Highlights

Continued progress on strengthening and derisking the bank

- Non-Core third party assets were down £22 billion in H1 to £72 billion, with year-end targets revised down further to £60-65 billion.
- Group Core Tier 1 ratio improved to 11.1%, with a net £4 billion reduction in risk-weighted assets in H1 2012 despite increases to regulatory risk-weightings.
- Excluding capital relief from the Asset Protection Scheme (APS), the Core Tier 1 ratio was 10.3%. The Group intends to exit the APS in H2 2012, subject to Financial Services Authority approval.
- Customer deposits grew by £7 billion from a year earlier, with minimal impact from a credit rating downgrade during Q2 2012. Group loan:deposit ratio improved further to 104%.
- Short-term wholesale borrowings were reduced further by £40 billion during H1 2012 to £62 billion. This is covered 2.5 times by a significant liquidity buffer of £156 billion.

Operating profit stable in H1 2012

- H1 2012 Group operating profit[1] was £1,834 million, after a £125 million provision for costs arising from the technology incident in June 2012 and a £50 million provision for interest rate swap mis-selling. Excluding these provisions, the results were in line with H1 2011.
- Core operating profit was £3,185 million in H1 2012, delivering a return on equity (ROE) of 10.2%. Retail & Commercial, excluding Ulster Bank, showed favourable trends in Q2, with H1 ROE at 14.4%. H1 ROE for our Markets business was 14.0%.
- Q2 Group operating profit was £650 million, down £183 million versus Q2 2011 as lower Markets revenues and the technology incident provision were only partially offset by lower Non-Core losses.

Favourable credit trends and cost control continue

- Group impairment losses totalled £2,649 million in H1 2012, down £1,562 million (37%) from H1 2011. Core impairments were down £172 million, or 10%, with favourable trends particularly in UK Retail and US Retail & Commercial; Non-Core saw a significant reduction in impairment charges on the Ulster Bank portfolio.
- Core expenses were flat in H1 relative to a year ago, as the Group's cost reduction programme and the restructuring of Markets and International Banking offset the cost of the one-off provisions.
- Staff costs were 4% lower than in H1 2011, with employee numbers down by 5,700, principally in Markets and International Banking.

Note:

(1) Operating profit before tax, own credit adjustments, Asset Protection Scheme, Payment Protection Insurance costs, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals and RFS Holdings minority interest ('operating profit'). Statutory operating loss before tax was £1,505 million for the half year ended 30 June 2012.

Key financial data

	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
Core					
Total income (1)	**13,299**	14,494	**6,437**	6,862	6,816
Operating expenses (2)	**(7,336)**	(7,355)	**(3,615)**	(3,721)	(3,557)
Insurance net claims	**(1,225)**	(1,487)	**(576)**	(649)	(703)
Operating profit before impairment losses (3)	**4,738**	5,652	**2,246**	2,492	2,556
Impairment losses (4)	**(1,553)**	(1,725)	**(728)**	(825)	(853)
Core operating profit (3)	**3,185**	3,927	**1,518**	1,667	1,703
Non-Core operating loss (3)	**(1,351)**	(1,961)	**(868)**	(483)	(870)
Group operating profit (3)	**1,834**	1,966	**650**	1,184	833
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)
Other items (5)	**(60)**	(304)	**(96)**	36	(84)
Loss before tax	**(1,505)**	(794)	**(101)**	(1,404)	(678)
Loss attributable to ordinary and B shareholders	**(1,990)**	(1,425)	**(466)**	(1,524)	(897)
Memo: APS after tax cost (6)	**(34)**	(468)	**(2)**	(32)	(123)

	30 June 2012	31 March 2012	31 December 2011
Capital and balance sheet			
Funded balance sheet (7)	**£929bn**	£950bn	£977bn
Loan:deposit ratio (Group) (8)	**104%**	106%	108%
Loan:deposit ratio (Core) (8)	**92%**	93%	94%
Core Tier 1 ratio	**11.1%**	10.8%	10.6%
Tangible equity per ordinary and B share (9)	**489p**	488p	501p

Notes:
(1) Excluding own credit adjustments, Asset Protection Scheme, gain on redemption of own debt, strategic disposals and RFS Holdings minority interest.
(2) Excluding Payment Protection Insurance costs, amortisation of purchased intangible assets, integration and restructuring costs, bonus tax and RFS Holdings minority interest.
(3) Operating profit before tax, own credit adjustments, Asset Protection Scheme, Payment Protection Insurance costs, sovereign debt impairment and other items (see note 5 below).
(4) Excluding sovereign debt impairment and related interest rate hedge adjustments.
(5) Other items comprise amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, RFS Holdings minority interest and interest rate hedge adjustments on impaired available-for-sale sovereign debt. Refer to page 18 of the main announcement for further details.
(6) Asset Protection Scheme, net of tax.
(7) Funded balance sheet is total assets less derivatives.
(8) Net of provisions, including disposal groups and excluding repurchase agreements.
(9) Tangible equity per ordinary and B share is total tangible equity divided by number of ordinary and effect of convertible B shares in issue. Prior period data have been adjusted for the sub-division and one-for-ten consolidation of ordinary shares, which took effect in June 2012.

Comment

Stephen Hester, Group Chief Executive, commented:

We launched our plan to change RBS in 2009 and it continues to deliver good progress along the path we set out. For the first half of this year, the Group made an operating profit of £1.8 billion, close to the same period in 2011 despite a worsening economic backdrop and the further restructuring of our Markets businesses. Excluding 'clean-up' losses from Non-Core and Ulster Bank, operating profit was £3.7 billion and operating ROE on this basis was 13.2%.

We also achieved an important milestone in completing full repayment of the huge liquidity support given to RBS by public authorities during the crisis. We navigated Eurozone problems and a credit rating downgrade from Moody's with no slippage in the balance sheet resilience painstakingly rebuilt in the first three years of our plan. The bottom-line loss we report for H1 2012 includes a £3 billion 'own credit' accounting charge, itself an indicator of RBS's recovery as our debt now trades at tighter margins.

We continue to prioritise support for customers and have increased overall net lending in Core UK Retail and Corporate businesses. In the first six months, despite economic shrinkage; gross new lending to UK non-financial institutions and homeowners was £49.2 billion. Since 2008, total drawn lending balances in our UK Core businesses are up 4%.

However, steady progress in rebuilding financial strength, and resilience in the Group's underlying financial performance, contrasts with a grim period for the reputation of our industry and for RBS within it.

We are in a chastening period for the banking industry. The consequences of the sector's past over-expansion are still being accounted for, probably with some way still to go. The mistakes and vulnerabilities carried over from that period are both financial and cultural. The consequences of these mistakes have seen the reputation of the sector fall to new lows. This is dangerous because customer trust is a pre-requisite for a successful banking sector and an effective banking sector is so important to economic stability and growth. It especially saddens me because since rejoining the sector three and a half years ago to lead the change and recovery at RBS, I have been struck by the sterling efforts of the vast majority of people in our bank to provide honest, reliable and helpful services to customers.

When we first set out the plan for recovery and change at RBS, we were under no illusions as to the scale of the task. Most things that had gone wrong in the industry as a whole had also been present within RBS. It was clear the changes we needed to bring about could not be accomplished overnight. We foresaw five tough years - identifying the problems, paying for their consequences and putting them right for the future. The sheer scale of what was needed to recover RBS from the chaos of 2008-2009 meant the problems would take much work to fix and we would not get everything right first time.

Three years on we have made a lot of progress in our task. We have largely corrected the unstable balance sheet. The clean-up costs from past mistakes are steadily being put behind us, though still significant. The Bank's leadership has been almost entirely changed. Our recovery has been elongated by tough economic conditions in our main markets, but we have taken care to build resiliency into our balance sheet and sustainability into our customer revenues. This means the business is increasingly well positioned for the more conservative approach that customers and shareholders want from their banks.

At the centre of RBS's recovery and change plan was always both physical and cultural change. Our industry's weaknesses, and those of RBS specifically, were often rooted in the interplay of these two aspects. While there are many different strands to cultural change, at its heart is one central truth: we must build RBS around good and enduring customer service. The Bank's own fortunes - shareholders and employees - must be a reflection of how well we do this, not an end in itself.

All companies make mistakes and have individual cases of wrongdoing. The nature of financial services tends to magnify the impact of these. But we must not rest until our physical defences are robust and the culture of RBS and the wider industry, properly and permanently reinforces the good and isolates the bad. Culture is defined over years, not months. The wrenching changes at RBS and elsewhere are a hugely powerful catalyst to hasten that process. However, the process of combing through and rectifying the past can seem like going backwards for a while - just as realisation of bad lending takes time to identify, provide for and deal with.

A significant blot on RBS's reputation came at the end of this quarter via a systems failure. We are working through a detailed root cause investigation to assess what improvements need to be made to ensure these types of issues do not re-occur. While we have significantly increased technology spend over the past three years, there is clearly more we need to do to ensure reliability for our customers. I know our customers expect and deserve better and we are determined to learn the lessons of this incident and make the necessary improvements.

RBS legal disclosures, which accompany each of our quarterly reports, highlight a list of items arising from past actions that we are still dealing with in the conduct arena. It is no comfort that many are shared across the industry. The LIBOR situation is on our agenda and is a stark reminder of the damage that individual wrongdoing and inadequate systems and controls can have in terms of financial and reputational impact. This is the subject of ongoing regulatory investigation but our customers and shareholders should be in no doubt that we are taking it seriously. These issues together are hard to deal with but just as necessary a part of change from the past as the restructuring of our balance sheet.

We debate carefully what these industry problems say about different forms of banking. Certainly, wholesale businesses saw the greatest financial and cultural distortion in the boom years. In response to this, RBS wholesale businesses are now just one third of their pre-crisis size in balance sheet terms - a restructuring on a greater scale than any peer so far. Yet our industry, and RBS, has had cultural, customer and risk management failures across all its business lines arising out of pre-crisis times. The change we are making must be as comprehensive. This is because customers and our economies need strong and effective financial services of all kinds - from the man in the street to the international needs of large exporters, pension funds and governments themselves.

RBS plays an important and enduring role for our customers. We are needed, and where we do our jobs well we also have a valuable, well performing and enduring business. We have undergone huge change for the better in the last three years. The fruits of change are visible in many areas, but still to be secured in others. There will remain tough moments ahead. We want RBS to be a model for the way a bank relates to society. This means we aspire to serve our customers well with a dedicated staff who can feel proud of their work at RBS. And as we do that, we must also deliver enduring value to our shareholders and meet all of our responsibilities in the wider economy and society. I believe we can do what we need to do.

Highlights

First half 2012 results summary

The Royal Bank of Scotland Group (RBS) reported a Group operating profit of £1,834 million for the first half of 2012. 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 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%, although excluding Ulster Bank R&C ROE in H1 was 14.4%.
- 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 profit totalled £650 million, down 22% from Q2 2011 but only 1% excluding the provisions 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 provisions).

Non-operating items and statutory results

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. Excluding own credit adjustments, H1 pre-tax profit was £1,469 million and attributable profit £287 million*. H1 2012 statutory pre-tax loss was £1,505 million and statutory attributable loss was £1,990 million. Tangible net asset value per share rose to 489 pence.

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

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 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 balance sheet by £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.

Strategic Plan

Key Measures	**Worst point**	Q1 2012	**Q2 2012**	**Medium-term target**
Value drivers		Core	**Core**	**Core**
• Return on equity (1)	(31%)[2]	11.0%	9.3%	>12%
• Cost:income ratio (3)	97%[4]	60%	62%	<55%
Risk measures		Group	**Group**	**Group**
• Core Tier 1 ratio	4%[5]	10.8%	11.1%	>10%
• Loan:deposit ratio	154%[6]	106%	104%	c.100%
• Short-term wholesale funding (STWF)	£297bn[7]	£80bn	£62bn	<10% TPAs[8]
• Liquidity portfolio (9)	£90bn[7]	£153bn	£156bn	>1.5x STWF
• Leverage ratio (10)	28.7x[11]	16.3x	15.6x	<18x

Notes:
(1) Based on indicative Core attributable profit taxed at standard rates and Core average tangible equity per the average balance sheet (c.75% of Group tangible equity based on RWAs at 30 June 2012); (2) Group return on tangible equity for 2008; (3) Cost:income ratio net of insurance claims; (4) Year ended 31 December 2008; (5) As at 1 January 2008; (6) As at October 2008; (7) As at December 2008; (8) Third party assets (TPAs); (9) Eligible assets held for contingent liquidity purposes including cash, Government issued securities and other eligible securities with central banks; (10) Funded tangible assets divided by total Tier 1 capital; (11) As at June 2008.

First half 2012 results summary (continued)

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.

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.

Contacts

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Results presentation and Q&A call

A pre-recorded presentation of the results for the half year ended 30 June 2012 will be available on www.rbs.com/results from 7.00 am on Friday 3 August 2012.

An audio Q&A session will also be held, details as follows:

Date:	Friday 3 August 2012
Time:	9.30 am UK time
Webcast:	www.rbs.com/results
Dial in details:	International – +44 (0) 1452 568 172 UK Free Call – 0800 694 8082 US Toll Free – 1 866 966 8024

Slides

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

Financial supplement

A financial supplement will be available on www.rbs.com/results This supplement shows published income and balance sheet financial information by quarter for the last nine quarters to assist analysts for modelling purposes.

Interim results
for the half year ended
30 June 2012

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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', 'objective', 'will', 'endeavour', 'outlook', 'optimistic', 'prospects' and similar expressions or variations on such expressions.

In particular, this document includes forward-looking statements relating, but not limited to: the Group's restructuring 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

The financial information on pages 6 to 67, prepared using the Group's accounting policies, shows the underlying performance of the Group on a managed basis which excludes certain one-off and other items. Information is provided in this form to give a better understanding of the results of the Group's operations. Group operating profit on this basis excludes:

- own credit adjustments;
- Asset Protection Scheme;
- Payment Protection Insurance (PPI) costs;
- sovereign debt impairment;
- interest rate hedge adjustments on impaired available-for-sale sovereign debt;
- amortisation of purchased intangible assets;
- integration and restructuring costs;
- gain on redemption of own debt;
- strategic disposals;
- bonus tax; and
- RFS Holdings minority interest (RFS MI).

Statutory results

The condensed 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 notes presented on pages 68 to 128 inclusive are on a statutory basis. Reconciliations between the managed basis and statutory basis are included in Appendix 1.

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.

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.rbs.com/ir.

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.

Results summary

	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
Core					
Total income (1)	**13,299**	14,494	**6,437**	6,862	6,816
Operating expenses (2)	**(7,336)**	(7,355)	**(3,615)**	(3,721)	(3,557)
Insurance net claims	**(1,225)**	(1,487)	**(576)**	(649)	(703)
Operating profit before impairment losses (3)	**4,738**	5,652	**2,246**	2,492	2,556
Impairment losses (4)	**(1,553)**	(1,725)	**(728)**	(825)	(853)
Operating profit (3)	**3,185**	3,927	**1,518**	1,667	1,703
Non-Core					
Total income (1)	**270**	1,401	**1**	269	966
Operating expenses (2)	**(525)**	(658)	**(262)**	(263)	(335)
Insurance net claims	**-**	(218)	**-**	-	(90)
Operating (loss)/profit before impairment losses (3)	**(255)**	525	**(261)**	6	541
Impairment losses (4)	**(1,096)**	(2,486)	**(607)**	(489)	(1,411)
Operating loss (3)	**(1,351)**	(1,961)	**(868)**	(483)	(870)
Total					
Total income (1)	**13,569**	15,895	**6,438**	7,131	7,782
Operating expenses (2)	**(7,861)**	(8,013)	**(3,877)**	(3,984)	(3,892)
Insurance net claims	**(1,225)**	(1,705)	**(576)**	(649)	(793)
Operating profit before impairment losses (3)	**4,483**	6,177	**1,985**	2,498	3,097
Impairment losses (4)	**(2,649)**	(4,211)	**(1,335)**	(1,314)	(2,264)
Operating profit (3)	**1,834**	1,966	**650**	1,184	833
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)
Other items	**(60)**	(304)	**(96)**	36	(84)
Loss before tax	**(1,505)**	(794)	**(101)**	(1,404)	(678)

For definitions of the notes refer to page 8.

Results summary (continued)

Key metrics	Half year ended 30 June 2012	30 June 2011	Quarter ended 30 June 2012	31 March 2012	30 June 2011
Performance ratios					
Core					
- Net interest margin	**2.16%**	2.24%	**2.20%**	2.12%	2.19%
- Cost:income ratio (5)	**61%**	57%	**62%**	60%	58%
- Return on equity	**10.2%**	13.9%	**9.3%**	11.0%	11.9%
- Adjusted earnings per ordinary and B share from continuing operations (6)	**10.4p**	14.0p	**4.4p**	6.0p	6.9p
- Adjusted earnings per ordinary and B share from continuing operations assuming a normalised tax rate of 24.5% (2011 - 26.5%) (6)	**21.3p**	26.8p	**9.7p**	11.6p	11.6p
Non-Core					
- Net interest margin	**0.28%**	0.77%	**0.24%**	0.31%	0.83%
- Cost:income ratio (5)	**194%**	56%	**nm**	98%	38%
Group					
- Net interest margin	**1.92%**	2.00%	**1.95%**	1.89%	1.97%
- Cost:income ratio (5)	**64%**	56%	**66%**	61%	56%
Continuing operations					
- Basic loss per ordinary and B share (6,7)	**(18.2p)**	(13.2p)	**(4.2p)**	(14.0p)	(8.3p)

For definitions of the notes refer to page 8.

Results summary (continued)

	30 June 2012	31 March 2012	Change	31 December 2011	Change
Capital and balance sheet					
Funded balance sheet (8)	**£929bn**	£950bn	(2%)	£977bn	(5%)
Total assets	**£1,415bn**	£1,403bn	1%	£1,507bn	(6%)
Loan:deposit ratio - Core (9)	**92%**	93%	(100bp)	94%	(200bp)
Loan:deposit ratio - Group (9)	**104%**	106%	(200bp)	108%	(400bp)
Risk-weighted assets - gross	**£488bn**	£496bn	(2%)	£508bn	(4%)
Benefit of Asset Protection Scheme (APS)	**(£53bn)**	(£62bn)	(15%)	(£69bn)	(23%)
Risk-weighted assets - net of APS	**£435bn**	£434bn	-	£439bn	(1%)
Total equity	**£75bn**	£75bn	-	£76bn	(1%)
Core Tier 1 ratio*	**11.1%**	10.8%	30bp	10.6%	50bp
Tier 1 ratio	**13.4%**	13.2%	20bp	13.0%	40bp
Risk elements in lending (REIL)	**£40bn**	£40bn	-	£41bn	(2%)
REIL as a % of gross loans and advances (10)	**8.6%**	8.6%	-	8.6%	-
Tier 1 leverage ratio (11)	**15.6x**	16.3x	(70bp)	16.9x	(130bp)
Tangible equity leverage ratio (12)	**6.0%**	5.8%	20bp	5.7%	30bp
Tangible equity per ordinary and B share (6,13)	**489p**	488p	-	501p	(2%)

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

Notes:
(1) Excluding own credit adjustments, Asset Protection Scheme, gain on redemption of own debt, strategic disposals and RFS Holdings minority interest.
(2) Excluding Payment Protection Insurance costs, amortisation of purchased intangible assets, integration and restructuring costs, bonus tax and RFS Holdings minority interest.
(3) Operating profit before tax, own credit adjustments, Asset Protection Scheme, Payment Protection Insurance costs, sovereign debt impairment and related interest rate hedge adjustments, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax and RFS Holdings minority interest.
(4) Excluding sovereign debt impairment and related interest rate hedge adjustments on impaired available-for-sale sovereign debt.
(5) Cost:income ratio is based on total income and operating expenses as defined in (1) and (2) above and after netting insurance claims against income.
(6) Prior period data have been adjusted for the sub-division and one-for-ten consolidation of ordinary shares, which took effect in June 2012. Refer to page 86.
(7) Loss from continuing operations attributable to ordinary and B shareholders divided by the weighted average number of ordinary and effect of convertible B shares in issue. Prior period data have been adjusted for the sub-division and one for ten consolidation of ordinary shares, which took effect in June 2012. Refer to page 87.
(8) Funded balance sheet represents total assets less derivatives.
(9) Net of provisions, including disposal groups and excluding repurchase agreements.
(10) Gross loans and advances to customers include disposal groups and exclude reverse repurchase agreements.
(11) Tier 1 leverage ratio is total tangible assets (after netting derivatives) divided by Tier 1 capital.
(12) Tangible equity leverage ratio is total tangible equity divided by total tangible assets (after netting derivatives).
(13) Tangible equity per ordinary and B share is total tangible equity divided by the number of ordinary and effect of convertible B shares in issue.

Results summary - statutory

Highlights

- Income of £11,263 million for H1 2012.
- Operating loss before tax of £1,505 million for H1 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
Summary income statement					
Total income	**11,263**	15,296	**6,087**	5,176	8,238
Operating expenses	**(8,894)**	(9,332)	**(4,277)**	(4,617)	(5,017)
Operating profit/(loss) before impairment losses	**1,144**	4,259	**1,234**	(90)	2,428
Impairment losses	**(2,649)**	(5,053)	**(1,335)**	(1,314)	(3,106)
Operating loss before tax	**(1,505)**	(794)	**(101)**	(1,404)	(678)
Loss attributable to ordinary and B shareholders	**(1,990)**	(1,425)	**(466)**	(1,524)	(897)

A reconciliation between statutory and managed view income statements is shown in Appendix 1 to this announcement.

Summary consolidated income statement for the period ended 30 June 2012

In the income statement set out below, own credit adjustments, Asset Protection Scheme, Payment Protection Insurance costs, sovereign debt impairment, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, interest rate hedge adjustments on impaired available-for-sale sovereign debt and RFS Holdings minority interest are shown separately. In the statutory condensed consolidated income statement on page 68, these items are included in income, operating expenses and impairments as appropriate.

	Half year ended		Quarter ended		
Core	**30 June 2012 £m**	30 June 2011 £m	**30 June 2012 £m**	31 March 2012 £m	30 June 2011 £m
Net interest income	**5,868**	6,115	**2,925**	2,943	3,012
Non-interest income (excluding insurance net premium income)	**5,564**	6,373	**2,583**	2,981	2,809
Insurance net premium income	**1,867**	2,006	**929**	938	995
Non-interest income	**7,431**	8,379	**3,512**	3,919	3,804
Total income (1)	**13,299**	14,494	**6,437**	6,862	6,816
Operating expenses (2)	**(7,336)**	(7,355)	**(3,615)**	(3,721)	(3,557)
Profit before insurance net claims and impairment losses	**5,963**	7,139	**2,822**	3,141	3,259
Insurance net claims	**(1,225)**	(1,487)	**(576)**	(649)	(703)
Operating profit before impairment losses (3)	**4,738**	5,652	**2,246**	2,492	2,556
Impairment losses (4)	**(1,553)**	(1,725)	**(728)**	(825)	(853)
Operating profit (3)	**3,185**	3,927	**1,518**	1,667	1,703
Non-Core					
Net interest income	**112**	420	**48**	64	221
Non-interest income (excluding insurance net premium income)	**158**	748	**(47)**	205	650
Insurance net premium income	**-**	233	**-**	-	95
Non-interest income	**158**	981	**(47)**	205	745
Total income (1)	**270**	1,401	**1**	269	966
Operating expenses (2)	**(525)**	(658)	**(262)**	(263)	(335)
(Loss)/profit before insurance net claims and impairment losses	**(255)**	743	**(261)**	6	631
Insurance net claims	**-**	(218)	**-**	-	(90)
Operating (loss)/profit before impairment losses (3)	**(255)**	525	**(261)**	6	541
Impairment losses (4)	**(1,096)**	(2,486)	**(607)**	(489)	(1,411)
Operating loss (3)	**(1,351)**	(1,961)	**(868)**	(483)	(870)

For definitions of the notes refer to page 8.

Summary consolidated income statement
for the period ended 30 June 2012 (continued)

Total	Half year ended 30 June 2012 £m	Half year ended 30 June 2011 £m	Quarter ended 30 June 2012 £m	Quarter ended 31 March 2012 £m	Quarter ended 30 June 2011 £m
Net interest income	**5,980**	6,535	**2,973**	3,007	3,233
Non-interest income (excluding insurance net premium income)	**5,722**	7,121	**2,536**	3,186	3,459
Insurance net premium income	**1,867**	2,239	**929**	938	1,090
Non-interest income	**7,589**	9,360	**3,465**	4,124	4,549
Total income (1)	**13,569**	15,895	**6,438**	7,131	7,782
Operating expenses (2)	**(7,861)**	(8,013)	**(3,877)**	(3,984)	(3,892)
Profit before insurance net claims and impairment losses	**5,708**	7,882	**2,561**	3,147	3,890
Insurance net claims	**(1,225)**	(1,705)	**(576)**	(649)	(793)
Operating profit before impairment losses (3)	**4,483**	6,177	**1,985**	2,498	3,097
Impairment losses (4)	**(2,649)**	(4,211)	**(1,335)**	(1,314)	(2,264)
Operating profit (3)	**1,834**	1,966	**650**	1,184	833
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)
Amortisation of purchased intangible assets	**(99)**	(100)	**(51)**	(48)	(56)
Integration and restructuring costs	**(673)**	(353)	**(213)**	(460)	(208)
Gain on redemption of own debt	**577**	255	**-**	577	255
Strategic disposals	**152**	27	**160**	(8)	50
Other items	**(17)**	(133)	**8**	(25)	(125)
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)

For definitions of the notes refer to page 8.

Summary consolidated balance sheet
at 30 June 2012

	30 June 2012 £m	31 March 2012 £m	31 December 2011 £m
Loans and advances to banks (1,2)	**39,436**	36,064	43,870
Loans and advances to customers (1,2)	**434,965**	440,406	454,112
Reverse repurchase agreements and stock borrowing	**97,901**	91,129	100,934
Debt securities and equity shares	**200,717**	213,534	224,263
Other assets (3)	**155,738**	168,534	154,070
Funded assets	**928,757**	949,667	977,249
Derivatives	**486,432**	453,354	529,618
Total assets	**1,415,189**	1,403,021	1,506,867
Bank deposits (2,4)	**67,619**	65,735	69,113
Customer deposits (2,4)	**412,769**	410,207	414,143
Repurchase agreements and stock lending	**128,075**	128,718	128,503
Debt securities in issue	**119,855**	142,943	162,621
Settlement balances and short positions	**53,502**	54,919	48,516
Subordinated liabilities	**25,596**	25,513	26,319
Other liabilities (3)	**51,812**	53,821	57,616
Liabilities excluding derivatives	**859,228**	881,856	906,831
Derivatives	**480,745**	446,534	523,983
Total liabilities	**1,339,973**	1,328,390	1,430,814
Owners' equity	**74,016**	73,416	74,819
Non-controlling interests	**1,200**	1,215	1,234
Total liabilities and equity	**1,415,189**	1,403,021	1,506,867
Memo: Tangible equity (5)	**54,386**	53,901	55,217

Notes:
(1) Excluding reverse repurchase agreements and stock borrowing.
(2) Excludes disposal groups (see page 96).
(3) Includes disposal groups (see page 96).
(4) Excluding repurchase agreements and stock lending.
(5) Tangible equity is equity attributable to ordinary and B shareholders less intangible assets.

Analysis of results

Net interest income	Half year ended 30 June 2012 £m	30 June 2011 £m	Quarter ended 30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Net interest income (1)	**5,987**	6,534	**2,979**	3,008	3,245
Average interest-earning assets	**627,182**	660,125	**612,995**	641,369	661,672
Net interest margin					
- Group	**1.92%**	2.00%	**1.95%**	1.89%	1.97%
- Retail & Commercial (2)	**2.93%**	3.02%	**2.94%**	2.91%	2.99%
- Non-Core	**0.28%**	0.77%	**0.24%**	0.31%	0.83%

Notes:

(1) For further analysis and details of adjustments refer to pages 74 and 75.

(2) 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 £547 million, 8%, driven by a 5% fall in Retail & Commercial and a 62% 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 6 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 2 basis points, reflecting increased funding and liquidity costs and pressure on liability margins.

Non-interest income	Half year ended 30 June 2012 £m	30 June 2011 £m	Quarter ended 30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Net fees and commissions	**2,333**	2,759	**1,136**	1,197	1,377
Income from trading activities	**2,195**	2,789	**931**	1,264	1,219
Other operating income	**1,194**	1,573	**469**	725	863
Non-interest income (excluding insurance net premium income)	**5,722**	7,121	**2,536**	3,186	3,459
Insurance net premium income	**1,867**	2,239	**929**	938	1,090
Total non-interest income	**7,589**	9,360	**3,465**	4,124	4,549

Key points

H1 2012 compared with H1 2011

- Non-interest income fell by £1,771 million, or 19%, driven by 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.
- 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 declined by 16%, primarily reflecting 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 £1,084 million, or 24%, principally driven by Non-Core as significant gains on restructured assets in Q2 2011 were not repeated.

Operating expenses	Half year ended 30 June 2012 £m	30 June 2011 £m	Quarter ended 30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Staff expenses	**4,257**	4,419	**2,036**	2,221	2,099
Premises and equipment	**1,073**	1,119	**523**	550	563
Other	**1,755**	1,699	**936**	819	834
Administrative expenses	**7,085**	7,237	**3,495**	3,590	3,496
Depreciation and amortisation	**776**	776	**382**	394	396
Operating expenses	**7,861**	8,013	**3,877**	3,984	3,892
Insurance net claims	**1,225**	1,705	**576**	649	793
Staff costs as a % of total income	**31%**	28%	**32%**	31%	27%

Key points

H1 2012 compared with H1 2011

- Group operating expenses decreased by 2%, largely driven by the on-going run-down of the Non-Core division and lower revenue-linked staff expenses in Markets.
- 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.

Q2 2012 compared with Q1 2012

- Group operating expenses fell by 3%, with staff expenses down £185 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.

Q2 2012 compared with Q2 2011

- Group operating expenses were flat compared with Q2 2011, as Non-Core run-down and lower expenses in Markets, largely driven by headcount reductions, 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)

Impairment losses	Half year ended 30 June 2012 £m	30 June 2011 £m	Quarter ended 30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
Loan impairment losses	**2,730**	4,135	**1,435**	1,295	2,237
Securities impairment losses	**(81)**	76	**(100)**	19	27
Group impairment losses	**2,649**	4,211	**1,335**	1,314	2,264
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 (1)					
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%

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

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)

One-off and other items	Half year ended 30 June 2012 £m	30 June 2011 £m	Quarter ended 30 June 2012 £m	31 March 2012 £m	30 June 2011 £m
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 (1)	**-**	(733)	**-**	-	(733)
Amortisation of purchased intangible assets	**(99)**	(100)	**(51)**	(48)	(56)
Integration and restructuring costs	**(673)**	(353)	**(213)**	(460)	(208)
Gain on redemption of own debt	**577**	255	**-**	577	255
Strategic disposals**	**152**	27	**160**	(8)	50
Other					
- Bonus tax	**-**	(22)	**-**	-	(11)
- RFS Holdings minority interest	**(17)**	(2)	**8**	(25)	(5)
- Interest rate hedge adjustments on impaired available-for-sale sovereign debt	**-**	(109)	**-**	-	(109)
	(3,339)	(2,760)	**(751)**	(2,588)	(1,511)
* 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

Note:

(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.

Key points

H1 2012 compared with H1 2011

- H1 2012 included 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.
- Additional provisions totalling £260 million were taken in relation to Payment Protection Insurance in H1 2012, bringing the cumulative charge to £1.3 billion.
- 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.
- 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.

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 137 to 148.

Divisional performance

The operating profit/(loss)[1] 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) before impairment losses by division					
UK Retail	**1,209**	1,455	**577**	632	743
UK Corporate	**1,361**	1,416	**693**	668	692
Wealth	**131**	138	**76**	55	63
International Banking	**326**	473	**194**	132	253
Ulster Bank	**162**	187	**78**	84	91
US Retail & Commercial	**378**	413	**257**	121	208
Retail & Commercial	**3,567**	4,082	**1,875**	1,692	2,050
Markets	**1,096**	1,342	**270**	826	313
Direct Line Group	**219**	206	**135**	84	139
Central items	**(144)**	22	**(34)**	(110)	54
Core	**4,738**	5,652	**2,246**	2,492	2,556
Non-Core	**(255)**	525	**(261)**	6	541
Group operating profit before impairment losses	**4,483**	6,177	**1,985**	2,498	3,097
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	**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
Group impairment losses	**2,649**	4,211	**1,335**	1,314	2,264

Note:

(1) Operating profit/(loss) before own credit adjustments, Asset Protection Scheme, Payment Protection Insurance costs, sovereign debt impairment, amortisation of purchased intangible assets, integration and restructuring costs, gain on redemption of own debt, strategic disposals, bonus tax, interest rate hedge adjustments on impaired available-for-sale sovereign debt and RFS Holdings minority interest.

Divisional performance (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
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)
Group operating profit	1,834	1,966	650	1,184	833

	Half year ended		Quarter ended		
	30 June 2012 %	30 June 2011 %	30 June 2012 %	31 March 2012 %	30 June 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	1.89	1.97

	30 June 2012 £bn	31 March 2012 £bn	31 December 2011 £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%)

Employee numbers by division (full time equivalents in continuing operations rounded to the nearest hundred)	**30 June 2012**	31 March 2012	31 December 2011
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
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
Income statement					
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
Direct expenses					
- 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)
Operating 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
Analysis of income by product					
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
Analysis of impairments by sector					
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
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%

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 2012 £bn	31 March 2012 £bn	Change	31 December 2011 £bn	Change
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.

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.

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 2012 £m	30 June 2011 £m	**30 June 2012 £m**	31 March 2012 £m	30 June 2011 £m
Income statement					
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
Direct expenses					
- 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)
Operating 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
Analysis of income by business					
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
Analysis of impairments by sector					
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 community services	**43**	12	**21**	22	1
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 £bn	31 March 2012 £bn	Change	31 December 2011 £bn	Change
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%
- 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).

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.

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 2012 £m	30 June 2011 £m	**30 June 2012 £m**	31 March 2012 £m	30 June 2011 £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)
Operating 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 2012	30 June 2011	**30 June 2012**	31 March 2012	30 June 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 £bn	31 March 2012 £bn	Change	31 December 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%)

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).

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.

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	**494**	604	**234**	260	301
Non-interest income	**609**	708	**327**	282	364
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)
Operating 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)	-
Telecommunications, media and technology	**9**	-	**-**	9	-
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%

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 2012 £bn	31 March 2012 £bn	Change	31 December 2011 £bn	Change
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%

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.

	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
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)

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.

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.

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
Income statement					
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
Direct expenses					
- staff	**(104)**	(113)	**(52)**	(52)	(57)
- other	**(23)**	(35)	**(11)**	(12)	(17)
Indirect expenses	**(131)**	(130)	**(65)**	(66)	(68)
	(258)	(278)	**(128)**	(130)	(142)
Operating profit before impairment losses	**162**	187	**78**	84	91
Impairment losses	**(717)**	(730)	**(323)**	(394)	(269)
Operating loss	**(555)**	(543)	**(245)**	(310)	(178)
Analysis of income by business					
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
Analysis of impairments by sector					
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
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%

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 2012 £bn	31 March 2012 £bn	Change	31 December 2011 £bn	Change
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 59).

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 6% in constant currency terms 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 4% on a constant currency basis reflecting the benefits of cost saving initiatives, particularly relating to discretionary spend.
- Impairment losses reduced marginally, 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 3% in constant currency terms reflecting further amortisation and the continuing weak demand for credit.
- Customer deposit balances declined by 9% on a constant currency basis 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 on a constant currency basis despite significant market volatility and the impact of a credit rating downgrade. Loans and advances to customers fell marginally during the quarter in constant currency terms.
- 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 6% in constant currency terms 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 & 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
Income statement					
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
Direct expenses					
- 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)
Operating 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
Analysis of income by product					
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
Analysis of impairments by sector					
Residential mortgages	**2**	18	**(4)**	6	12
Home equity	**42**	51	**20**	22	12
Corporate and commercial	**(22)**	42	**(6)**	(16)	23
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%

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 £bn	31 March 2012 £bn	Change	31 December 2011 £bn	Change
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	

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).

Key points

- 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.
- Performance is described in full in the US dollar-based financial statements set out on pages 44 and 45.

US Retail & 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
Income statement					
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
Direct expenses					
- 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)
Operating profit before impairment losses	**597**	668	**406**	191	341
Impairment losses	**(74)**	(285)	**(43)**	(31)	(108)
Operating profit	**523**	383	**363**	160	233
Analysis of income by product					
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
Analysis of impairments by sector					
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
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%

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 $bn	31 March 2012 $bn	Change	31 December 2011 $bn	Change
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	-

Notes:
(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.

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 $523 million, up $140 million, or 37%, from H1 2011. Excluding the $138 million litigation settlement in Q1 2012 and the $62 million net gain on the sale of Visa B shares in Q2 2012, operating profit was up $216 million, or 56%, largely reflecting lower impairment losses due to an improved credit environment.
- Net interest income was up $66 million, or 4%, 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 $26 million, or 3%, reflecting the $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 $62 million consisting of a $75 million gain on sale and a $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 $163 million, or 9%, as Q1 2012 included a $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 $13 million litigation reserve related to the sale of Visa B shares, total expenses were up $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.

Key points (continued)

H1 2012 compared with H1 2011 (continued)
- Impairment losses declined by $211 million, reflecting an improved credit environment as well as lower impairments related to securities.
- Customer deposits were up 2% 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 $363 million, compared with $160 million in the prior quarter, an increase of $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 $0.5 billion, or 1%, 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 $102 million, or 25%, reflecting a $75 million gain on the sale of Visa B shares and securities gains of $26 million.
- Excluding the $138 million litigation settlement and the $13 million litigation reserve associated with the sale of Visa B shares, total expenses were up $11 million, or 1%, largely reflecting a mortgage servicing rights impairment.
- Impairment losses were up $12 million, although the credit environment remains broadly stable.

Q2 2012 compared with Q2 2011
- Excluding the $62 million net gain on the sale of Visa B shares in Q2 2012, operating profit increased to $301 million from $233 million, an increase of $68 million, or 29%, substantially driven by lower impairment losses.
- Total expenses were broadly in line with Q2 2011. Excluding the $13 million litigation reserve related to the sale of Visa B shares, total 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 from banking activities	**56**	62	**32**	24	6
Net fees and commissions receivable	**200**	388	**73**	127	181
Income from trading activities	**2,465**	2,741	**917**	1,548	924
Other operating income (net of related funding costs)	**79**	85	**44**	35	57
Non-interest income	**2,744**	3,214	**1,034**	1,710	1,162
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)
Operating 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
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

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 2012 £bn	31 March 2012 £bn	Change	31 December 2011 £bn	Change
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		
Run-off businesses (1)	**30 June 2012 £m**	30 June 2011 £m	**30 June 2012 £m**	31 March 2012 £m	30 June 2011 £m
Total income	**6**	123	**(4)**	10	60
Direct expenses	**(60)**	(131)	**(13)**	(47)	(58)
Operating loss	**(54)**	(8)	**(17)**	(37)	2

Run-off businesses (1)	**30 June 2012 £bn**	31 March 2012 £bn	31 December 2011 £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.

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.

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
Other income	**30**	62	**14**	16	27
Total income	**1,737**	1,983	**861**	876	977
Net claims	**(1,225)**	(1,488)	**(576)**	(649)	(704)
Underwriting profit	**512**	495	**285**	227	273
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)
Technical result	**56**	73	**62**	(6)	70
Investment income	**163**	133	**73**	90	69
Operating profit	**219**	206	**135**	84	139
Analysis of income by product					
Personal lines motor excluding broker					
- own brands	**820**	878	**409**	411	438
- partnerships	**62**	130	**31**	31	57
Personal lines home excluding broker					
- own brands	**231**	235	**115**	116	118
- partnerships	**182**	188	**94**	88	90
Personal lines rescue and other excluding broker					
- own brands	**91**	92	**46**	45	46
- partnerships	**89**	94	**47**	42	48
Commercial	**158**	154	**79**	79	80
International	**161**	160	**77**	84	80
Other (1)	**(57)**	52	**(37)**	(20)	20
Total income	**1,737**	1,983	**861**	876	977

For the notes to this table refer to page 54.

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 54.

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.

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[(1)], 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.

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 £246 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.

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 £861 million was £15 million, 2%, 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 £116 million, 12%, to £861 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	30 June 2011	**30 June 2012**	31 March 2012	30 June 2011
	£m	£m	**£m**	£m	£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.

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 2012 £m	30 June 2011 £m	**30 June 2012 £m**	31 March 2012 £m	30 June 2011 £m
Income statement					
Net interest income	**201**	525	**86**	115	273
Net fees and commissions	**60**	94	**29**	31	47
(Loss)/income from trading activities	**(401)**	(68)	**(131)**	(270)	230
Insurance net premium income	**-**	233	**-**	-	95
Other operating income					
- rental income	**301**	398	**133**	168	206
- other (1)	**109**	219	**(116)**	225	115
Non-interest income/(loss)	**69**	876	**(85)**	154	693
Total income	**270**	1,401	**1**	269	966
Direct expenses					
- 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)
Operating (loss)/profit before other operating charges 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 2012 £m	30 June 2011 £m	**30 June 2012 £m**	31 March 2012 £m	30 June 2011 £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	**(202)**	287	**(48)**	(154)	285
	(401)	(68)	**(131)**	(270)	230
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.

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 2012 £bn	31 March 2012 £bn	Change	31 December 2011 £bn	Change
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 2012 £bn	31 March 2012 £bn	31 December 2011 £bn
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
	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

Third party assets (excluding derivatives)

Quarter ended 30 June 2012	31 March 2012 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	**30 June 2012 £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 December 2011 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	31 March 2012 £bn
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 March 2011 £bn	Run-off £bn	Disposals/ restructuring £bn	Drawings/ roll overs £bn	Impairments £bn	FX £bn	30 June 2011 £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
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					
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)
Total International Banking	**410**	245	**292**	118	166
Other					
Wealth	**-**	-	**1**	(1)	(1)
Central items	**-**	1	**(1)**	1	1
Total Other	**-**	1	**-**	-	-
Total impairment losses	**1,096**	2,486	**607**	489	1,411

Non-Core (continued)

	30 June 2012 £bn	31 March 2012 £bn	31 December 2011 £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			
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
Total International Banking	**33.1**	36.4	38.4
Other			
Wealth	**0.2**	0.2	0.2
Central items	**(0.2)**	(0.3)	(0.2)
Total Other	**-**	(0.1)	-
Gross loans and advances to customers (excluding reverse repurchase agreements)	**67.7**	72.6	79.3

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 £139 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.

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)
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.

In the income statement above, one-off and other items as shown on page 18 are included in the appropriate captions. A reconciliation between the income statement above and the managed view income statement on page 11 is given in Appendix 1 to this announcement.

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	31 December 2011 £m
Assets			
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
Total assets	**1,415,189**	1,403,021	1,506,867
Liabilities			
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
Total liabilities	**1,339,973**	1,328,390	1,430,814
Equity			
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 at £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.

- 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.